# The Big Short

## INTRODUCTION

### BRIEF BIOGRAPHY OF MICHAEL LEWIS

Michael Lewis was born in New Orleans to a corporate attorney and a community activist. After getting an MA in economics from the London School of Economics in 1985, he worked briefly as a trader at Salomon Brothers, which was at the time the most profitable firm on Wall Street, run by the "King of Wall Street" himself, John Gutfreund. It was there that he discovered journalism, though industry publications like *The Economist* and *The Wall Street Journal*. Though Lewis found elements of Wall Street fascinating, his first book, *Liar's Poker*, was ultimately critical of the risky, cutthroat culture he observed at Salomon Brothers. *Liar's Poker* launched Lewis's career as a writer, and in the years since, he has continued to write best-selling books about finance, statistics, and sports, including *The Blind Side*, *Moneyball*, *The Big Short*, and the *Fifth Risk*.

### HISTORICAL CONTEXT

*The Big Short* is about the events leading up to the subprime mortgage crisis of 2007, when a bubble in the American financial system finally burst. Many of the events in the book were brought about by the development of Wall Street culture in the early 80s. This is when the stereotype of the brash, vulgar Wall Street trader first entered popular culture (a stereotype that is based on truth, according to Lewis's first book, *Liar's Poker*). The excesses of post-1980s Wall Street were made possible in part due to the deregulation that occurred during Ronald Reagan's presidential administration.

### RELATED LITERARY WORKS

*The Big Short* is one of many recent nonfiction books that takes complicated current events and turns them into a story that is exciting, accessible, and sometimes even cinematic. Other similar authors include Bethany McClean, Bill Bryson, Nassim Nicholas Talib, Malcolm Gladwell, and David Graeber, many of whom share Lewis's interest in journalism, statistics, and finance. Lewis himself was influenced (both positively and negatively) by reporting in the financial industry, including reporting by *The Economist* and *The Wall Street Journal*. He also cites the influence of some fiction authors, many of whom write satirical novels, including John Kennedy Toole, Tom Wolfe, and Dave Eggers.

### KEY FACTS

- **Full Title:** The Big Short: Inside the Doomsday Machine
- **When Written:** Shortly after the housing bubble burst in 2007
- **Where Written:** Berkeley, California
- **When Published:** 2010
- **Literary Period:** Contemporary nonfiction
- **Genre:** Nonfiction, Finance
- **Setting:** Wall Street, New York
- **Climax:** The U.S. housing bubble bursts, leading to a financial crisis
- **Antagonist:** Government and industry regulators who didn't see the crisis coming
- **Point of View:** 1st person

### EXTRA CREDIT

**Reality vs. Fiction.** Though based on the book, the film version of *The Big Short* is lightly fictionalized, with many of the names changed in the adaptation. One exception is Michael Burry, who is portrayed faithfully by Christian Bale (who learned how to make his real eye move like a glass eyeball and who even received a package of clothes from the real Michael Burry).

**What Happened Next.** Though none of the investors in *The Big Short* have been publicly involved with any trades as big as the ones that made them famous, some have continued to work in finance. Steve Eisman crusaded against for-profit education providers and is rumored to have made money by shorting these institutions shortly before new regulations were passed in 2011.

## PLOT SUMMARY

Michael Lewis remembers what it was like to be a 24-year-old trader at the Wall Street investment bank Salomon Brothers. He thought that the culture there was ridiculous and unsustainable, so he set out to capture it in his first book, *Liar's Poker*. To his surprise, Wall Street continues to evolve so that the fast times in the 80s now seem quaint. Shortly after the subprime mortgage **bond** bubble bursts in 2007, Lewis has a conversation with the financial analyst Meredith Whitney, who gives Lewis a list of people who successfully predicted the crash and who were able to profit off of it by taking short positions. This is where Lewis first hears of Steve Eisman.

From the beginning of his financial career, Eisman was a rebel. He starts as a financial analyst, where he resists pressure to assign optimistic ratings to companies that don't deserve them. His style attracts admirers, who eventually join him at his new investment firm FrontPoint Partners. Two of his most important team members are Vincent Daniel (a cynical trader from Queens who becomes FrontPoint's head research guy) and Daniel Moses (a coworker of Eisman's at his previous job who becomes FrontPoint's lead trader).

Meanwhile, Michael Burry is a neurosurgeon who writes a financial blog in his free time that attracts a surprising amount of attention. He eventually starts his own firm, Scion Capital, and manages to attract so much money that he has to turn investors away. After making some risky bets that pay off, he becomes interested in credit default swaps as a way to bet against the subprime mortgage market.

A Deutsche Bank trader named Gregg Lippman has a similar idea to Burry, and he goes around trying to sell the idea to various traders, including Eisman's team at FrontPoint. After a lot of initial skepticism, Eisman agrees to deal with Lippman.

While this is happening, Jamie Mai and Charlie Ledley are building their own "garage band" hedge fund by taking a relatively small initial investment of $110,000 and growing it into a substantial fortune. They use a process called *event-driven investing*, which often involves betting on unlikely events where analysts have overlooked the risk. In order to give their small firm more legitimacy, they partner with former Deutsche Bank trader Ben Hockett, who brings his experience, as well as his apocalyptic worldview to their team.

Through research, the future Big Short traders all learn that something is wrong in the subprime mortgage bond market. Banks are using complex practices that obscure (even from themselves) the fact that these bonds are based on mortgages that have a very high chance of defaulting (which, after enough people default, will make the bonds worthless). Even supposedly safe bonds are built on shaky foundations, largely because the ratings agencies are not accurately assessing the make-up of the bonds.

Eventually, Eisman, Vinny, Danny, Lippman, Ben, and Charlie all end up in Las Vegas for a major convention of subprime mortgage buyers and sellers. They all come away with the impression that the traders going long on subprime mortgage bonds are deluding themselves and that they need to increase their own short positions.

Initially, the Big Short traders lose money on their short positions. Burry in particular faces resistance from his investors. After his son is diagnosed with autism, he realizes that his own struggle to communicate with investors may be linked to autism. Major banks like Goldman Sachs refuse to mark positions in favor of short traders, at least at first.

As more time passes, however, a crash is inevitable. Eisman is literally on stage giving a talk about problems in the market when the news breaks that the stock for Bear Stearns (a major Wall Street firm) is plummeting rapidly. This is the first sign of a wider problem. All the Big Short traders scramble to make sure they aren't financially exposed to the crisis. When the dust settles, they have all made enormous amounts of money and been vindicated for their predictions. While some traders like Eisman make dire predictions about the end of Wall Street, eventually the U.S. government steps in to bail out many major banks and prevent them from going under.

The Big Short traders contemplate what to do next now that they're no longer outsiders and underdogs, with many of them experiencing intense anxiety about the state of the world. Some, like the Cornwall Capital traders, look into transferring their money into less risky investments to preserve it, while others, like Burry, take the opportunity to get out of finance entirely.

Around the same time, Lewis invites his old boss at Salomon Brothers, John Gutfreund, out to lunch with him. Gutfreund was once dubbed "The King of Wall Street," and he paved the way for many of the risky practices that directly led to the financial crisis. Still, despite all the reasons they have to be enemies, Gutfreund is polite to Lewis and Lewis can't help but be fascinated by his tough-talking former boss.

# CHARACTERS

## MAJOR CHARACTERS

**Michael Lewis** – As the author of *The Big Short*, Michael Lewis doesn't simply give an impartial account of the story's events; he provides commentary and context, sometimes appearing in the story as a character himself. By the time Lewis wrote *The Big Short*, he had already written a dozen previous books, including *Liar's Poker*, which is also about Wall Street and deals more directly with Lewis's personal history as a trader. Part of what inspired Lewis to write *The Big Short* was the research he was doing for an anniversary edition of *Liar's Poker*. Despite his earlier time as a trader (or maybe because of it), Lewis is an outspoken critic of the American financial system. As he tells the story of the lead-up to the Great Recession, he doesn't attempt to hide the fact that he sympathizes most with the people in the story who correctly predicted the crash—and who were able to profit from it by holding a short position (including Steve Eisman, Vinny Daniel, Danny Moses, Mike Burry, Ben Hockett, Charlie Ledley, and Jamie Mai). But while Lewis admires confident outsiders, he gives less sympathetic portrayals to figures like Howie Hubler and Joseph Cassano, who lost catastrophic amounts of money through their own hubris. At the end, Lewis meets with his old boss, John Gutfreund. He recognizes that Gutfreund helped set in motion many of the events that led to the financial crisis, but Lewis still can't help being fascinated by him, showing that even after the events of *The Big Short*, Lewis still has a complicated relationship with Wall Street.

**Steve Eisman** – Steve Eisman is a former corporate lawyer who quit his job to join his parents' financial firm, Oppenheimer securities. He quickly makes a name for himself as an analyst by proving that he isn't afraid to offer opinions that go against the grain. Eventually, he becomes manager of a fund called FrontPoint Partners, where he works with Vincent Daniel, Danny Moses, and Porter Collins. Despite Eisman's initial skepticism toward Greg Lippman (who works closely with the quant Eugene Xu), he ultimately ends up working with Lippman to short the subprime mortgage market. Though he was a Republican when he was younger, the contrarian Eisman actually becomes more left wing after starting on Wall Street. His views are also shaped by the tragic, accidental death of his one-year-old son, which leads him to become more of a pessimist. Throughout the events leading up to the financial crisis, Eisman is a sharp critic of the incentives in the economy that encourage big Wall Street firms to take advantage of lower-class Americans—particularly the subprime mortgage market. One of Eisman's most memorable quirks is that he doesn't golf according to the usual etiquette—he'll pick up his ball and throw it to a better position without even acknowledging what he's done. By the end, Eisman is proven right and makes so much money off his short positions that he has to reevaluate his life: he is no longer the outsider and the underdog that he always identified as in the past, and so he has to carry himself differently.

**Vincent Daniel** – Vincent "Vinny" Daniel is Eisman's research guy at the hedge fund FrontPoint Partners and one of his most trusted coworkers. He hits it off with Eisman right away, despite the fact that Eisman comes from a rich family while Vinny is from a working-class area of Queens. Vinny grew up with the belief that if he ever wanted to go looking for real money, he'd find it in Manhattan. Partly because his father was murdered when he was still young, Vinny is suspicious and has a dark worldview—darker even than Eisman's. He is one of the youngest at FrontPoint but plays an essential role, gathering data and investigating subprime mortgage lending in order to validate Eisman's hunch that something is deeply wrong in the industry. Vinny is a sharp analyst who specializes in finding details that the wider market overlooks. He is skeptical, particularly when the investor Greg Lippman offers FrontPoint a deal (although he goes along with it eventually). By the time of the financial crash, Vinny and his coworkers have become fantastically wealthy from their short position, but Vinny is the most ambivalent in the group, wondering whether they actually played the system or if they just became a part of it.

**Daniel Moses** – Daniel "Danny" Moses is Eisman's head trader at the hedge fund FrontPoint Partners and one of his most trusted coworkers. He knows Eisman because they both used to work at Oppenheimer and Co. (the financial company where Eisman's parents got him a job), and even then, Danny admired Eisman's willingness to ruffle feathers with his reports. The son of a finance professor from Georgia, Danny is perhaps the most optimistic employee at FrontPoint, though he isn't naïve and is always on the lookout for how the people he deals with are looking to screw him over. Danny takes meetings with Greg Lippman, distrusting him immediately, but ultimately they decide to make a deal with him. Though Vinny is Eisman's main research guy, Danny also plays an essential role in gathering information and trying to understand the markets.A turning point is when Danny and Vinny fly down to Miami to see firsthand how bad things are in neighborhoods built by subprime loans. Occasionally Danny is at odds with his boss—on the golf course, he pleads for Eisman to follow standard etiquette and at least wear a collared shirt—but for the most part, he's a team player. He believes people in the financial industry are too blinded by their own interests to see the risks they've created (as opposed to Vinny, who believes they're mostly crooks). Though ultimately Danny becomes extremely wealthy off FrontPoint's short position, he isn't able to sit back and enjoy the success because he starts having panic attacks.

**Michael Burry** – Michael Burry is a former neurosurgeon who became the head of Scion Capital, one of the firms that correctly predicted the financial crash and made money from a short position. Burry received initial funding for Scion Capital from the veteran investor Joel Greenblatt (a fan of Burry's financial blog), and Burry's investing strategy inspires Greg Lippman, a self-interested trader at Deutsche Bank who also makes a lot of money by shorting the subprime mortgage market. Unlike many of the other protagonists profiled in *The Big Short*, who generally have a couple of trusted teammates, Burry largely works alone and frequently clashes with his investors. This is how he's been his whole life—as a child, he often struggled to make friends with other kids. At the time, he blamed his glass eye (which was removed due to childhood cancer), which made him particularly awkward at sports. Later in life, however, an autism diagnosis for his son causes Burry to re-evaluate his own life and self-diagnose as someone on the autism spectrum. Though Burry doesn't work directly with the people at FrontPoint Partners or Cornwall Capital, his story parallels theirs and follows a similar trajectory: at the beginning, many view him as a delusional outsider but by the end, he has been vindicated and made a lot of money. Perhaps more so than any of the others shorting the subprime market, he faces pushback from within, particularly from investors at Scion (with whom he communicates sporadically and erratically). Though Burry ultimately gets to have the last word with his investors after his investments pay off, he soon quits the financial world and picks up guitar, even though he'd never been interested in it before. This suggests that finance itself was never that important to him—it was more about the goals and purpose that it gave him.

**Ben Hockett** – Ben Hockett is a former trader at Deutsche Bank who works closely with Charlie Ledley and Jamie Mai (of Cornwall Capital) to navigate the financial world from an outsider's perspective and short the subprime mortgage market. Though what Hockett and his partners do is similar to what Steve Eisman's crew does and what Mike Burry does, Hockett takes it a step further: instead of betting against the worst tranches of **bonds**, they bet against double-A bonds, which are supposedly safer, but which are in fact built on the same crappy foundation as lower-rated tranches. This move ultimately ends up being very profitable. Like many of his peers, Hockett is a pessimist. He takes things a step further by also being a doomsday prepper, at one point moving his whole family to a remote farm with enough vegetables on it to survive an apocalypse. Despite wanting to live outside normal society, Ben is actually more connected to Wall Street than anyone else in Cornwall Capital, and he is essential in helping them to get an ISDA (a "hunting license" that allows them to be taken seriously and make big trades). He is also calm under pressure and stops the company from losing money when Bear Stearns collapses—all while working remotely from a pub in England. His pessimistic worldview is proven right in the end, although, unlike Eisman, he doesn't take as much joy in proving others wrong and is mostly concerned with looking out for himself and his family.

**Charlie Ledley and Jamie Mai** – Charlie Ledley and Jamie Mai are the co-founders of the "garage band" hedge fund Cornwall Capital, which grows from $110,000 in a shed to over a hundred million after the crash. Jamie's neighbor in Berkeley is Ben Hockett, who becomes their mentor and helps them navigate the challenges of the financial world. Charlie and Jamie struggle to get their comparatively small firm noticed by the big dogs of Wall Street, but with Ben's help, they're able to secure an ISDA (a license that lets them make big deals, including millions in dollars of credit default swaps). Though Charlie and Jamie act independently from Eisman's team and Mike Burry, their story follows a similar trajectory, with Charlie gathering intel about the housing markets at the very same Vegas convention where Eisman meets Wing Chau. The unique part about Charlie and Jamie's investing philosophy is that they build their company through "event-driven" investing, where they try to identify long-shot bets that have good potential for a massive payoff, often by taking a more pessimistic view than other people in the market. Charlie and Jamie are often on the verge of getting in over their heads—when the markets crash, they are in danger of going down with Bear Stearns—but thanks in part to Ben's guiding influence, they ultimately end up turning a huge profit. Like many other people profiled in the book, Charlie and Jamie are uneasy with the circumstances that caused their success, with Charlie suffering migraines as he sees the full devastation of what's happening to other people during the financial crisis.

**Greg Lippmann** – Greg Lippmann is a very self-interested trader at Deutsche Bank whose central role with credit default swaps puts him in contact with many of the other people profiled in the book, including Steve Eisman, Vinny Daniel, Danny Moses, Mike Burry, Ben Hockett, Charlie Ledley, and Jamie Mai. Though his initial meetings and emails almost universally inspire skepticism, the persistent Lippmann is ultimately able to make deals because he offers the chance for real profit and because he's honest about how he himself will benefit. In the end, all of these people do end up making large amounts of money through deals with Lippmann (with the exception of Mike Burry, who arrived at a similar idea and executed it on his own). More so than any of the other people who profited off of short positions, Lippmann is a self-promoter, and he appears in news articles where his peers are left out. While he has a sleazy manner that sometimes causes people to distrust him, he's also shrewd: at one point he arranges a meeting in Vegas between Eisman and the incompetent trader Wing Chau, knowing that this is exactly what Eisman needs to realize that Lippmann is offering him a smart deal. Lippmann ends up making a lot of money of the financial crisis and doesn't seem to feel conflicted about it, as some of the other people in the book do.

