

1086-VI-95            **Andrew Niedermaier\*** ([aniedermaier@janestreet.com](mailto:aniedermaier@janestreet.com)), 1 New York Plaza, 33rd Floor, New York, NY 10004. *The Power Law, or: Just Your Everyday 25-sigma Event...*

If you pick a real-life probability distribution out of a hat, there's a good chance it's related to a normal or log-normal. Or maybe it'll just *seem* that way when you sample it a handful of times.

But what if it wasn't normal at all, and you thought it was? And what if you then went out and traded trillions of dollars worth of securities based on your incorrect model?

Well, before we get *that* far, I'd like to talk about the Power Law for a little while: how it differs from the normal distribution, where it crops up, and what it can teach those of us in finance about the price of overconfidence.

I'll also touch on solar flares, Dow Jones, and Twilight. Naturally. (Received July 15, 2012)