



The Flaw of Averages: Why We Underestimate Risk in the Face of Uncertainty

Sam L. Savage

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A must-read for anyone who makes business decisions that have a major financial impact.

As the recent collapse on Wall Street shows, we are often ill-equipped to deal with uncertainty and risk. Yet every day we base our personal and business plans on uncertainties, whether they be next month's sales, next year's costs, or tomorrow's stock price. In *The Flaw of Averages*, Sam Savage known for his creative exposition of difficult subjects describes common avoidable mistakes in assessing risk in the face of uncertainty. Along the way, he shows why plans based on average assumptions are wrong, on average, in areas as diverse as healthcare, accounting, the War on Terror, and climate change. In his chapter on Sex and the Central Limit Theorem, he bravely grasps the literary third rail of gender differences.

Instead of statistical jargon, Savage presents complex concepts in plain English. In addition, a tightly integrated web site contains numerous animations and simulations to further connect the seat of the reader's intellect to the seat of their pants.

The *Flaw of Averages* typically results when someone plugs a single number into a spreadsheet to represent an uncertain future quantity. Savage finishes the book with a discussion of the emerging field of Probability Management, which cures this problem through a new technology that can pack thousands of numbers into a single spreadsheet cell.

Praise for *The Flaw of Averages*

“Statistical uncertainties are pervasive in decisions we make every day in business, government, and our personal lives. Sam Savage's lively and engaging book gives any interested reader the insight and the tools to deal effectively with those uncertainties. I highly recommend *The Flaw of Averages*.”

—**William J. Perry**, Former U.S. Secretary of Defense

“Enterprise analysis under uncertainty has long been an academic ideal. . . . In this profound and entertaining book, Professor Savage shows how to make all this practical, practicable, and comprehensible.”

—**Harry Markowitz**, Nobel Laureate in Economics

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