**Porter Collins** – Porter Collins is an ex-Olympic oarsman and another member of the FrontPoint Partners team with Steve Eisman, Vinny Daniel, and Danny Moses. He is a team player who admired Eisman's work before FrontPoint, and his intense experience as an Olympian allows him to be a level head on the team: at one point he tries to talk Danny down when Danny thinks he's having a heart attack (which turns out to only be a panic attack).

**Wing Chau** – Wing Chau is one of the guys on the long side of the bets that people like Steve Eisman, Vinny Daniel, Danny Moses, Mike Burry, Ben Hockett, Charlie Ledley, and Jamie Mai were shorting. Greg Lippman sets up a meeting between Chau and Eisman's team, knowing that Eisman will think Chau is clueless and feel reassured about the deals he's doing with Lippman. Though Chau seemed to find success before the crash, his pride and short-sightedness (emblematic of many in the subprime mortgage **bond** industry) ultimately lead to his downfall.

**Eugene Xu** – Eugene Xu is a "quant" (a quantitative analyst who uses math and statistics to provide information about investments) who works for Greg Lippman, and who Lippman brings to meetings to convince skeptical potential investors like Steve Eisman, Vinny Daniel, and Danny Moses. Though he's from China and Lippman claims he can't speak English (to give the impression that Xu is a real number whiz), in fact, he can speak English.

**Meredith Whitney** – Meredith Whitney is a financial analyst who plays a key role in diagnosing the financial crisis by issuing a devastating report about the investment bank Citigroup in October 2007. She credits Steve Eisman for helping her career and inspires Michael Lewis to begin looking into the events that will eventually be covered in *The Big Short*, in part by giving him a list of people who correctly predicted and bet on the financial crisis.

**John Gutfreund** – John Gutfreund used to be Michael Lewis's boss at Salomon Brothers, and he (inadvertently) helped Lewis launch his career by inspiring his first book, *Liar's Poker*. Though Lewis disapproves of many of the things Gutfreund has done to shape the financial industry, he can't help but be fascinated by Gutfreund, particularly when they meet in person.

**Joel Greenblatt** – Joel Greenblatt is an established investor who has written a well-known book about investing. He takes an interest in the blog of Mike Burry (who has read Greenblatt's book) and becomes his first investor. Despite being an early supporter, however, when Burry's fund begins temporarily losing money, Greenblatt tries to pull out. After the first edition of *The Big Short* is published, Greenblatt contacts Lewis to clarify that he was only trying to take money from Burry because Greenblatt himself was facing calls for money from investors.

**Howie Hubler** – Howie Hubler is an employee at Morgan Stanley who makes arguably the worst trade in the history of Wall Street. He takes a long position on the subprime market, which is exactly the opposite of what traders like Mike Burry and Greg Lippman are doing. Though Hubler is cynical, he isn't cynical enough, and his seemingly successful trades eventually end up losing Morgan Stanley billions of dollars.

**Bill Miller** – Bill Miller is an investor who is optimistic about Bear Stearns, despite all the warning signs. On the very evening when he's scheduled to give a positive speech about Bear Stearns (on the same stage as Steve Eisman and preceding Alan Greenspan), the stock for Bear Stearns starts tanking, turning Miller into a tragicomic figure.

**Sy Jacobs** – Sy Jacobs is one of the first people to identify the riskiness of the mortgage **bond** market in the 1990s, along with Steve Eisman. He also went through the same training at Salomon Brothers that author Michael Lewis went through. Jacobs and Eisman optimistically believed in the 90s that subprime bonds might help alleviate income inequality, but they soon learned that the opposite is true.

**Joe Cassano** – Joe Cassano is one of many incompetent higher-ups in *The Big Short* who doesn't realize that his company (in this case, the insurance company AIG) is dangerously exposed to the subprime mortgage market and vulnerable to some serious losses. His anger at Gene Park, who brings the issue up, illustrates how little some of the major players in the industry understood this crucial market.

**Ace Greenberg** – Ace Greenberg is the name on all the statements from Bear Stearns that Charlie Ledley and Jamie Mai receive, but they have a hard time reaching him and are only able to get a comically brief meeting with him. Greenberg represents how unreachable the inner circle of Wall Street can be for outsiders, even outsiders as successful as Charlie and Jamie.

**Jim Grant** – Jim Grant writes a journal called *Grant's Interest Rate Observer*, which is obscure to the general public but well known to Wall Street insiders. He writes an article on CDOs that catches the attention of Steve Eisman and Mike Burry, who both feel vindicated by Grant's dire assessment of what the ratings agencies are doing.

## MINOR CHARACTERS

**Valerie Feigen** – Valerie Feigen is the wife of Steve Eisman. She is bewildered and sometimes amused by her husband's strange behavior, but she ultimately supports him. The tragic death of Feigen and Eisman's one-year-old son is a major factor that contributes to Eisman's dark worldview.

**John Paulson** – John Paulson is an investor who makes tons of money betting against subprime mortgage **bonds**, which makes the news and catches the attention of Michael Lewis. Later, he is on the list Meredith Whitney gives to Lewis of the people who correctly predicted and bet on the financial crisis.

**Gene Park** – Gene Park is an employee at the insurance company AIG who notices that the company is dangerously exposed to the subprime mortgage market. Though his concerns will turn out to be valid, he is yelled at by his boss Joe Cassano for even bringing the issue up.

**Alan Greenspan** – Alan Greenspan served as chair of the Federal Reserve from 1987 to 2006. Though Greenspan is intellectual, Eisman in particular views him with contempt and blames him for directly causing the Great Recession through his bad policies.

**Ben Bernanke** – Ben Bernanke became chair of the Federal Reserve in 2006 when he was appointed under President George W. Bush. He played a key role in determining the government response to the Great Recession, which Lewis and others criticize.

# TERMS

Collateralized debt obligation (CDO) – A collateralized debt obligation (CDO) is a type of finance product that became very popular around 2003 and which played a major role in the vast amounts of money lost during the 2007 subprime mortgage meltdown. CDOs are "towers" of bonds that are built by packaging together several subprime mortgage bonds (which are themselves "towers" that are built from a package of thousands of mortgage loans). This process allowed big banks to hide the risk of their investments (even from themselves), since CDOs were almost automatically rated as safe investments by ratings agencies because they were considered to be diversified, even if the loans underneath them were ultimately very risky.

Credit default swap – The confusingly named credit default swap is not so much a swap as an insurance policy. The person who buys the swap is essentially betting against a financial product (often a bond) in the hopes that it will fail. The buyer pays a certain amount of money each year (similar to an insurance premium). If the bond doesn't default, the buyer loses whatever amount of money was paid in premiums, but if the bond does default, the buyer of the default swap will make substantial returns on their investment. Credit default swaps were the main tool used by the Big Short traders in order to short the subprime mortgage market—they are how traders like **Steve Eisman**, **Michael Burry**, and **Greg Lippman** made their fortunes.

Hedge fund – A hedge fund is a firm that engages in relatively risky trading strategies in order to hopefully beat the market and make money for clients. FrontPoint Partners, Scion Capital, and Cornwall Capital—the three major firms profiled in the book—are all hedge funds.

Long – In finance terms, going *long* on a company means buying its stock with the expectation of the stock going up. It is the most conventional type of investing and generally considered safest, though in certain cases it can be costly—the people who lost money during the subprime mortgage meltdown of 2007 were all the ones who went long on subprime investments.

Short – Shorting a stock is the opposite of going long on it. Instead of buying low to sell high, the trader makes a bet that a stock's value will go down. This is generally considered a risky investing strategy, but because the Big Short traders correctly predicted the crash in the subprime mortgage market, they were able to make a lot of money off credit default swaps (which are a type of short position).

Subprime mortgage – A mortgage is a loan taken out to buy a home, and a subprime mortgage is a specific type of mortgage aimed at people who have low credit scores (and who are therefore at high risk of defaulting on their loan and not being able to pay it back). During the years leading up to the housing bubble burst in 2007, subprime mortgages were frequently bundled together to create bonds. These bonds (and the CDOs that were created from them) were extremely risky investments, since they were based on loans from people who might never be able to pay them back; however, this risk was hidden, partly because the process of creating the bonds was so complex and partly because ratings agencies like Moody's and Standard and Poor's did not accurately assess the risk. Ultimately, this was a major contributing factor to the financial crisis.

Tranche – Tranche comes from the French word for *portion*, and in finance, it generally means part of an investment. In *The Big Short*, the most important tranches are the various different grades of subprime mortgage bonds, which range from AAA (supposedly the safest investments) to B (supposedly the riskiest). In fact, the Big Short traders learned that even higher-rated tranches of bonds were composed of very risky loans and that their supposed safety was a complex illusion created through financial trickery.

## THEMES

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### OUTSIDERS VS. CONFORMISTS

In *The Big Short*, former Wall Street trader Michael Lewis profiles several real people who correctly predicted the 2007 global financial collapse and were able to profit from it. All of these people were outsiders to the mainstream financial system in some way. Before the crash, many of the characters struggled to get people to understand and support their ambitions. For example, even as a boy, hedge-fund manager Michael Burry had trouble connecting with other kids because of his autism and his glass eye. This weakness turned into a strength, however, when Burry's sense of independence allowed him to ignore complaints from his investors and trust his own judgment about what was happening in the financial markets. The other major characters have different backgrounds than Burry, and some do have traditional finance experience, but they all share Burry's sense of confidence and independence. On the other hand, the antagonists of the story are blind rule-followers—they trust the system without knowing why. Lewis's book explores how outsiders can shake up an industry with their unconventional wisdom, and also how success can bring mixed feelings when a former underdog—like investor and former analyst Steve Eisman—suddenly becomes a top dog.

All of the Big Short traders were outsiders, which enabled them to more clearly see what was happening in the markets. Steve Eisman of FrontPoint Partners, for instance, was always at odds with the culture and attitude of other analysts, particularly their expectation that he should be optimistic and upbeat, even when his instincts told him otherwise. Michael Burry of Scion Capital was literally an outsider to finance, as he was originally a neuroscientist who wrote a contrarian finance blog that happened to catch on with some influential financiers. Charlie Ledley and Jamie Mai were also total outsiders, starting their company, Cornwall Capital, out of a shed with money they scraped together themselves. Even as they began to succeed, they were considered such outsiders to the world of finance that they struggled to get meetings with the major players. But for each of these companies, being staffed by outsiders turned out to be an advantage, as the outsiders' inability to fit in with

Wall Street culture and their willingness to hold contrarian opinions enabled them to see something that everyone else was blind to: a catastrophic issue in the subprime mortgage bond market.

By contrast, those in finance who shared the industry's dominant, conformist ideas took actions that directly led to the 2007 subprime mortgage meltdown and then lost money in its wake. Lewis calls out several overconfident Wall Street traders who failed to see the risks of subprime mortgages and therefore lost tons of money for their firms. Wing Chau is perhaps the best example of this, as he is described as believing that he is always the smartest person in the room, even when he's meeting with traders who know more about the topic at hand than he does. Wing Chau doesn't seem to do much research or think for himself, and it's catastrophic for him. Likewise, Howie Hubler—a consummate Wall Street insider—makes what might be the worst trade in the history of Wall Street when he keeps his faith in the bond market even as many other traders around him are beginning to see the signs of trouble. Joe Cassano, an arrogant manager who doesn't listen to an employee's impassioned and well-researched warning, is another example. Though these men resemble the protagonists in some ways—they're all finance guys, after all—their lack of imagination stops them from seeing the impending catastrophe, since they are too close to the inside to see what's wrong.

At the end of the book, in the wake of the market collapse, all the outsider traders are suddenly on top—but none adapt easily to being suddenly in the mainstream. For instance, after Eisman's unpopular views are vindicated with the collapse of Bearn Stearns, he doesn't gloat or try to leverage his success—instead, he watches the unfolding financial crisis with fury, especially when the government bails out the same big banks whose risky investing decisions directly led to the crisis. His partner Vinny goes further, wondering if it is even moral to profit off of such a tragedy, while his other partner Danny begins to have panic attacks. By contrast, Burry does gloat a little—he gets to send his investors an I-told-you-so message—but he finds that even his spectacular success isn't enough to appease some of them. Despite his amazing aptitude for finance, he begins to tire of it, and so he quits his firm and decides to pick up the guitar instead. Meanwhile, Charlie and Jamie experience their own anxiety about the financial crisis, with Charlie in particular getting migraines. In spite of his newfound wealth, their advisor Ben Hockett remains paranoid about when the next big disaster will strike. As none of the characters who make big money shorting the bond market actually feel satisfied with what they've done, they end up basically returning to being outsiders, as the culture of Wall Street certainly isn't to look a gift horse in the mouth.

## WALL STREET'S CULTURE OF OVERCONFIDENCE

A paradox at the heart of *The Big Short* is the role of overconfidence on Wall Street: while traders have to project confidence in order to make big deals and get people to trust them, Wall Street's rampant overconfidence is part of what led to the financial collapse. This is to say that there's a professional incentive for financiers to act like they know everything and they're always right, but once traders actually *believe* this, it becomes overconfidence, which is a liability. After all, overconfidence disincentivizes rigorous research, contrarian thinking, and changing one's mind, all of which are necessary to really understanding the markets. The traders who profited from the 2007 financial collapse had to be confident, because they faced significant headwinds: most of their peers found their investment decisions insane. But, crucially, none of them were overconfident—their strength was knowing what they didn't know and being open to constantly learning. In this way, Lewis shows the mind and personality of an ideal trader—someone who is able to project confidence but humble enough to know their limits—while also revealing how Wall Street's culture of overconfidence can lead to disaster, both for individual investors and the economy overall.

## THE PROBLEMS WITH CAPITALISM

Though the subjects of *The Big Short* all work on Wall Street—the heart of American capitalism—many of them are somewhat skeptical of capitalism by the book's end. This is in part due to their moral disgust about getting rich via the misfortune of millions of everyday Americans, and it's in part because they've seen firsthand that the rules of the American economy often favor the rich while hurting everyone else. The book explores several ways in which the system of American capitalism doesn't live up to its promises. For instance, many of the book's subjects decry the system of perverse incentives that pervades American capitalism. Traders frequently make tons of money for making terrible, risky investments; these investments pay off in the short term, and the long-term consequences are left to others to clean up. Furthermore, the government bailout of the rich banks that made bad investment decisions—and the government's refusal to bail out the everyday Americans who went bankrupt because they were given mortgages they couldn't afford—raises questions about whether the "free market" is really free. Bailing out banks but not troubled homeowners is tantamount to propping up the wealthy at the direct expense of the working and middle classes, painting a picture of an economy that is rigged in favor of those with privilege. By depicting the grotesque story of American financiers bringing down the global economy and then getting bailed out, Lewis implicitly argues for better regulation of American markets and a fairer system for everyday people.

### PESSIMISM VS. OPTIMISM

The years leading up to the Great Recession in the United States were a time of great (and unfounded) optimism in the financial markets. Investors and regulators ignored warning signs of the impending financial crash, believing that the current boom would continue indefinitely. The people whom Michael Lewis (a former Wall Street trader) profiles in *The Big Short* are outliers: people who saw the warning signs, even when those around them were optimistic. Though they had different backgrounds and came from different parts of the industry, they were all, to some extent, pessimists—which is what enabled them to succeed. Charlie Ledley and Jamie Mai are perhaps the epitome of this, turning their small money management firm into an extremely lucrative business, largely by betting on negative outcomes to real-world events that other people didn't want to consider. In this way, Lewis illustrates the value of pessimism, although there's a caveat: after the crash, many of the rebels profiled in his book returned to traditional investing. This suggests that while pessimism is often a prudent stance, there's also value in knowing when to leave it behind.

### NEEDLESS COMPLEXITY

*The Big Short* claims that the financial collapse occurred, in part, because the world of finance got so overcomplicated that not even those who were running it could really understand what was going on. Michael Lewis describes a series of financial innovations, such as credit default swaps, that were—by design—incredibly difficult to understand. Because of this, most traders and their bosses didn't realize that there was something catastrophically wrong with the subprime mortgage bond market—something so wrong that it could threaten the stability of the entire global economy. While the banks must shoulder much of this blame, Lewis also points his finger at the ratings agencies, Moody's and Standard & Poor's. The ratings agencies' job is to evaluate the risk of various kinds of debt—in other words, to determine whether a loan is likely to go into default or not. However, prior to the crash, Moody's and Standard & Poor's were consistently giving high ratings to terrible **bonds** based on subprime mortgages, but because their ratings techniques are secret, nobody could check their work. This, too, led to profound market dysfunction, making it even harder to diagnose the problem with subprime mortgages. One of Lewis's major goals in writing *The Big Short* is to demystify all of this complexity so that everyday readers can understand why the economy collapsed and what can be done to stabilize it for the future. In telling the story of the crash, he suggests that a culture of greater clarity and transparency would help stabilize the economy, because it would ensure that bankers and regulators alike have enough information to rigorously evaluate the markets. Furthermore, by writing his book in an aggressively accessible style that average people with no financial expertise could read, Lewis shows that it's also important for lay people to be able to understand the economy—after all, as the crash showed, their lives and livelihoods can depend on it.

## SYMBOLS

Symbols appear in **teal text** throughout the Summary and Analysis sections of this LitChart.

### BONDS

In *The Big Short*, bonds represent a broken promise between the financial elite and average Americans. A bond is, on the most basic level, a promise. In financial terms, a bond is a type of investment where the issuer of the bond owes a debt to the holder of the bond, to be paid back at a specified later date with interest. Traditionally, bonds are considered to be less risky than stocks (with the trade-off being that they also have less potential for growth). In *The Big Short*, however, bonds don't work as intended and end up being one of the main factors that leads to the market crash of 2007. The problem is that, in an effort to increase profits, big banks started issuing bonds that packaged together risky loans from subprime mortgages—and these bonds became worthless when a certain percentage of the risky loans inside them defaulted. Through a combination of trickery and ignorance, big banks managed to hide this risk, laying the groundwork for the crash.

Subprime mortgages were supposed to offer a path to homeownership for lower-class Americans, but in the end, they became a tool for greedy speculators, who kept trying to squeeze out profits until they crashed the economy. Despite the spectacular meltdown in 2007, many bankers who invested in subprime bonds were spared from facing the consequences of their actions due to the government bailout of 2008. *The Big Short* traders were not just making an abstract bet against some financial products; they were essentially betting that America's financial industry would break its promise to act in the interest of ordinary Americans. The fact that their short positions paid off so spectacularly is an indictment of the whole financial industry—the "too big to fail" banks had already failed clients by taking advantage of their trust in the system.

## QUOTES

Note: all page numbers for the quotes below refer to the W.W. Norton edition of *The Big Short* published in 2010.

## Prologue Quotes

The willingness of a Wall Street investment bank to pay me hundreds of thousands of dollars to dispense investment advice to grown-ups remains a mystery to me to this day.

**Related Characters:** Michael Lewis (speaker), John Gutfreund , Steve Eisman, Ben Hockett

**Related Themes:**

**Page Number:** xiii

**Explanation and Analysis**

The first lines of the prologue help establish that the author, Michael Lewis, used to work on Wall Street (at Salomon Brothers for the "King of Wall Street" himself, John Gutfreund). This means he is well qualified to write about the inner workings of the finance world. At the same time, Lewis's tone is self-deprecating, and he suggests that he was not a perfect fit for the industry. This outsider status is also important because Lewis is critical of the reckless, risk-taking culture of Wall Street—both past and present—so he positions himself as an observer of this flawed culture who wasn't really part of it. It also is fitting because many of the real people that Michael Lewis profiles in his book, such as Steve Eisman and Ben Hockett, are also people who started in traditional roles on Wall Street before breaking away and doing something less conventional.

Lewis's humorous tone suggests that Wall Street banks often act in ways that seem to be irrational. One of the other major "mysteries" that Lewis returns to throughout *The Big Short* is whether, in the events leading up to the 2007 subprime mortgage meltdown, the principal players at major Wall Street firms were delusional or crooked. Lewis's satirical style highlights the absurdity of their actions, sometimes to shock or educate readers, but also with the goal of entertaining.

When I sat down to write my first book, I had no great agenda, apart from telling what I took to be a remarkable tale. If you'd gotten a few drinks in me and then asked what effect the book would have on the world, I might have said something like, "I hope that college students trying to decide what to do with their lives might read it and decide that it's silly to phony it up, and abandon their passions or even their faint interests, to become financiers." I hoped that some bright kid at Ohio State University who really wanted to be an oceanographer would read my book, spurn the offer from Goldman Sachs, and set out to sea.

**Related Characters:** Michael Lewis (speaker)

**Related Themes:**

**Page Number:** xv

**Explanation and Analysis**

Reflecting on his first book, *Liar's Poker*, which was also about Wall Street culture (a couple decades earlier in the 80s), the author, Michael Lewis, tries to assess how his book succeeded and how it failed. Though Lewis sometimes editorializes and offers political opinions in *The Big Short* and in his other books, he claims that his highest priority with his first book was just to tell a good story. This approach seems to have had mixed results. On the one hand, the book reached a wide audience and helped make Lewis's career. On the other hand, however, Lewis's hope that some younger readers might turn down careers at Goldman Sachs seems to have gone unfulfilled—instead, Lewis found himself greeted by college students who saw his book as a how-to manual for Wall Street.

Lewis does not say if he used the same approach for *The Big Short*—if he still considered it his highest priority to tell a "remarkable tale." Certainly, Lewis does structure his book like a novel, highlighting the most dramatic moments and larger-than-life characters instead of focusing on dry statistics. Still, Lewis also spends a significant part of the book trying to educate readers, taking the complex jargon of the financial industry and breaking it down for a lay audience, suggesting that he does care about what message readers ultimately take away from his work.

## Chapter 1 Quotes

By the time Household's CEO, Bill Aldinger, collected his $100 million, Eisman was on his way to becoming the financial market's first socialist. "When you're a conservative Republican, you never think people are making money by ripping other people off," he said. His mind was now fully open to the possibility. "I now realized there was an entire industry, called consumer finance, that basically existed to rip people off."

**Related Characters:** Michael Lewis, Steve Eisman (speaker), Michael Lewis, Valerie Feigen

**Related Themes:**

**Related Symbols:**

**Page Number:** 20

**Explanation and Analysis**

This quote comes from the introduction to Steve Eisman and describes how he started off as a conservative Republican, but shortly after starting work on Wall Street, began to adopt increasingly left-wing views. Lewis shares this detail about Eisman because it succinctly highlights one of the many ways that Eisman is a contrarian (since Wall Street is typically associated with very right-wing values). It's also important to understand Eisman's politics because, unlike some trades who follow the money wherever it leads, Eisman is motivated in part by his own conscience. Many of his trades are also moral crusades—Eisman's wife Valerie says that Eisman often views himself as a superhero like Spiderman. He is particularly irritated by the idea that big banks are ripping off lower income Americans, and ultimately his involvement in shorting the subprime mortgage bond market is an expression of his politics: he wants to punish banks that have taken advantage of the system and used lower-class borrowers as fodder for their complex financial deals.

❝ Most people didn't understand how what amounted to a two-decade boom in the bond market had overwhelmed everything else. Eisman certainly hadn't. Now he did. He needed to learn everything he could about the fixed income world. He had plans for the bond market. What he didn't know was that the bond market also had plans for him. It was about to create an Eisman-shaped hole.

**Related Characters:** Michael Lewis (speaker), Steve Eisman

**Related Themes:**

**Related Symbols:**

**Page Number:** 25

**Explanation and Analysis**

This passage comes from a relatively early moment in Steve Eisman's career when he is first learning about the ins and outs of the financial industry. Though Eisman is a smart trader who will make historic returns on the Big Short, even he didn't understand the bond market at first. The difference between Eisman and the other traders who lost billions in the subprime mortgage meltdown is that Eisman did his research. Though he makes big plans and follows his intuition, one common refrain about Eisman and his team and FrontPoint Partners is that they do sophisticated, in-depth research, often going out in person to get a look at the situation firsthand. Lewis says the bond market has an "Eisman-shaped hole" in it. This highlights the ways in which Eisman was unique—in an industry that encouraged conformity, it took someone unusual like Eisman to see the opportunity present in the dangerous conditions of the subprime mortgage bond market.

## Chapter 2 Quotes

❝ A lot of hedge fund managers spend time chitchatting with their investors and treated their quarterly letters to them as a formality. Burry disliked talking to people face-to-face and thought of these letters as the single most important thing he did to let his investors know what he was up to. In his quarterly letters he coined a phrase to describe what he thought was happening: "the extension of credit by instrument." That is, a lot of people couldn't actually afford to pay their mortgages the old-fashioned way, and so the lenders were dreaming up new instruments to justify handing them new money.

**Related Characters:** Michael Lewis (speaker), Michael Burry

**Related Themes:**

**Related Symbols:**

**Page Number:** 28

**Explanation and Analysis**

This passage comes shortly after Michael Burry's introduction, where Michael Lewis is describing how Burry quit his job as a doctor and started his own hedge fund. From the very beginning, it's clear that Burry is going to take a different approach from a normal hedge fund manager. His preference for investor letters over face-to-face meetings highlights Burry's struggle to connect with other people, but it also shows his strength at analytical thinking. Unlike many of the other Big Short traders, Burry works in comparative isolation. He constantly faces pushback from antsy investors, and even his quarterly letters often confuse or irritate his investors. As the book goes on, Burry's struggle to relate to those around him only intensifies—but it also proves to be an asset. If Burry had listened to his investors, he would've sold off his credit default swaps at a loss, before they had a chance to reach their potential. But because he is comfortable ignoring the advice of others, he ended up leading his hedge fund, Scion Capital, to become one of the most profitable hedge funds in the country that year.

He sensed that he was different from other people before he understood why.

**Related Characters:** Michael Lewis (speaker), Michael Burry

**Related Themes:**

**Page Number:** 31

**Explanation and Analysis**

Throughout the book, Lewis portrays how Burry's sense of being different from those around him is a fundamental element of his character. Even from a young age, Burry had trouble making friends with other kids. Sports in particular were a problem, since he had a glass eye (from a bout with childhood cancer) that left him with limited depth perception. Though Burry blames the eye for his difficulties, he can sense that there's something deeper within him that's not like everyone else. Burry's sense of isolation stays with him into adulthood—even after he manages to attract investors who trust him with large amounts of money, he continues to have trouble with in-person meetings. It is only comparatively late in life that Burry realizes he likely has Asperger's. This realization inspires mixed feelings: while Burry is happy to understand himself (and his family) better, he feels disappointed that it's possible to just pick up a book about Asperger's and read details about who he is and what he's like, since previously he had felt like he was unique.

## Chapter 3 Quotes

The least controversial thing to be said about Lippmann was that he was controversial. He wasn't just a good bond trader, he was a great bond trader. He wasn't cruel. He wasn't even rude, at least not intentionally He simply evoked extreme feelings in others. A trader who worked near him for years referred to him as "the asshole known as Greg Lippmann." When asked why, he said, "He took everything too far."

**Related Characters:** Michael Lewis (speaker), Steve Eisman, Daniel Moses , Greg Lippmann, Vincent Daniel

**Related Themes:**

**Page Number:** 64

**Explanation and Analysis**

The passage comes from the introduction to Greg Lippmann, a trader at Deutsche Bank who ends up playing a pivotal role in the Big Short, trying to sell credit default swaps to several people, including Steve Eisman's team at FrontPoint (who ultimately do end up buying). In this quote, Lewis tries to capture all the contradictions of Lippmann's personality—though he isn't necessarily rude or cruel, he still inspires a lot of negative feelings from the people around him. More so than most traders on Wall Street, Lippmann is a self-promoter who seeks the spotlight, and he appears in many articles that leave out the other traders involved in the Big Short.

Initially, Eisman and the others at FrontPoint regard Lippmann with suspicion. Partly, it's because they don't run into many people on Wall Street like Lippmann. Lippmann is willing to trash-talk his employer to anyone who'll listen—this type of honesty is extremely unusual on Wall Street, and it makes Eisman's team wonder if Lippmann is coming to them with some sort of ulterior motive. Ultimately, however, Lippmann's unusual style is vindicated when he ends up being one of the few traders at a major bank who correctly positioned himself to profit from the subprime mortgage meltdown.

The argument stopper was Lippmann's one-man quantitative support team. His name was Eugene Xu, but to those who'd heard Lippmann's pitch, he was generally spoken of as "Lippmann's Chinese quant." Xu was an analyst employed by Deutsche Bank, but Lippmann gave everyone the idea he kept him tied up to his Bloomberg terminal like a pet. A real Chinese guy—not even Chinese American—who apparently spoke no English, just numbers' China had this national math competition, Lippmann told people, in which Eugene had finished second. In all of China. Eugene Xu was responsible for every piece of hard data in Lippmann's presentation. Once Eugene was introduced into the equation, no one bothered Lippmann about his math or his data. As Lippmann put it, "How can a guy who can't speak English lie?"

**Related Characters:** Michael Lewis, Greg Lippmann (speaker), Eugene Xu , Steve Eisman, Daniel Moses , Vincent Daniel

**Related Themes:**

**Page Number:** 66

**Explanation and Analysis**

This passage describes one of the more idiosyncratic techniques that Lippmann used in his meetings, like the ones he held with Vinny Daniel, Danny Moses, and Steve Eisman at FrontPoint Partners. In the largely white culture of Wall Street at the time, a Chinese man like Eugene Xu was somewhat unusual. Though Lippmann stresses Xu's math credentials and on the surface may seem to be praising him, the language he uses is full of racist stereotypes. Lippmann presents Xu as a number crunching machine—a "pet" who can't even speak English. (In fact, Xu can speak English.) It isn't clear whether Lippmann actually buys into these stereotypes or if he only exploits them, expecting this audience to buy into them. Still, this section highlights one of the ways that Wall Street's insular culture can be hostile to people who don't fit into the mold of a typical trader. The fact that Lippmann decides to bring a quantitative analyst to his meetings also highlights how increasingly complicated deals on Wall Streets were becoming and how much expertise was required to really understand the mechanics behind them.

## Chapter 4 Quotes

Oddly, Cassano was as likely to direct his anger at profitable traders as at unprofitable ones, for the anger was triggered not by financial loss but by the faintest whiff of insurrection. Even more oddly, his anger had no obvious effect on the recipient's paycheck; a trader might find himself routinely abused by his boss and yet delighted by his year-end bonus, determined by that same boss.

**Related Characters:** Michael Lewis (speaker), Joe Cassano , Gene Park

**Related Themes:**

**Page Number:** 87

**Explanation and Analysis**

This passage comes from the beginning of the fourth chapter, which tells a self-contained story about Joe Cassano (the boss at AIG FP) and Gene Park (a trader who worked under Cassano). Lewis's description of Cassano paints him as an arbitrary tyrant, someone who is more concerned with appearances than with the actual business of running a company. He seems to abuse his power, using it as an excuse to unleash his temper on those below him—even employees that he recognizes as skilled. Park is a smart employee who is one of the first to realize that AIG FP is putting itself in an extremely risky position with its involvement in the subprime mortgage market. Instead of being rewarded, however, he is yelled at by Cassano, since the one thing Cassano despises most of all is the appearance of disobedience. In many ways, this story is a microcosm of what was going on throughout the financial industry, and Cassano represents how there were many incompetent bosses who were too proud to listen to the warnings brought to their attention by people below them.

In his search for stock market investors he might terrify with his Doomsday scenario, Lippmann had made a lucky strike: He had stumbled onto a stock market investor who held an even darker view of the subprime mortgage market than he did. Eisman knew more about that market, its characters, and its depravities than anyone Lippmann had ever spoken with. If anyone would make a dramatic bet against subprime, he thought, it was Eisman—and so he was puzzled when Eisman didn't do it. He was even more puzzled when, several months later, Eisman's new head trader, Danny Moses, and his research guy, Vinny Daniels, asked him to come back in to explain it all over again.

**Related Characters:** Michael Lewis (speaker), Steve Eisman, Daniel Moses , Greg Lippmann, Vincent Daniel

**Related Themes:**

**Related Symbols:**

**Page Number:** 92

**Explanation and Analysis**

This passage describes an early meeting between Gregg Lippmann and Steve Eisman, two traders who were remarkably similar in some ways (they have identified some of the same issues in the bond market), but who couldn't be more different in other ways (Lippmann is an insatiable self-promoter). Earlier in the book, Lewis wrote about an "Eisman-shaped hole" in the bond market. This passage is one of the moments where that hole gets filled—Eisman and his team end up being the perfect partners for Lippmann's unusual offer. Though, they distrust Lippmann initially, they do careful research over a period of months until they finally realize that Lippmann is offering them a worthwhile deal. This methodical way of working mystifies Lippmann, who may be more used to working with traders who make gut decisions. Fast-moving Wall Street culture often leads to unusual alliances like the one between Lippmann and Eisman—partnerships where the two sides don't necessarily trust each other but where they both see the opportunity for a payday.

## Chapter 5 Quotes

Even as late as the summer of 2006, as home prices began to fall, it took a certain kind of person to see the ugly facts and react to them—to discern, in the profile of the beautiful young lady, the face of an old witch.

**Related Characters:** Michael Lewis (speaker), Steve Eisman, Greg Lippmann

**Related Themes:**

**Related Symbols:**

**Page Number:** 107

**Explanation and Analysis**

This passage comes from the beginning of Chapter 5, and it sets the scene by revealing that, even as late as summer 2006, many people in the finance industry (and many more outside of it) remained oblivious to the warning signs that would culminate in the subprime mortgage meltdown of 2007. Lewis's metaphor about the face of an old witch hiding in the profile of a young lady is based on one of the most famous optical illusions of all time: an image that, viewed from one direction, looks like a young woman turning her head away, but viewed from another direction, looks like the profile of an old woman with a large nose. Lewis suggests that the people who thought the markets were healthy—the people who only saw the beautiful young lady—were either ignorant or deliberately choosing to ignore crucial information. To see the dark side of the markets—the face of the old witch—required the pessimism and pragmatism of someone like Steve Eisman or Greg Lippmann.

Every new business is inherently implausible, but Jamie Mai and Charlie Ledley's idea, in early 2003, for a money management firm bordered on the absurd: a pair of thirty-year-old men with a Schwab account containing $110,000 occupy a shed in the back of a friend's house in Berkeley, California, and dub themselves Cornwall Capital Management. Neither of them had any reason to believe he had any talent for investing. Both had worked briefly for the New York private equity firm Golub Associates as grunts chained to their desks, but neither had made actual investment decisions.

**Related Characters:** Michael Lewis (speaker), Ben Hockett , Charlie Ledley and Jamie Mai

**Related Themes:**

**Page Number:** 108

**Explanation and Analysis**

This passage introduces Jamie Mai and Charlie Ledley, two aspiring investors who start with comparatively little money and turn it into a fortune. Though $110,000 is a lot of money in many circumstances, hedge funds regularly operate with millions or even billions of dollars, so Jamie and Charlie's starting money makes them a small firm indeed. The fact that they run their burgeoning business out of a shed only reinforces the image of them as underdogs. It recalls the way many underground bands were started (Lewis sometimes refers to Cornwall Capital as a "garage rock" hedge fund), while also recalling the culture of early Silicon Valley (where companies like Apple were founded out of garages). One of the major challenges Jamie and Charlie face is getting their small firm to be recognized by the big dogs on Wall Street. Even after they find incredible success with their starting money, they are still small fries to the massive institutions that make up Wall Street. However, it is this same outsider status that leads them to seek out unusual investment strategies, including the strategy of shorting the subprime mortgage market, which leads to their biggest payday yet.

## Chapter 6 Quotes

He'd graduated from the University of Rhode Island, earned a business degree at Babson College, and spent most of his career working sleepy jobs at sleepy life insurance companies—but all that was in the past. He was newly, obviously rich. "He had this smirk, like, I know better," said Danny. Danny didn't know Wing Chau, but when he heard that he was the end buyer of subprime CDOs, he knew exactly who he was: the sucker. "The truth is that I didn't really want to talk to him," said Danny, "because I didn't want to scare him."

**Related Characters:** Michael Lewis, Daniel Moses (speaker), Wing Chau , Steve Eisman, Vincent Daniel, Greg Lippmann

**Related Themes:**

**Related Symbols:**

**Page Number:** 139

**Explanation and Analysis**

This quote comes from the chapter in Las Vegas, where Greg Lippmann has arranged for Steve Eisman, Vinny

Daniel, and Danny Moses to meet with the CDO manager Wing Chau. Lewis begins by describing Chau as someone from a modest background—nothing in his education or prior work history would suggest that he was a wealthy person. Danny's quote—that Chau was always smirking like he knew better—reveals perhaps the most important part of Chau's character. It's dangerous on Wall Street to always believe you're the smartest person in the room, since it leaves you vulnerable to being scammed. Danny, for example, is a very capable trader, but he approaches every deal by looking at how the person on the other end of the deal could possibly be trying to screw him over. Chau doesn't seem to exercise the same level of caution, which is why Danny is nervous about their meeting: he wants Chau to stay oblivious so that they can make a good deal before Chau realizes that the CDOs he manages will soon be worthless. Lippmann presents Chau to Eisman's team to imply that most CDO managers are in over their heads, just like Chau—something that ends up being more or less true.

> The trouble, as ever, was finding Wall Street firms willing to deal with them. Their one source of supply, Bear Stearns, suddenly seemed more interested in shooting than in trading with them. Every other firm treated them as a joke. *Cornhole Capital*. But here, in Las Vegas, luck found them.

**Related Characters:** Michael Lewis (speaker), Ben Hockett , Steve Eisman, Wing Chau , Charlie Ledley and Jamie Mai , Greg Lippmann

**Related Themes:**

**Page Number:** 149

**Explanation and Analysis**

While Lippmann is setting up the meeting between Eisman's team and Wing Chau in Las Vegas, Ben Hockett and Charlie Ledley are also in Vegas trying to find out more about the subprime mortgage market and buy some credit default swaps. Ben has joined the fledgling hedge firm Cornwall Capital, providing it with some additional experience and credibility (since Ben used to work as a trader at Deutsche Bank). Though Ben is able to help them get some official recognition, like an ISDA (which allows them to make big trades), they still struggle to get recognized in Vegas. The fact that Bear Stearns is more interested in running a shooting event than in making a trade suggests that the priorities of the big Wall Street firms could be arbitrary and sometimes bizarre. Like Wing Chau, the big firms that referred to Charlie, Jamie, and Ben as "Cornhole Capital" were making the mistake of assuming they're the smartest people in the room. Though self-confidence is an important asset in Wall Street culture, arrogance can have disastrous consequences, hiding opportunities and disguising risks.

## Chapter 7 Quotes

> Charlie Ledley and Ben Hockett returned from Las Vegas on January 30, 2007, convinced that the entire financial system had lost its mind. "I said to my mother, 'I think we might be facing something like the end of democratic capitalism,' She just said, 'Oh, Charlie,' and seriously suggested I go on lithium."

**Related Characters:** Michael Lewis (speaker), Ben Hockett , Charlie Ledley and Jamie Mai

**Related Themes:**

**Page Number:** 160

**Explanation and Analysis**

This passage comes right after the Las Vegas chapter and shows the aftermath of Ben Hockett and Charlie Ledley coming home. Charlie's mother is one of the few people mentioned in the book who has no real connection to the world of finance. Her perspective shows how, to someone who doesn't have the same inside knowledge that Charlie does, Charlie probably looks like someone suffering from depression or paranoia. Though by January 30, 2007, the subprime mortgage meltdown is only months away, the idea of the entire financial system breaking down is still unfathomable to someone on the outside like Charlie's mother. Ironically, in some ways Charlie's mother will be correct: although there is a worldwide financial crisis beginning in 2007, it doesn't lead to anything as dramatic as the end of democratic capitalism. This passage dramatizes how all of the Big Short traders had to grapple with the idea of whether they should continue to follow their convictions or whether they were out of their minds to believe something that no one else seemed to believe.

> It made no sense: The subprime CDO market was ticking along as it had before, and yet the big Wall Street firms suddenly had no use for the investors who had been supplying the machine with raw material—the investors who wanted to buy credit default swaps. "Ostensibly other people were going long, but we were not allowed to go short," said Charlie.

**Related Characters:** Michael Lewis, Charlie Ledley and

Jamie Mai (speaker), Ben Hockett

**Related Themes:**

**Related Symbols:**

**Page Number:** 163

**Explanation and Analysis**

This passage, which describes a period in 2007 before the subprime mortgage meltdown, highlights the absurdity and perhaps also the hypocrisy of the financial markets. Though a crash is imminent and the CDO market will be a major contributing factor, the value of CDOs isn't going down. On the other hand, the Big Wall Street firms are suddenly turning down prospective buyers of credit default swaps, suggesting they don't want anyone else to be taking short positions. Lewis and the people he profiles don't have enough information to know what's really going on inside the big banks, but from the outside, it certainly seems like the banks have finally realized a crash may be imminent. Their unusual behavior—of valuing CDOs highly but not allowing people to take short positions on them—could suggest that the banks were stalling to position themselves for a crash (perhaps by taking short positions themselves). In cases like this, it seems like the big banks have the power to manipulate the markets, although it often turns out that this power is limited and temporary—no bank was big enough to stop the subprime mortgage meltdown.

## Chapter 8 Quotes

Now, in February 2007, subprime loans were defaulting in record numbers, financial institutions were less steady every day, and no one but him seemed to recall what he'd said and done. He had told his investors that they might need to be patient—that the bet might not pay off until the mortgages issued in 2005 reached the end of their teaser rate period. They had not been patient. Many of his investors mistrusted him, and he in turn felt betrayed by them.

**Related Characters:** Michael Lewis (speaker), Michael Burry

**Related Themes:**

**Related Symbols:**

**Page Number:** 180

**Explanation and Analysis**

This quote, which describes a moment just a few months before the subprime mortgage meltdown later in 2007, shows that even with a crash imminent, Michael Burry was facing a lot of resistance from his investors. Burry had lots of data to suggest that his credit default swaps were about to pay off soon—the record number of mortgage defaults would lead to a lot of bonds becoming worthless. Barring some sort of unforeseen circumstance, like the government stepping in to cover defaulting subprime mortgages, Burry was almost guaranteed to make a profit. Still, partly because of Burry's inability to communicate with his investors and partly because of their unwillingness to listen, things remained contentious at Scion Capital. Lewis shows how making money on Wall Street is not entirely a numbers game. The ability to effectively lead and work with people—sometimes unreasonable ones—is also an important part of the job.

After a few pages, Michael Burry realized that he was no longer reading about his son but about himself. "How many people can pick up a book and find an instruction manual for their life?" he said. "I hated reading a book telling me who I was. I thought I was different, but this was saying I was the same as other people. My wife and I were a typical Asperger's couple, and we had an Asperger's son."

**Related Characters:** Michael Lewis, Michael Burry (speaker)

**Related Themes:**

**Page Number:** 182

**Explanation and Analysis**

This quote comes right after the moment when Michael Burry's son, who has been having trouble in school, is diagnosed with Asperger's syndrome. Reading about his son's diagnosis causes Burry to do some self-reflecting. On the one hand, Burry hates the idea that there is a book out there that can explain details of his life—details that he used to think made him unique. This sense of being isolated had played an important part in Burry's career—it was arguably what gave him the courage to hold his credit default swaps when his investors were calling for him to dump them. Though Burry is resentful of his new knowledge in this passage, later he uses his self-diagnosis to change how he acts around his family and try to be a better father. Interestingly, however, he makes a conscious decision not to let his new awareness of autism change how he acts in his work. This suggests that autism—particularly the tendency to focus obsessively on details—may actually be beneficial in his line of work.

## Chapter 9 Quotes

Howie Hubler had grown up in New Jersey and played football at Montclair State College. Everyone who met him noticed his thick football neck and his great huge head and his overbearing manner, which was interpreted as both admirably direct and a mask. He was loud and headstrong and bullying.

**Related Characters:** Michael Lewis (speaker), Howie Hubler , Michael Burry

**Related Themes:**

**Page Number:** 200

**Explanation and Analysis**

Chapter 9, which leads up to the beginning of the subprime mortgage meltdown, starts with the story of Howie Hubler, a trader at Morgan Stanley whose story parallels the big short traders but who ultimately ends up being a lot less successful. This introduction portrays Hubler as a stereotypical jock—strong, loud, and bullying. This contrasts sharply with the more cerebral Big Short traders, specifically Michael Burry, who had a rough time in sports as a kid. Hubler is actually one of the first to discover the potential of credit default swaps. If he'd kept following that course, he could've ended up as successful as the Big Short traders. But ultimately, that doesn't end up being the case—after arguments with his management and being offered a new position, Hubler ends up holding a lot of long positions, refusing to dump them, and ultimately making perhaps the worst trades ever on Wall Street. Lewis likes to bring to life abstract financial concepts by looking for narratives that illustrate them, and so just as Michael Burry's background as an outsider made him uniquely suited to prosper from the financial crisis, Howie Hubler's background as an arrogant jock made him uniquely vulnerable to getting caught up in the crisis.

In the murky and curious period from early February to June 2007, the subprime mortgage market resembled a giant helium balloon, bound to earth by a dozen or so big Wall Street firms. Each firm held its rope; one by one, they realized that no matter how strongly they pulled, the balloon would eventually lift them off their feet.

**Related Characters:** Michael Lewis (speaker), Howie Hubler

**Related Themes:**

**Related Symbols:**

**Page Number:** 209

**Explanation and Analysis**

This passage describes the months in which a financial crisis seemed inevitable to insiders but in which the outside world still remained mostly oblivious. As always, Michael Lewis likes to illustrate abstract or murky ideas by using a vivid analogy. In this case, he compares the subprime mortgage bubble to a giant balloon kept down to earth by strings held by the various Wall Street firms. The balloon is so powerful that eventually it will pull everyone up with it—even if no one lets go, the balloon will get away. Moreover, every time one firm lets go, it only increases the pressure on the others to let go as well. This metaphor helps emphasize how connected all the seemingly separate firms on Wall Street had become—both because they were engaging in similar practices and because they were all entangled in an elaborate web of side bets. As a fan of contemporary fiction, Lewis may have based his balloon metaphor on the famous opening passage of Ian McEwan's *Enduring Love*, where several strangers come together to hold down a hot air balloon, but it ends in tragedy for the last person to let go of the string (who gets pulled up by the balloon). Howie Hubler, the trader at Morgan Stanley who made a historically disastrous deal, is a good example of someone who had an opportunity to release his balloon string early but who made the mistake of holding on.

## Chapter 10 Quotes

Now the metaphor was two men in a boat, tied together by a rope, fighting to the death. One man kills the other, hurls his inert body over the side-only to discover himself being yanked over the side. "Being short in 2007 and making money from it was fun, because we were short bad guys," said Steve Eisman. "In 2008 it was the entire financial system that was at risk. We were still short. But you don't want the system to crash. It's sort of like the flood's about to happen and you're Noah. You're on the ark. Yeah, you're okay. But you are not happy looking out at the flood. That's not a happy moment for Noah."

**Related Characters:** Michael Lewis, Steve Eisman (speaker)

**Related Themes:**

**Page Number:** 227

**Explanation and Analysis**

This quote, which comes from the beginning of the last chapter of the book and explains its title ("Two Men in a Boat"), contains a metaphor for the financial collapse that is even more striking than Lewis's earlier analogy about the balloon being held down. Whereas Lewis's balloon metaphor showed how the fate of all the Wall Street firms was connected, his metaphor about two men in a boat shows that even the Big Short traders couldn't fully escape the fallout of the financial crisis. Lewis's boat story—about one man throwing the other overboard, then being dragged down himself by a rope—suggests that in certain circumstances, even victory has consequences. Eisman's comparison to Noah's ark is even more direct—it shows how even a survivor of a major calamity might take little joy in watching others suffer. Partly Lewis uses his boat story and Eisman's quote to indicate that the tone will change in the final chapter. Though previous chapters often portrayed the Big Short traders as freewheeling outsiders who outsmarted the conformists of Wall Street, Chapter 10 will deal more soberly with the dire consequences of the 2007 subprime mortgage meltdown. For some of the Big Short traders profiled, this period of success was in some ways more stressful than the uncertainty that preceded it.

> It wasn't Eisman who upset the tone in the room, but some kid in the back. He looked to be in his early twenties, and he was, like everyone else, punching on his BlackBerry the whole time Miller and Eisman spoke. "Mr. Miller," he said. "From the time you started talking, Bear Stearns stock has fallen more than twenty points. Would you buy more now?"
>
> Miller looked stunned. "He clearly had no idea what had happened," said Vinny. "He just said, 'Yeah, sure, I'd buy more here.'"
>
> After that, the men in the room rushed for the exits, apparently to sell their shares in Bear Stearns. By the time Alan Greenspan arrived to speak, there was hardly anyone who cared to hear what he had to say. The audience was gone. By Monday, Bear Stearns was of course gone, too, sold to J.P. Morgan for $2 a share."

**Related Characters:** Michael Lewis, Vincent Daniel (speaker), Steve Eisman, Bill Miller , Alan Greenspan , Daniel Moses

**Related Themes:**

**Page Number:** 235

**Explanation and Analysis**

This passage comes from what is arguably the climax of the book: at the very moment that Steve Eisman is on stage giving a dire assessment of the economy, news breaks that Bear Stearns has begun to collapse. The moment is especially dramatic because Eisman is sharing a stage with Bill Miller (who just finished a speech about why Bear Stearns is a great stock to buy), and they are both opening for Alan Greenspan (who had also underestimated the risk of a crash, at least in public). Though Eisman typically enjoys arguing with people, in this case it's a nameless kid in the back of the audience who brings up the crucial information: that Bear Stearns stock has dropped precipitously. Lewis spends a lot of time dramatizing this scene because it provides a clear contrast between pessimist outsiders like Eisman and optimist insiders like Miller and Greenspan. Unlike earlier parts of the book, where it was unclear whether the Big Short traders would be rewarded for their big bet, here it's unambiguous: Eisman has made the right call, and Miller hasn't. Even when presented with information that he's wrong, Miller maintains that it's a good idea to buy Bear Stearns—perhaps because he's trying to save face or perhaps because, even with direct evidence, he can't imagine that he's wrong. The fact that Alan Greenspan speaks to a mostly empty room suggests that even regular people in the finance industry have begun to realize that traditional insider wisdom may not apply in the current moment.

> But the biggest lag of all was right here, on the streets. How long would it take before the people walking back and forth in front of St. Patrick's Cathedral figured out what had just happened to them?

**Related Characters:** Michael Lewis (speaker), Steve Eisman, Charlie Ledley and Jamie Mai

**Related Themes:**

**Related Symbols:**

**Page Number:** 242

**Explanation and Analysis**

In the last lines of the book before the epilogue, Michael

Lewis poses a question: when will the effects of all this Wall Street wheeling and dealing actually be felt on main street? In some ways, his question is rhetorical, even when *The Big Short* was published in 2010, it was clear how the 2007 subprime mortgage meltdown had led to a Great Recession that rocked the lives of people with little or no connection to the financial industry. Lewis, then, is not literally wondering when a person walking in front of St. Patrick's will be aware of the subprime mortgage meltdown but rather more broadly asking how the machinations of Wall Street matter to a person who doesn't closely follow the financial news. Though the subprime bubble sent shockwaves across the United States and around the world, the fallout was not quite as dramatic as some pessimists like Steve Eisman and Charlie Ledley predicted. Though there were significant changes and shake-ups on Wall Street, many of the biggest banks were bailed out by the government and capitalism in the United States still exists in largely the same form it did before the crisis. Rather than take a concrete stand in the final line, Lewis invites the audience to consider multiple possibilities, hopefully from a more informed perspective after reading the previous events chronicled in the book.

## Epilogue Quotes

The changes were camouflage. They helped to distract outsiders from the truly profane event: the growing misalignment of interests between the people who trafficked in financial risk and the wider culture. The surface rippled, but down below, in the depths, the bonus pool remained undisturbed.

**Related Characters:** Michael Lewis (speaker), John Gutfreund

**Related Themes:**

**Page Number:** 254

**Explanation and Analysis**

For the epilogue, Lewis goes back to the beginning, speaking to his old boss at Salomon Brothers, John Gutfreund, who arguably played a key role in creating the conditions that made the 2007 subprime mortgage meltdown possible. In this quote, Lewis describes the effect of some of the changes Gutfreund brought to Wall Street in the 1980s. Gutfreund's claim to fame, which helped him earn the title "The King of Wall Street," was that he took Salomon Brothers from a partnership to a corporation with shareholders. This seemingly simple change had major consequences, shifting the way traders in the firm managed risk. As Lewis describes, this seemingly innocuous change was "camouflage" that hid how increasingly risky tactics were being used at Salomon Brothers to chase even larger profits. The way Lewis describes this situation at Salomon Brothers in the 1980s is deliberately reminiscent of how he describes the lead-up the 2007 subprime mortgage meltdown, which was also the result of risky bets disguised as sure things. Lewis's meeting with Gutfreund emphasizes how, though the specific methods used on Wall Street have changed dramatically over the decades, the basic incentives and the risk-taking culture have not changed much at all.

Until that moment I hadn't paid much attention to what he'd been eating. Now I saw he'd ordered the best thing in the house, this gorgeous, frothy confection of an earlier age. Who ever dreamed up the deviled egg? Who knew that a simple egg could be made so complicated, and yet so appealing? I reached over and took one. Something for nothing. It never loses its charm.

**Related Characters:** Michael Lewis (speaker), John Gutfreund

**Related Themes:**

**Page Number:** 264

**Explanation and Analysis**

This quote includes the final lines of the epilogue and deals with the end of Michael Lewis's meeting with his old boss at Salomon Brothers, John Gutfreund. As with the end of Chapter 10, the final proper chapter of the book, Lewis chooses to end his epilogue on a somewhat ambiguous note rather than with a call to action. Gutfreund's deviled egg, which takes a simple thing and whips it up into something complicated and appealing, could be taken as a metaphor for the type of work people on Wall Street do, such as creating CDOs (which are an extraordinarily complex financial product spun out of something as simple as a home loan). Though Lewis has spent most of *The Big Short* condemning this complexity, in the epilogue he takes a slightly more sympathetic tone. He can't help being fascinated by John Gutfreund, just as he can't help finding the deviled egg Gutfreund ordered delicious. In the epilogue, Lewis doesn't take back his earlier criticism of the financial industry and its spiraling complexity, but he does acknowledge the appeal of its perverse incentives and how, even knowing what he knows, it's possible to be taken in by the promise of getting something for nothing.

## SUMMARY AND ANALYSIS

The color-coded icons under each analysis entry make it easy to track where the themes occur most prominently throughout the work. Each icon corresponds to one of the themes explained in the Themes section of this LitChart.

### PROLOGUE

Michael Lewis, the book's author, recalls when he was 24 years old and working on Wall Street. He didn't have much experience when he started a job at the investment bank Salomon Brothers in 1985, but he managed to make some money before leaving in 1988—and he also got the idea for his first book, *Liar's Poker*. He found that what people were doing on Wall Street was "preposterous" and "totally unsustainable," and, as an insider, he wanted to write everything down, because otherwise no one would believe such crazy things actually happened.

*Michael Lewis immediately introduces himself and his background in part to establish his credentials. He has firsthand experience working on Wall Street (and has already written one bestselling book on the subject), so he has the expertise to tackle the subject of the economic crash of 2008. His description of how crazy Wall Street was in the 1980s lays the groundwork for him to explore how more recent Wall Street exploits have gotten even more unbelievable.*

Lewis's first book was about the **bond** market. At the time he was writing, Wall Street traders were making tons of money by "packaging and selling and shuffling around America's growing debts." Lewis thought this phenomenon would be limited to the 1980s, and that future readers would be shocked and appalled. He never imagined anyone would look back on 1980s Wall Street trading and find that period quaint.

*For the benefit of people who haven't read his previous book, Lewis explains the parts that are most relevant to his current book: how so much of finance revolves around monetizing ordinary people's debts, and how much worse this practice has gotten since the 80s. He's interested in finding out what's changed on Wall Street, but also what's stayed the same.*

Lewis hoped *Liar's Poker* might spur college-age readers to turn down offers from investment banks and pursue other passions. Instead, they used it as a guide to the secrets of Wall Street. Lewis kept waiting for Wall Street to collapse, but for a long time, it didn't.

*Though he doesn't say so directly, Lewis implies that he is worried people will misread* The Big Short *in the same way they misread* Liar's Poker. *He hopes people will see this as an indictment of Wall Street.*

On October 31, 2007, a financial analyst named Meredith Whitney gave such a devastating report on the investment bank Citigroup that it caused the company's stock to plummet. Financial stocks crashed and lost a total of $390 billion in value. Whitney claimed that if anyone really looked at how Wall Street firms were run, they'd find out quickly that the firms were badly mismanaged. She figured that the CEOs were either all clueless or all liars.

*Rather than stating his own views, Lewis uses an expert's opinion. Because Meredith Whitney is established as a credible figure in the financial world, it lends more weight to her statement that Wall Street CEOs were either clueless or liars.*

Lewis wonders how he would've contributed to the financial meltdown if he'd stuck around on Wall Street. He remembers calling Meredith Whitney to hear her story firsthand. She mentioned to Lewis that her career—as well as her whole worldview—was largely established by a man named Steve Eisman. This was Lewis's first time hearing of him.

*Lewis tries to be transparent by revealing how he first got interested in the story. He wasn't working on Wall Street in the time directly before the crash, and he didn't know many of the story's main players—such as Steve Eisman—before he started researching the book. In this way, he's sort of an insider to Wall Street, but he's also an outsider now, since he's been out of the industry for so many years.*

After talking with Whitney, Lewis read in the news about a man named John Paulson, who made phenomenal amounts of money by betting against subprime mortgage **bonds**. These same bonds were responsible for the crash of Citigroup and other Wall Street banks. Lewis thinks this is odd; Wall Street banks are like "Las Vegas casinos," where customers like John Paulson rarely beat the odds. Lewis concludes that the Wall Street casino must have sorely misjudged the odds of their own game.

*Lewis leans on his own experience on Wall Street to make educated guesses about John Paulson and how he made his money. By comparing Wall Street to a casino, Lewis hints at his disdain for the world of high finance. The implication seems to be that people making eye-popping amounts of money aren't really doing anything useful—they're simply gambling.*

By late 2008, the financial markets were in a full meltdown. Many pundits claimed to have seen it coming, but few of them actually did anything about it. Whitney gave Lewis a list of about six people who saw what was coming and were willing to bet money on the outcome: in the middle of the list is John Paulson, and at the top is Steve Eisman.

*Lewis ends the prologue with a cliffhanger, promising that he is about to tell the story of some unique people who were able to predict something that almost no one else could.*

## CHAPTER 1

Steve Eisman got into finance in the early 90s, shortly after Lewis got out. He gets his first job through his parents, who work at Oppenheimer securities, one of the last remaining small firms to survive on Wall Street. He starts as an equity analyst, looking at the value of public companies. Eisman finds that many people in equity analysis are hesitant to go against the consensus, but that he has a talent for it.

*Eisman is an important figure, so Lewis establishes his background. Clearly, Eisman comes from privilege, since his parents helped him get a job. But his first financial job as an analyst demonstrates that he's not like the others at his parents' financial firm; while his coworkers are uncomfortable with contradicting the conventional wisdom, Eisman isn't. This will be a source of his great success.*

Early in his career, Eisman has to analyze Aames Financial, a company that extends loans to low-income Americans through a process called subprime mortgage lending. Eisman doesn't understand the documents about the company at all.

*While many people—especially early in their careers—might assume that their inability to understand something is a weakness in themselves, Eisman pays attention to his confusion, seeing it as a sign that something might not be right. He is not willing to trust information that he can't verify himself.*

The second company Eisman analyzes is the Lomas Financial Corporation, which has just come out of bankruptcy. Despite pressure to be upbeat, Eisman puts a "sell" rating on the company because it is "a piece of shit." Shortly after his report, the company goes bankrupt again, and Eisman establishes himself as an analyst whose opinion can move the markets.

*Eisman grows to be more confident in contradicting the conventional wisdom and bucking the industry pressure to be optimistic about the future of various firms. Here, this confidence seems earned, since Eisman's unpopular decision turned out to be correct. Already, Eisman is very powerful—his analysis can move markets, affecting broad swaths of the economy.*

Eisman becomes a polarizing figure on Wall Street, beloved by those who "get" him but hated by others, particularly important men who are surprised by Eisman's seeming lack of deference. At one point, Eisman insults the head of a large brokerage at a lunch meeting, then leaves to use the bathroom and never comes back, bewildering the other meeting attendees. Even Eisman's wife, Valerie Feigen, admits he has no manners, though she claims he's "sincerely rude" rather than "tactically rude." "He knows everyone thinks of him as a character, but he doesn't think of himself that way," she says. "Steven lives inside his head."

*Eisman's unconventional attitude extends beyond his contrarian analysis at work; his social demeanor is unusual and even off-putting, as well. Clearly his uniqueness is a core part of his personality that extends across his life. When Eisman's wife says he's "sincerely" rude rather than "tactically" rude, she's implying that his poor manners are just who he is—he's not being rude as a tactic, or as a way to gain power or put people on edge. This all paints him as a true eccentric, someone incapable of being anything but himself.*

Lewis concludes that Eisman was a "curious character" entering Wall Street at the start of a "curious phase." Much of this strangeness was due to the mortgage **bond** market. Unlike other bonds, which are based on fixed terms, mortgage bonds introduce uncertainty, since individual borrowers can repay their loans early if they want, or refinance when interest rates are low. This leaves banks less able to predict their revenue from mortgages. To combat this uncertainty, firms like Salomon Brothers devised a system to pool home loans together into groups called "tranches." Buyers of bonds in the first tranche received the highest interest rate in exchange for the most risk, with subsequent tranches having less risk but lower interest rates.

*Lewis situates Eisman's story in a larger historical context, explaining the somewhat complicated topic of bond markets and the ways that various firms innovated to deal with uncertainty, inadvertently leading to the financial collapse. Though Lewis uses some pieces of jargon like "tranches," he is always careful to explain what these words mean so that he doesn't alienate people in his audience who aren't finance experts. This is important, since he thinks that one of the major factors in Wall Street's collapse was that everything became so needlessly complex that nobody could understand it, not even the experts.*

In the 1980s, the main fear of mortgage **bond** investors was that home loans would be repaid too fast, not that the loans wouldn't be repaid at all. This was because the government would guarantee many home loans, promising to pay them if the borrower defaulted (which means failed to pay back a debt). Starting in the 1990s, however, Wall Street began speculating with bonds on loans that didn't qualify for government guarantees, since the borrowers were less creditworthy.

*Lewis again looks at how the Wall Street of the 1980s set the stage for more recent events. He reveals that things didn't change overnight—there was a gradual escalation in the 90s where bonds became riskier. This passage also makes clear how Wall Street speculation is tied to the daily lives of everyday people—financiers were betting on people's homes.*

In the 1990s, Steve Eisman is one of the few people looking into the consequences of these risky loans; one of the others is Sy Jacobs, who went through the same training program at Salomon Brothers as Lewis and who went on to work at a small investment bank. Jacobs recounts to Lewis how the subprime mortgage **bond** market began with allegedly altruistic intentions: by mass-marketing the bonds, banks would reduce the cost to low-income people who needed to borrow money, since they would be able to replace high-interest credit card debt with lower-interest mortgage debt.

*Since the subprime mortgage meltdown didn't happen until 2007, Eisman is a pioneer for taking notice of how risky the loans were way back in the 1990s. Ironically enough, however, Eisman starts off by believing that the bonds could be good for lower-class Americans who might be able to buy a home now. This was true in some cases, but for a lot of people, the lenders were preying on them by offering them loans they wouldn't ever be able to pay back. Here, Eisman is uncharacteristically optimistic, and it doesn't pay off.*

By the mid-1990s, Jacobs and Eisman both believe in the potential of subprime mortgage **bonds** to help alleviate income inequality, but Jacobs admits that it was a "fast-buck business" that brought in sleazy speculators. Eisman helps take many subprime companies public, partly due to pressure from his employer and partly because he believes the story that these bonds are helping consumers.

*Eisman's interest in income inequality is one of many things that makes him an unusual figure on Wall Street. On the surface, Eisman might look like a hypocrite for helping to bring subprime companies public then later railing against them, but Lewis frames the story to suggest that Eisman's motivations are consistent and that he simply changed his opinions after he had more information.*

Meanwhile, Vincent Daniel grew up in Queens without the same advantages that Eisman had. After learning that the real money is in Manhattan, he gets a job at a junior accountant and is assigned to audit Salomon Brothers. There, he is shocked to find how opaque the company's books are, and how no one can answer any of his questions.

*Vinny's lower-class background sets him up as a foil for the upper-class Eisman, showing how two men from very different backgrounds ended up having similar interests. Like Esiman, Vinny is attuned to his own confusion and curiosity. When he finds the books at Salomon Brothers to be difficult to understand, he assumes that the problem is with* them, *not with him. This proves perceptive.*

Vinny concludes that Wall Street firms are "black boxes," and that it's not even possible for an accountant to tell if they're making money or not. Frustrated with his job, Vinny applies for a job at Eisman's company, Oppenheimer. The initial interviews go well, but when Vinny gets a call from Eisman that he assumes is the job offer, Eisman leaves for an emergency call and doesn't come back on the line. Two months later, Eisman calls back and offers Vinny the job.

*Eisman once again proves to be an odd character, even toward people who understand his worldview. Vinny's tolerance for this unusual interview process suggests that he must really be interested in what Eisman is doing.*

Vinny later finds out that Eisman never called back because he'd just learned that his firstborn infant son, Max, had died. His wife, Valerie, was calling because the night nurse fell asleep next to the baby, rolled on top of him, and smothered him. This was the moment when Eisman stopped believing he was safe and started believing bad things could happen to anyone at any time.

*The death of Eisman's son humanizes him and makes his erratic behavior seem more sympathetic. It also explains why he has such a dark worldview. As a very privileged person, he had assumed that he was immune from various kinds of tragedy and hardship. Realizing that he isn't immune helps him see the world more clearly, especially its darkness and risks.*

Vinny doesn't know Eisman's whole story when he starts work—he just knows that Eisman seems different from their previous meetings. Eisman begins to become increasingly negative at work. He wants to write a report that basically condemns the practices of the whole industry. Still, he has to be cautious, because there are consequences in the industry for people who make predictions that are both negative and wrong. Eisman asks Vinny to go into a room and look at a database of mortgage loans until he finds out what's going on.

*Eisman's attitude has perceptibly changed since the death of his infant son. While he was always willing to buck the conventional wisdom of his field, he now seems to be spoiling for a fight, wanting to reveal to the other privileged people around him that their field is deeply flawed. Perhaps he's scandalized that all these financiers seem to feel—as he once did himself—that they are invincible from the professional risks they're taking. Regardless of his motives, Eisman's new negativity is productive; it's what leads him to start investigating what's really going on in mortgage loans.*

Vinny teaches himself about mortgage-backed securities and finds that Eisman's intuition is right: there's something rotten in the subprime mortgage industry. Companies are disclosing massive earnings but not being honest about the massive risks they're incurring.

*Vinny proves himself to be a competent self-starter. He gets deeper into the nitty gritty than Eisman, but Eisman's intuition often turns out to be correct, and Eisman relies on Vinny's research before moving forward.*

Vinny first notices that lots of people in the "manufactured housing" (mobile home) sector are prepaying their loans surprisingly quickly. Eventually, Vinny realizes that many of these prepayments are in fact "involuntary" (a euphemism for defaulting on the loan). Money lenders are losing money on these defaulting loans, because the interest rates aren't nearly high enough to justify the massive risk.

*Lewis slowly unravels the mystery of the housing market by showing step-by-step how Vinny and Eisman discovered what was really going on. The fact that people who purchased mobile homes are defaulting on their loans is the first sign that maybe the current mortgage market isn't so great for lower-class Americans after all. While these mortgages did allow them to become homeowners when they otherwise couldn't have been, they're losing their houses because they can't actually afford their mortgage payments. In other words, these loans are making things worse for them because they're left with debt, bad credit, and no home.*

Ultimately, Vinny takes six months to sort through all the data about subprime mortgage loans. He reports to Eisman that the whole thing is basically a Ponzi scheme, with companies making more and more loans to cover the losses of their previous loans. Eisman uses this as evidence in a report that harshly criticizes all the subprime mortgage companies.

*Lewis doesn't bother retelling everything that Vinny and Eisman did in their six months of research, but the fact that they took so long suggests they were thorough. Despite Eisman's reputation for being contentious, he does take his time to do the research before spouting off contrarian opinions. In other words, he's not just going against the grain for its own sake—he's rigorous because he wants to ensure that he's right.*

Eisman's report creates a "shitstorm," according to Vinny, and this is exactly what Eisman wants. His report comes in 1997, during an economic boom—but less than a year later, many subprime lenders are forced into bankruptcy.

*Again, the fact that this all happened in 1997 shows that Eisman and Vinny were way ahead of the curve and that they didn't just get lucky when they later shorted the subprime mortgage market.*

Eisman emerges as a leading skeptic on Wall Street. He leaves his job for a new one at the hedge fund Chilton Investment, where he continues to analyze companies. By 2002, there are no public subprime lending companies left in the U.S. There is, however, a large consumer lender called the Household Finance Corporation, which is perpetrating a related type of loan fraud. The company is telling borrowers that interest rates will be 7 percent, when in fact they end up being closer to 12.5 percent.

*Lewis shows how Wall Street is like a many-headed hydra—as soon as one problem is solved, another one pops up to replace it. So even though Eisman's report helped bankrupt some firms that had shady practices, it doesn't reform the industry overall. Once again, borrowers (i.e., those most in need of money) are the ones who end up being hurt by dishonest business practices.*

Eisman finds hundreds of complaints from borrowers who discover that they have been lied to by the Household Finance Corporation about their interest rates. He begins a crusade against the company, alerting reporters and regulators to the fraud. The federal government fails to respond. At the end of 2002, Household settles a class action lawsuit for a $484 million fine, but just a year later, the company is sold to the British finance company HSBC Group for $15.5 billion.

*Eisman makes the transition from a renegade within his industry to someone who crusades on larger social issues. Yet again, the problem seems to be solved, only for a new twist to reveal that things are still as bad as ever. Establishing how hard Eisman tried to clean up the industry will give him a little moral credibility later on, once he makes tons of money shorting the market. This all shows that he didn't simply profit off of the crisis; he tried for more than a decade to keep it from happening.*

Eisman is shocked by the scale of Household's fraud. He starts becoming more political and notices how the regulatory system seems designed to protect people at the top. A lover of comic books, particularly fractured fairy tales, Eisman sees the subprime mortgage loan as its own sort of fairy tale. Borrowers are told they'll be able to pay off all their other loans with one new loan at a low rate, but the rate isn't real—it's just a teaser to get new people to sign up. As Eisman learns more, he realizes that big financial institutions are out there to make a profit at any cost, even if it means taking advantage of the poor.

*After trying and failing to clean up the industry's shady mortgage practices by revealing the malfeasance of specific firms, Eisman sets his sights on another part of the industry: its regulators. Supposedly, regulators exist in order to make sure the industry is running well, both logistically (in terms of its business practices) and morally (by not destroying society), but Eisman realizes that this isn't what's happening; the regulators basically exist to help rich people make even more money. The regulators seem to have no problem with widespread practices that ruin the lives of the poor, even when poor people are essentially the victims of fraud.*

Eisman started as a Republican, but his experiences in finance, such as watching the CEO of the fraudulent Household collect $100 million, lead him to become a socialist. Frustrated that his current job doesn't let him manage money, he sets up his own hedge fund at FrontPoint Partners, which is owned by Morgan Stanley (although Morgan Stanley doesn't provide investment money). Eisman tries to raise money, but at first, he can't.

*Lewis brings up Eisman's Republican past to show that, while politics may not always play an obvious role in the story, they are often part of the subtext, particularly for Eisman. His experiences on Wall Street completely change his worldview, and this is what leads him to crusade against what he sees as terrible practices in the industry. He didn't start as an ideologue; instead, seeing what was really going on radicalized him. His socialist politics and his difficulty raising money help establish that, despite his privilege and experience, he's still something of an outsider to the industry.*

In spring of 2004, Eisman begins to despair that he'll never raise any money. He takes an unconventional type of therapy, but he causes problems in the meetings—so much so that the therapist eventually begins calling Eisman's wife, Valerie. Valerie gives Eisman an ultimatum: if his new project on Wall Street doesn't work out, they're leaving New York to start a bed and breakfast. This motivates Eisman to work hard enough to get his first investment: $50 million from an insurance company.

*Despite his privilege, not everything comes easily to Eisman. The anecdote with his wife, however, shows that if Eisman is just given the right motivation, he can do just about anything that he puts his mind to.*

Eisman's unusual style attracts a certain type of person. Vinny comes to FrontPoint Partners right away. Porter Collins, a former Olympic oarsman who previously worked with Eisman, also comes. Finally, there's Danny Moses, who worked with Eisman at Oppenhiemer and was impressed with his style.

*Even though Eisman's rudeness alienated many people around him, his intellect and honesty were ultimately responsible for attracting a loyal and trustworthy team.*

By 2005, Eisman and his employees begin to feel that Wall Street doesn't understand what's going on—the subprime mortgage industry is roaring back, bigger than it ever was. Instead of learning a simple lesson (not to lend money to people who can't pay it back), Wall Street firms simply learned how to get better at hiding the risks of subprime loans in their books. Eventually, all the big Wall Street investment banks want a piece of the subprime game, including Bear Stearns, Merrill Lynch, Goldman Sachs, and Morgan Stanley.

*Lewis shows how the financial products being offered on Wall Street became increasingly complex in the years before the crisis. They importantly became* deliberately *complex, as this complexity allowed firms to cover up the huge risks they were taking, making their companies seem more profitable. Sometimes this complexity even hides who is responsible for the risk if the investment goes bad.*

Eisman, who already has a lot of experience with subprime mortgage markets, realizes the whole market is going to blow up at some point, and that it's possible to make a fortune on shorting it (betting that the value will go down). Eisman has an epiphany: he realizes that instead of focusing on stock picks, he needs to do something with **bonds**.

*Here, Eisman gets the big idea that will motivate him for the rest of the book: shorting the market and focusing on bonds. Because Lewis has carefully sketched the background of Eisman and his team, it's easy to see how Eisman's unusual career made him the perfect person to discover the problems in the subprime mortgage market.*

## CHAPTER 2

In early 2004, Michael Burry is another stock market investor looking into **bonds** for the first time. He performs a lot of research with one goal: to find out how to short subprime mortgage bonds.

*Unlike Eisman's chapter, which began with an explanation of his background, Burry's chapter begins in media res, when he first starts looking into shorting subprime mortgage bonds. Aside from being a logical follow-up to the ending of the previous chapter, this introduction also centers Burry's analytical side and reflects the fact that he erects more personal barriers around himself than Eisman. He's not really comfortable with people knowing much about him as a person.*

Burry combs through the fine print on dozens of mortgage **bonds**. He notices that lending standards have fallen—to the very bottom, in his view. Even people with no income are getting loans. Burry decides to look into why lenders would do this, and he determines that they have basically lost all restraint in their quest to increase lending volume.

*Burry is depicted doing what he does best—perusing seemingly insignificant details to discover information that other people overlook. It's clear to him that lenders are offering home loans to people who have absolutely no way to pay for those homes—including people who don't have an income.*

Burry wants to short the subprime market, but the problem is that there's no direct way to do so. Earlier, however, he discovered something called a credit default swap, which is an insurance policy where you lay down annual premium payments on a debt. If the debt doesn't default, you get nothing, but if it does, you get a return several times larger than your investment. Lewis compares credit default swaps to a roulette game: one side puts money on the table with a chance to lose it all but also a chance to increase the investment significantly.

*Lewis deliberately sets out to demystify Wall Street because he doesn't like the way some people in finance have turned investment banks into "black boxes" where no one knows what's going on inside, which is why he explains complicated—but crucial—concepts like credit default swaps. Once again, Lewis compares the practices of finance firms to gambling, implying that people in finance are reckless degenerates, making irresponsible bets to try to profit off of other people's suffering.*

Burry is already involved in corporate credit default swaps, but he realizes that credit default swaps on subprime mortgage **bonds** could be an even more direct way to profit off an upcoming market downturn. This system would allow Barry to make his bet while at the same time limiting the maximum amount he could lose. The only problem is that this particular market for subprime credit default swaps doesn't exist yet.

*Lewis shows how Burry is an innovator, able to see ways to make money that don't even exist yet. It's certainly cynical to come up with a way to profit off of bad mortgage loans—readers may wonder why he's not instead sounding the alarms about how this will destroy both high finance and everyday Americans. But Eisman's chapter did show that sounding the alarm is sometimes not very effective when dealing with a complicated, powerful system.*

Burry calls lots of major financial institutions and finally gets Deutsche Bank and Goldman Sachs to hear him out. No one else on Wall Street seems to be looking at things the way Burry is.

*Once again, Lewis emphasizes how unique Burry was by showing that his idea was so unconventional that most banks weren't willing to take him seriously.*

Burry realized he was different at a young age. A battle with childhood cancer cost him his left eye, and for years afterwards, he struggled to look people in the eye. He attributes his awkwardness in social situations to his glass eye. He grew up isolated, more comfortable living in his own head. Initially, he went into medicine, but he soon found himself more interested in the stock market.

*As with Eisman, Lewis reveals Burry's back story in a way that causes the audience to reconsider Burry's previous actions. The fact that he has a glass eye and that he overcame childhood cancer help to illustrate how he grew up to be such a tough loner.*

Burry starts commenting on a message board about value investing (picking stocks that seem to be trading for less than they're worth). Eventually, he creates his own blog, which he writes between 16-hour hospital shifts. Big companies start to notice his blog.

*Burry's enthusiasm is amazing—he is able to make a name for himself as an investor even while working insane hours at the hospital.*

As Burry gets more involved watching the markets, he finds it harder to pretend he is interested in medicine. Eventually, his father's life insurance policy provides Burry with enough money to start his own business, Scion Capital.

*The downside of Burry's enthusiasm, however, is that he can't control it, and that he always feels obligated to take his interests to the extreme.*

As Scion Capital, Burry continues to be anxious about face-to-face encounters with people—he finds that they only ever go well with people who already like him because they know his writing. Eventually, Burry gets his first million from Joel Greenblatt, an investor who wrote a book that Burry read and admired. From there, Burry begins getting more and larger investments.

*Burry is lucky to have been born when he was—just in time to be there for when the internet revolutionized how people communicate. His experience shows how online communication differs from face-to-face interactions, and how the internet might help people who are very skilled at their jobs but less comfortable socially.*

Burry decides to attract investors by writing his thoughts online and waiting for people to approach him—and it works. By late 2004, he is managing $600 million and has to turn investors away.

*The fact that Burry turns investors away suggests that he is both an idealist and a pragmatist—he wants to do things with his choice of investors and without getting in over his head.*

Burry takes an unusual approach to managing Scion. Instead of taking two percent of assets, like most hedge fund managers do, he only charges investors expenses. Basically, the only way for him to make money is for his investors to make money. Luckily for him, Scion is instantly successful, growing 242 percent by the middle of 2005.

*Though Burry makes himself a lot of money, he does so in a way that is more favorable to investors than similar firms, suggesting again that he has an idealistic streak. (Or maybe he just decides it's good business.)*

Burry makes risky bets that pay off. One investor describes a classic Mike Burry trade as one that "goes up by ten times but first it goes down by half." He likes investors who are long on the stock market (believing stocks will ultimately go up). But as time goes on, Burry begins to see the bubbling real estate market as a disaster in waiting that could disrupt the whole market.

*Burry may be analytical, but he's also adventurous. Lewis shows that Burry isn't afraid to take long shots if the odds are good enough. However, while Burry begins his career very optimistic about the future of the stock market, he's troubled enough by the real estate bubble to change his strategy.*

In early 2005, Burry runs into a problem with this credit default swap plan: the big Wall Street investment banks aren't treating the matter as urgently as he is. He knows he needs to create some sort of standard contract that will be acceptable to everyone in the industry, so that dealers won't try to get out of paying him. Eventually he comes to a solution by working out an agreement with an organization called International Swaps and Derivatives Association (ISDA)—a process that takes the lawyers months.

*Burry flexes his creativity by finding an unconventional solution to a problem that at first seems insurmountable. Also, the complexity of this process shows how the finance industry has gotten so complicated that even a professional like Burry struggles to navigate it.*

Burry arranges things carefully so that he'll get paid even in the event of a total market collapse. He sets out to find the very worse mortgage **bonds** and is surprised when Goldman Sachs offers him the information to do just that. He begins pestering investment banks to sell him credit default swaps—and eventually some do. He plays dumb but secretly believes that he's right and the rest of the world is wrong.

*Burry's response from Goldman Sachs suggests that the major banks are still a step behind him. The people at the big banks are too arrogant to consider the possibility that perhaps Burry actually knows what he's talking about. In this way, Burry uses his outsider status to his advantage, allowing others to underestimate him so that he can get the deals he knows will pay off.*

In August, Burry writes a proposal for a fund called Milton's Opus, which involves credit default swaps. None of his investors understand it, however, and it dies quickly. Later he confesses in a letter to investors that a lot of the fund's money has already gone into credit default swaps, causing a backlash. Burry contends that he isn't losing money, just looking at longer term returns.

*Though credit default swaps are a promising investment option, Burry botches the rollout of Milton's Opus, showing once again that his lack of interpersonal skills can sometimes hold him back. Burry is clearly a genius, but his inability to build his investors' confidence in his plan is a serious career obstacle.*

In October 2005, a subprime trader at Goldman Sachs becomes the first of Burry's Wall Street contemporaries to take a closer look at what he's doing. Later, in November, Burry gets an email from a subprime trader at Deutsche Bank called Greg Lippmann who is offering to buy a billion dollars in credit default swaps. Burry declines. He looks into it and finds out other major banks are suddenly looking to buy his default swaps and won't sell them to him anymore.

*The fact that big banks are catching on to Burry's idea provides evidence that it's a good one—but it also highlights how big institutions are slower to accept innovation, whereas someone working independently can adopt new ideas sooner. The notion that all these banks are looking to buy credit default swaps foreshadows the enormous crash to come.*

The next morning, a *Wall Street Journal* article exposes how many mortgages have been defaulting across the country. Burry expects there will be big changes and greater regulations. He gets an email from an investor who saw Greg Lippmann the other day: Lippmann was bragging about how he was about to make "oceans" of money off $1 billion in shorts on subprime mortgages.

*Though Lippmann and Burry have similar investment strategies, they are also opposites in many ways. Lippmann is more of a self-promoter, which leads him to be covered in news stories, while equally accomplished traders like Burry (who lack the same PR skills) are left out. While Burry expects that the newspaper reporting on defaulted mortgages will bring new regulations to the industry, he's about to learn—as Eisman did in the previous chapter—that the regulators aren't doing their job.*

## CHAPTER 3

In February 2006, Greg Lippmann shows up in the conference room of Steve Eisman's hedge fund, where Vincent Daniel is also present. They treat Lippmann with suspicion, but Lippmann is a slick talker who doesn't follow many of the standard "rules" of Wall Street. He tells them he isn't loyal to Deutsche Bank; he just works there. Ultimately, he wants to sell Eisman on an idea he claims he came up with: betting against the subprime **bond** market.

*Lippmann is interesting because he seems to be very honest—but that might just be a trick. This section emphasizes how much of business on Wall Street is based on interpersonal relations and how difficult it can be to find people you can trust, especially when large sums of money are involved.*

The crux of Lippmann's pitch is that, in order for his bet against the subprime **bond** market to be successful, home prices don't have to fall—they just have to stop rising so rapidly. His plan is basically the same as Mike Burry's and involves credit default swaps.

*Though Lippmann's manner is suspicious, his proposal lines up with what Eisman and his team already know. Once again this shows how difficult it is to make judgement calls about a person's character when so much money is on the line.*

One of Lippmann's most persuasive arguments is his work with Eugene Xu, a "quant" (meaning a quantitative analyst who uses math and statistics to provide information about investments). Xu is described as "a real Chinese guy—not even Chinese American—who apparently spoke no English, just numbers." Everyone trusts Xu's math because he finished number two in a national competition in China. As Lippmann notes, "How can a guy who can't speak English lie?"

*In an afterword to* The Big Short *published after the first edition, Lewis offers a clarification: despite what Lippmann says, Eugene Xu can in fact speak English. Though Lippmann is trying to emphasize a positive aspect of Xu's character—that he's good at math—he does so by falling back on racist stereotypes about the Chinese, emphasizing details about Xu that make him seem "exotic" and more like a number-crunching machine than a human.*

Though Vinny remains suspicious, surprisingly, Eisman seems very interested. He asks questions but ultimately has no problem betting against subprime mortgages.

*Vinny's suspicion is warranted—deals that seem too good to be true on Wall Street usually are. Eisman, however, has done extensive research with Vinny and Danny on subprime mortgages, so he knows there may be truth to what Lippmann is saying.*

Meanwhile, Burry is able to buy $100 million in credit default swaps from Goldman Sachs. He guesses that Goldman isn't the company taking on the risk if the mortgage debts default, and it turns out he's right: it's actually the financial products division of the insurance company American International Group (AIG FP).

*One of the most important principles on Wall Street is to avoid taking on more risk than you can safely manage. Though Goldman Sachs makes some questionable decisions in the lead-up to the 2007 financial crisis, here the firm is smart to arrange things so that the risk falls to another company.*

AIG FP started taking on all sorts of complicated financial risks for other companies, initially for events that were very unlikely to happen. Though it was initially profitable, eventually AIG FP starts taking on the worst subprime mortgage **bonds** (triple-B rated) and becomes the world's biggest owner of them.

*The case of AIG FP shows how dangerous it is to get involved in big Wall Street trades without fully understanding the risks. Because the danger of subprime mortgage bonds isn't widely known at this time, AIG FP is taking on much greater risk than it realizes.*

Greg Lippmann watches his peers at Goldman Sachs as they create multibillion-dollar deals where, in exchange for a few million dollars each year, they transfer all risk to AIG in the event that the worst **bonds** failed.

*Transferring the risk to AIG suggests that, on some level, the people at Goldman Sachs are aware of the possibility that the bonds will fail.*

Goldman's process is so complex that most investors and ratings agencies don't understand it. It involves "synthetic subprime mortgage **bond**-backed collateralized debt obligation (CDO)." Basically, the process allows them to hide the fact that triple-B bonds are so bad by packaging them together in new bundles that get rated as triple A (which are easier to sell because they're perceived as lower risk). Lewis calls CDO "a credit laundering service" for lower-middle-class Americans and a "machine that turned lead into gold" for Wall Street.

*Again, Lewis attempts to demystify the deliberately complex processes that have been devised on Wall Street in order to make it seem like Wall Street firms are making more money than they actually are. The purpose of the complexity is often to hide the risk of investments, but Lewis seems to suggest that some firms are so good at hiding risk that they even fool themselves. The language Lewis uses here—"laundering" and "lead into gold"—suggests that he finds these practices to be both corrupt and a result of magical thinking.*

Wall Street firms like Goldman Sachs begin to want pessimists like Mike Burry to buy credit default swaps against triple-B **bonds**. They then create a "synthetic CDO" made of nothing but credit default swaps and take it over to a ratings agency like Moody's or Standard & Poors. About 80 percent of synthetic CDOs are rated as triple-A bonds, and the remaining 20 percent are put through the same process again and again until they too are part of triple-A-rated bonds. By facilitating this complicated "synthetics" process, Goldman Sachs is able to skim a lot of money off the top without actually incurring the risk—this is why Goldman is so surprisingly helpful to Burry.

*Big Wall Street banks like Goldman Sachs believe that they're smarter than individual traders like Mike Burry, and this arrogance ends up being their downfall. In fact, it's precisely because Burry is acting alone, without the pressures of being part of a major firm, that he is able to see the truth behind the bonds and the ratings agencies.*

Lippmann's bosses ask him to do what Mike Burry is doing, creating as many credit default swaps as possible before AIG realizes how much risk they're taking on. Though Lippmann is in an unusual position, he doesn't protest, since it gives him the opportunity to make a lot of money. By November 2005, he realizes that the odds might actually be in favor of his gamble, and that it might be good to be short.

*The cut-throat nature of Wall Street often leads to strange alliances. Though Lippmann is sometimes at odds with his bosses, they mostly allow him to do what he wants, and that's the most important thing for him.*

Lippmann inspires mixed reactions from the people around him, many of whom find him scary and wonder if he has narcissistic personality disorder. He tries to sell other industry players on shorts like his, but they largely refuse him. When subprime mortgage **bonds** rise, decreasing the value of Lippmann's credit default swaps, his bosses begin to wonder if he's doing the right thing.

*Though interpersonal relationships play a big role on Wall Street, Lippmann shows that you don't have to be liked to make a lot of money. Despite being a controversial figure, Lippmann is still able to find success, largely because he's very good at one skill you really do need on Wall Street: being able to convince people you can make them a lot of money.*

Lippmann decides that the best way to stop pressure from his bosses is to implode the market—because if AIG stops taking credit default swaps, the whole subprime mortgage **bond** market might collapse, making Lippmann's credit default swaps much more valuable. He visits AIG FP in an attempt to persuade them and seems to succeed when AIG FP hint they might actually *buy* some credit swaps instead of *sell*. Lippmann thinks, for a brief period of time, that he's changed the world.

*Though Lippmann may seem like a simple narcissist, his scheming here shows that he is also strategic. Like Eisman, Lippmann also wants to change the world, although his motives are less altruistic—he simply wants to make a ton of money and prove to his bosses that he was right.*

## CHAPTER 4

But the people at AIG FP quickly forget their meeting with Lippmann. It's Gene Park in AIG FP's Connecticut office who figures out that all the subprime mortgages AIG FP owns are dangerous, since the company doesn't have enough to cover the losses in the event of a default. For bringing the problem up, he gets yelled at by his boss, Joe Cassano.

*The story of Gene Park and Joe Cassano may seem like a departure, but in fact, it is a microcosm of the whole industry that shows how the higher-ups at big financial firms enforce conformity and refuse to listen to obvious warning signs.*

Cassano is a dictator in the office who demands strict obedience. He is upset at Park for daring to contradict him, although by early 2006, he ultimately comes around to the same position Park was trying to convince him of.

*Cassano seems to have a fragile ego; he can only come to the correct conclusion once he believes that he thought of it himself, rather than listening to his employee.*

Meanwhile, Lippmann is confused that AIG FP keeps refusing to take his advice. Surprisingly, the subprime market keeps growing, and in April 2006, Lippmann is asked by his bosses at Deutsche Bank to explain himself. They compromise: Lippmann can keep his expensive shorts if he can prove there are other investors who might take them off his hands. This means he has to create a credit default swap market.

*Though Lippmann's bosses also put up resistance and try to encourage conformity, they are smart enough to know that Lippmann might be on to something. This contrasts with the previous case of Cassano and Park.*

Lippmann's initial attempts to sell credit defaults are unsuccessful, but ultimately, he meets Steve Eisman. At first, Eisman doesn't take the bet. Later, Danny Moses (Eisman's new head trader) and Vinny Daniels call Lippmann back and ask him to explain everything all over again. Danny and Vinny keep mistrusting Lippmann, even as he keeps answering their calls and answering their difficult questions. They treat Lippmann like a witness to crack under interrogation, but he doesn't slip up.

*Lewis emphasizes how thoroughly Eisman, Danny, and Vinny vet Lippmann to see if he's telling the truth. Unlike what Cassano does to Park, they don't dismiss what Lippmann is saying outright. Their approach is based on data, and though they listen to their intuitions, ultimately, they act based on hard information.*

Ultimately, Lippmann sells credit default swaps to a different investor, and two pieces of breaking news change the whole situation. First, in May 2006, Standard & Poor's announces it's changing its model for rating subprime mortgage **bonds**. This stirs up fear, suggesting that, on some level, even the big Wall Street firms knew they were creating overrated bonds. Second, the ratio of housing prices to income has been going up, from 3:1 to 4:1, with some markets going as high as 10:1. Still, even these major pieces of news didn't disrupt the subprime bond market.

*Though major Wall Street firms have been keeping upbeat about the mortgage bond market, warning signs are beginning to show that no amount of positive spin can hide what's really going on in the markets. One of the enduring questions is how much the major players on Wall Street really knew: if they were ignorant of the consequences of their actions, or if they were deliberately trying to play a fraudulent game.*

Finally, Eisman makes a deal with Lippmann. He, Danny, and Vinny remain skeptical of the deal, so Vinny and Danny fly down to Miami to investigate more about the housing market. They find "empty neighborhoods built with subprime loans." The best targets for shorts (i.e., "the **bonds** ultimately backed by the mortgages most likely to default") are primarily in states like California, Florida, Nevada, and Arizona, where housing prices soared in the boom—and are most vulnerable to a fast crash. These states also have "dubious" mortgage lenders who make lots of fraudulent loans, such as one extreme example where a Mexican migrant worker with an income of $14,000 was lent enough to buy a $724,000 house.

*By actually flying down to Miami, Danny and Vinny demonstrate that sometimes they need more than just models and predictions—they need to see things with their own eyes. They fact that the situation is so dire in Miami, and that anyone who goes there can see it, suggests that all the fancy financial mechanisms Wall Street has concocted are helping to obscure the situations real people are faced with.*

These fraudulent loans are possible in part because the regulatory agencies, Moody's and S&P, are easy for the big Wall Street firms to exploit. This is because they don't look at individual home loans, just loan pools. Wall Street learned to manipulate these pools by bundling together borrowers with low FICO ratings (also known as credit scores) with borrowers who have higher credit scores. This hides the fact that a pool contains many low-credit-score borrowers who are very likely to default.

*Lewis consistently portrays the ratings agencies as either incompetent at their basic roles or complicit in helping Wall Street firms to engage in risky behavior. The implication may be that free markets don't work correctly without proper oversight.*

Wall Street further manipulates the pools by seeking out so-called "thin-file" FICO scores, or FICO scores from borrowers who have only a short credit history. This is why firms target people like migrant workers—because their short credit history sometimes enables them to have a high FICO score that could be used to offset low FICO scores in a pool, even though they're not all that likely to be able to pay off a house.

*This section shows how Wall Street firms can be tactical and ruthless—they don't mind targeting vulnerable groups like migrant workers if it ends up being a convenient way to turn a profit.*

Eisman and his team don't know the full details of what Wall Street investment banks are doing, but they know they have a dedicated staff whose whole job is to game the rating agencies. They set out to learn more. Danny and Vinny speak to a woman at Moody's who answers some of their questions. They find out that to get more information, they'll have to go to Las Vegas.

*Once again, Eisman and his team reach the limits of what they can find out researching from a distance. As always, they aren't afraid to get up close and do some unconventional research. Their plan to go to Vegas once again reinforces how much they value seeing things with their own eyes.*

## CHAPTER 5

Eisman is not alone in investing in investing in credit default swaps. Lippmann pitched them around and got about a hundred interested buyers, although many use them only as a hedge rather than as a full bet against the markets. Only about 10 to 20 people bet on the whole subprime mortgage market going down.

*Lewis once again emphasizes how the protagonists of his book were exceptional. Many other investors had enough information to engage in similar trades, but only a small minority of people with this information used it to its full potential.*

In 2003, Jamie Mai and Charlie Ledley are two 30-year-old men from Berkeley, California who form a company called Cornwall Capital. It's based out of a shed and has only $110,000 of their own money in it.

*Like many of the other protagonists of the book, Jamie and Charlie are independent self-starters. The fact that they go into business with their own money suggests that they have a decent tolerance for risk.*

Jamie and Charlie decide to look for inefficiencies in the market and they come across the credit card company Capital One Financial. Capital One seems to be a solidly run business to them, but in July 2002, its stock dropped after the company disclosed that it was in a dispute with government regulators over how much capital the company needed to keep in reserve. After the dispute, Capital One continued to be profitable, but its stock stayed down around $30 a share. Jamie and Charlie wonder whether the company is good at what it does (and therefore worth more like $60) or if it's committing fraud (and therefore worth nothing).

*Though Jamie and Charlie aren't afraid of risk, they're smart about the way they manage it. They start with a relatively conservative investment, looking into a company that, historically, has performed well.*

Jamie and Charlie research Capital One. They decide to buy options on the stock, meaning they can pay about $3 in order to have the option to buy the stock at $40 at any time in the next two and a half years. Soon after, Capital One resolves its issues with regulators, and the stock price goes way up, making Jamie and Charlie a lot of money.

*Like Eisman's team and Burry, Jamie and Charlie are shrewd researchers. Their use of options demonstrates a sophisticated knowledge of how to limit their exposure in case their predictions are wrong.*

Jamie and Charlie use the same technique to make money with lots of other companies and commodities around the world. They call their strategy *event-driven investing* and often do deals with an "administrative complexity" way out of proportion for how much money they are dealing with. They want to build a closer relationship with a big Wall Street firm, so they transfer their account to Bear Stearns, where their brokerage statements come back with "Ace Greenberg" at the top (a former CEO of Bear Stearns and a Wall Street legend).

*Because they come from outside the mainstream of Wall Street, Jamie and Charlie have to get creative to make money. Even after they find success, however, they struggle to get recognized. Their experience shows how hard it is to break into the insular community of Wall Street, especially if you aren't already spectacularly wealthy.*

Despite multiple attempts to contact Ace Greenberg, the most Jamie and Charlie ever get is a 30-second meeting with him before being led out. As private investors, they feel like a "second-class citizen" on Wall Street. They seek help from Jamie's new neighbor in Berkeley, Ben Hockett.

*Even two people as persistent as Jamie and Charlie can't break into the inner circle of Wall Street on their own. The fact that Jamie ends up living next door to Ben Hockett shows that, for all the strategy and planning that go into a successful hedge fund, there is also a substantial element of luck.*

Ben Hockett is a Deutsche Bank employee who tried to quit his job, but the company kept him on by allowing him to work remotely. Jamie and Charlie keep asking Ben questions about Wall Street before finally convincing him to quit Deutsche Bank and join Cornwall Capital with them. Ben is even more pessimistic than Jamie and Charlie, constantly preparing for an apocalypse.

*Ben's pessimism makes him similar to other Big Short traders, like Eisman and Burry. Also like Eisman, he has some experience with mainstream Wall Street but finds the culture alienating.*

Ben, Jamie, and Charlie begin trading in such a way that they have a lot of little losses but a few extremely large gains that make the losses trivial. They figure out that this is because options on Wall Street are underpriced. Their once-small company, Cornwall Capital, begins to seem more legitimate. But before they can make deals with some of the biggest institutions, they need an ISDA (an agreement from the International Swaps and Derivatives Association), which is like a "hunting license" to make big deals.

*Ben, Jamie, and Charlie show a sophisticated understanding of statistics. They know that in order to make money, they don't have to succeed all the time—they just need to succeed enough times on bets that pay off well. The ISDA is an example of Wall Street gatekeeping and shows how the mainstream tries to keep out outsiders like Cornwall Capital.*

Even with $30 million in capital, Cornwall has a hard time getting an ISDA. Eventually, Ben is able to get them one with Deutsche bank, which usually requires $2 billion in capital, but Ben uses his industry connections. The ISDA is tilted heavily in Deutsche Bank's favor, but Ben, Charlie, and Jamie are excited about being able to buy credit default swaps from Greg Lippmann—even as they remain suspicious that his deal is too good to be true.

*The fact that it takes well over $30 million to get an ISDA shows just how exclusive the inner circle of Wall Street is. Still, Ben demonstrates the value of connections, securing them an ISDA even though on paper they would not be eligible.*

Ben, Charlie, and Jamie research the **bond** market and conclude that it uses so much confusing terminology because it's designed to be confusing. Once they get up to speed, they end up doing something slightly different than what Mike Burry and Steve Eisman do. Instead of betting against the worst tranches of bonds (triple-B-minus), they bet against a higher tranche (double-A)—a move that ultimately ends up being more profitable. This is because Cornwall is always looking for long shots.

*Though the intricacies of Wall Street are confusing, Lewis shows that the details aren't impenetrable and, with enough determination, even an outsider can figure out what's going on. Cornwall continues their strategy of trying to bet smart on long shots.*

The more Ben, Charlie, and Jamie look into collateralized debt obligations (CDOs), the more they think the whole system is crazy. As Lewis puts it, "it was also a stunning opportunity: The market appeared to believe its own lie." Even after a lot of research, it is extremely difficult for them to tell what all is in a CDO, but they try to identify the worst of them and make deals. The big banks don't take them seriously and begin to call them "Cornhole Capital."

*Lewis once again shows how banks used complicated concepts and terminology to obscure what was really going on. Even experienced researchers like Cornwall Capital have a difficult time sorting through the data.*

Ben, Charlie, and Jamie hear about a major conference in Las Vegas that will draw every bigshot in the subprime mortgage market. At the event, Bear Stearns is organizing an outing at a shooting range, and Charlie and Ben make plans to fly into Las Vegas for it.

*Lewis often includes little details like the shooting range to give an insight into Wall Street culture. Perhaps Bear Stearns was trying to project a macho image with the event.*

## CHAPTER 6

Eisman doesn't golf the way most other people on Wall Street do. He doesn't wear a collared shirt, and when he doesn't like where his ball lands, he just picks it up and drops it somewhere else.

*Eisman refuses to conform on the golf course—a place where business deals and networking often occur—just like he refuses to conform on Wall Street.*

After golf, Eisman, Vinny and Danny go to a dinner hosted by Deutsche Bank—an idea suggested to them by Lippmann. Lippmann has arranged it so that investors who are shorting **bonds** will be seated at tables with investors who are long on bonds.

*Eisman, Vinny, and Danny, are still skeptical of Lippmann at this point, but they want him to be telling the truth, since he could help them make a lot of money. Lippmann knows they're skeptical and has arranged a meeting for that reason.*

Eisman ends up at a table with an investor named Wing Chau, who is a CDO manager (meaning he is long on **bonds**). Chau is "newly, obviously rich" and keeps smirking the whole time. Vinny and Danny think Chau is a fool, but they worry that Eisman will talk too much and scare him out of holding his investments.

*Though Wing Chau is a real person, he is also representative of a whole class of people who found success before the crash by investing in risky bonds. He is portrayed as oblivious, since his supposed wealth is built on a fragile foundation that will be wiped out in a few years during the subprime mortgage meltdown.*

Eisman keeps asking Wing Chau to repeat statements, as he learns more about how a CDO works. Since AIG left the market, most CDOs are now bought by managers like Chau. Chau doesn't worry about what's in his CDOs—he passes the risk on to investors who have, theoretically, hired him to vet the **bonds**, and he takes money off the top and bottom of all deals.

*Eisman has to play a careful game—he wants to get as much information about Wing Chau as possible, but he doesn't want to give Chau too much information (because that might cause Chau to change his strategy).*

Wing Chau tells Eisman, "I love guys like you who short my market. Without you I don't have anything to buy." Eisman finally gets it. As Lewis puts it: "The credit default swaps, filtered through the CDOs, were being used to replicate **bonds** backed by actual home loans." In short, people like Chau need people like Eisman to keep the whole system running.

*Chau's dialogue shows that he thinks he's smarter than Eisman. What Chau doesn't realize is that the opposite is also true: that Eisman needs people like Chau in order to make his short positions lucrative.*

The dinner seems to go well, but immediately afterwards, Eisman grabs Lippmann, points to Chau and says, "whatever that guy is buying, I want to short it." Eisman isn't joking, and he ends up buying credit default swaps specifically on Wing Chau's CDOs.

*Since Eisman isn't known for being able to hold back his thoughts, this scene seems to emphasize that Chau is oblivious (since he didn't figure out what Eisman was doing). Lippmann knew Eisman would distrust Chau's judgement, and so this meeting helps build the relationship between Lippmann and Eisman.*

Meanwhile, at a Las Vegas shooting range called The Gun Store, Charlie is the first to arrive for the Bear Stearns event. It later becomes clear to him that he was only invited so that the other Bear Stearns guys would have an excuse to spend some time at the range and expense it to their business accounts, but he doesn't realize this at the time.

*Lewis again shows the excesses of Wall Street culture. The Bear Stearns employees find a creative way to spend a lot of money on themselves then write it off as a business expense. (They can claim they were meeting with Charlie, even though that's not their intention.)*

The next morning, Ben and Charlie walk around in The Venetian, the hotel where the event is being held. They try to get information from the subprime mortgage **bond** buyers and sellers in attendance, without revealing much about themselves. None of the people they meet impress them. They still have a hard time getting Wall Street firms to take them seriously. At one point, a man from Wachovia gives a speech about how sound the subprime mortgage bond market is; Charlie ambushes him and says if he believes in the market so much, why not sell some credit default swaps?

*As always, Ben and Charlie like to do hands-on research, and they are finally able to put a face to some of the people who are going long on subprime mortgage bonds. Ben asks to buy some credit default swaps from the Wachovia man in part to see whether he really believes what he's saying, or if he's being deliberately deceitful.*

Eisman and his team are also at the Venetian hotel. They have no interest in the public speeches and so try to get meetings with industry insiders, but in order to do so, they have to pretend they are interested in buying **bonds** instead of shorting them. Deutsche Bank, who arranged the meetings, is keeping an eye on Eisman.

*Lewis structures this section to show parallels between the FrontPoint Partners team and the Cornwall Capital team. The fact that they both showed up in Vegas for the same event to conduct similar research emphasizes that, despite working independently of each other, the two firms operated in similar ways.*

Monitoring Eisman proves futile, however. He sees himself as a champion for underdogs. As his wife, Valerie puts it, "my husband thinks he and Spider-Man are living the same life." Eisman starts causing trouble at speeches around the convention, asking pointed questions when it isn't even Q&A time. Vinny and Danny agree with him but wish he would keep to himself, to avoid letting everyone else know what they're thinking.

*Though Eisman is intelligent, he sometimes works against his own best interests. Here, he risks giving out too much information about what FrontPoint is trying to do (which would allow others to copy it). The fact that nobody seems to take him seriously, however, suggests that the industry is still very conformist and stuck in denial.*

Eventually, Eisman calms down and sets out to learn more. He figures that the ratings agencies, which theoretically wield a lot of power in the industry, are mostly staffed by largely incompetent people who don't have the connections to make it on Wall Street. His opinions toward the **bond** market begin to solidify. Vinny describes this as the moment where the group realizes the whole market is basically a Ponzi scheme. They realize the people in Las Vegas don't know anything they don't know. Danny thinks they're blinded by their own self-interest; Vinny thinks some are "morons," but that the higher-ups are mostly "crooks."

*Lewis doesn't take a clear side in the disagreement between Vinny and Danny (over whether most subprime mortgage bond traders are simply blinded by their own self-interest or actively trying to commit fraud) perhaps because it is something that's very difficult to prove. Perhaps the point is that, from a distance, obliviousness and fraud look very similar, and the difference may not be meaningful—after all, the result (the market crash) was still the same.*

After leaving Las Vegas, Eisman, Danny, and Vinny increase their subprime short position from $300 million to $550 million, overwhelming their portfolio of $500 million that they manage. They decide to look for even more deals against people like Wing Chau.

*The trip to Vegas mostly just confirms what the Big Short traders already suspected, but it allows them to move ahead with increased confidence. What separates the Big Short traders from the subprime mortgage bond traders is that people like Eisman actually do the necessary research on their investments.*

## CHAPTER 7

Charlie and Ben get back from Las Vegas in early 2007 and are convinced that the whole financial system is on the verge of collapse. Despite the fact that the Las Vegas conference was created to boost confidence in subprime mortgage **bonds**, the price of a leading index of these bonds drops by over a point. Charlie worries that the crash will come too soon and that they haven't bet enough on credit default swaps yet.

*Charlie raises an important point: being able to predict a crash is worthless if they can't also find a way to capitalize on it. Buying more credit default swaps means a chance for a bigger payoff in the future, but it also means more losses in the short-term. Additionally, it's very clear that there's a huge issue in the subprime mortgage market if the conference meant to boost confidence actually lowers their market value—it seems that even people who were sympathetic to the possibility of subprime mortgage bonds succeeding are now souring.*

Fortunately for Cornwall Capital, Wachovia is still willing to sell them credit default swaps. Cornwall now has a portfolio of less than $30 million, but they have $205 million in credit default swaps on subprime mortgage **bonds**. They are unsuccessful in buying more—even though the big banks are theoretically going long on the bonds, they are hesitant to sell more short positions. Charlie thinks the big firms might be slowly becoming aware of the impending disaster.

*The fact that many banks are unwilling to sell credit default swaps suggests that some people in the industry aren't as naïve as the subprime mortgage traders in Las Vegas seemed to be. Cornwall is heavily leveraged (meaning they've used the money they have to borrow more), so they are in danger of serious losses if their predictions about a crash don't pan out.*

Major stock indexes of the subprime **bonds** begin to fall rapidly by early June, but surprisingly, it doesn't lead to a collapse yet. Charlie, Ben, and Jamie suspect that Wall Street is artificially propping up the prices of CDOs so that they can dump losses onto clueless customers or make a little more money while they still can. By late March 2007, they know either everything is rigged or they they've gone totally crazy. They try to pitch the story to reporters at major papers, but there's no interest.

*It seems like the major players on Wall Street are rigging the game, doing everything they can to put off a crash until they've transferred the risk somewhere else. This highlights the danger of Charlie and Jamie's investment strategy: even if they correctly predict a crash, there's no guarantee they'll be set up financially to profit off of it, especially because they're not part of the inner circle of Wall Street that gets to make the rules.*

Cornwall's biggest problem is that Bear Stearns, which sold them 70 percent of their credit default swaps, is in danger of going under. To help offset this, Cornwall bought credit default swaps from the British bank HSBC, betting on the collapse of Bear Stearns. A surprising announcement in February 2007, however, reveals that HSBC is also taking big losses from subprime mortgage loans.

*Lewis shows how the so-called Big Short was not a one-time event. Firms like Cornwall were constantly changing their positions in order to avoid fallout from the impending crisis.*

Meanwhile, Eisman is feeling limited by the fact that his hedge fund is part of Morgan Stanley and that the risk management people don't understand what he's doing. Furthermore, throughout early 2007, the ratings agencies have yet to change their official positions on subprime **bonds**, even though lots of loans are going bad. Eisman confronts the CEO of the rating agency Moody's directly during a meeting, telling him he's delusional if he thinks their ratings will hold up.

*Eisman faces similar issues to Cornwall, emphasizing the disadvantages of trying to succeed on Wall Street from outside of the inner circle.*

By early June, the subprime mortgage **bond** market is finally in decline and will stay that way. Eisman and his team are finally making money. They take out new short positions on the rating agencies. Eisman then learns that Merrill Lynch owns a large proportion of subprime mortgage securities. He sets up a meeting with them and, as with previous meetings, tells them to their faces that their models are all wrong. He shorts Merrill Lynch, believing that Merrill is always there during calamities and that it's at the bottom of the food chain, below firms like Goldman Sachs.

*Eventually, the market reaches a point where no amount of intervention can stop subprime mortgage bonds from tanking. Though Eisman trades with the intention of making money, he is usually also motivated by his politics and his personal opinions. He seems to prefer shorting companies that he would personally like to fail.*

Ben Bernanke, the chairman of the Federal Reserve, announces in July 2007 that the losses from the subprime mortgage market should be no more than $100 billion. Shortly after, Eisman hosts a conference call that attracts the interest of some industry insiders. Eisman tells them to throw all their preexisting models away, predicting trillions of dollars' worth of losses.

*Bernanke's statement is an acknowledgment that things in the subprime market are dire, but he doesn't (publicly) seem to realize the extent of the upcoming crash.*

Soon after, a newsletter that is well known among Wall Street insiders, *Grant's Interest Rate Observer* (edited by Jim Grant), decides to investigate CDOs. Even with the help of his well-educated assistant, he can't figure out what's in them. He writes a series of pieces saying the rating agencies don't know what they're doing.

*Though the Big Short traders were unique in some ways, they also weren't alone. Jim Grant's article shows that, particularly as the crash approached, other people were also starting to see the warning signs in the economy.*

Steve Eisman reads Jim Grant's essay and feels that his own theories have been confirmed. He suddenly realizes that he owns "a gold mine."

*Grant provides validation by demonstrating that Eisman and his team aren't simply delusional—something that many other people in the industry likely think.*

## CHAPTER 8

The same day that Eisman reads Grant's article, Mike Burry is also forwarded a copy of the article from Scion Capital's chief financial officer. Though he still has bets against subprime mortgage **bonds**, he had to make sacrifices to keep them, including firing half his staff.

*Burry faces perhaps the most pushback of any of the Big Short traders, partly because of how his company is set up and partly because he struggles to communicate with his investors. But the cost of Burry's bet is clear here—he was so confident in his position that he was willing to let half his staff go in order to keep his short position on subprime mortgage bonds*

Early in 2007, a child psychologist calls Burry and his wife in for a conversation about his son. The psychologist suggests that Burry's son is exhibiting unusual behavior and should be tested. Reluctantly, Burry allows him to be tested and finds that his son has Asperger's syndrome. While researching the symptoms of Asperger's, Burry is surprised to realize he might himself have Asperger's. He finds a psychiatrist for himself to help improve how he interacts with his family, but he doesn't attempt to change how he works.

*As it turns out, Burry's difficulty communicating may have a medical cause—autism. Interestingly, Burry sees his autism as a detriment to how he interacts with his family but an aid to how he works in finance. Though Wall Street values interpersonal communication, Burry's real skill is his aptitude for research and numbers—which he thinks his autism may help with.*

Back in April 2006, Burry is one of the few people in the credit default swap market, and he is often at the mercy of big banks and the valuations they give him. He feels his bets should be paying off, but they aren't yet. By the middle of the year, he starts hearing from other money managers who want to make bets similar to his. This upsets him, since Scion will no longer be on the cutting edge, and adding to his misery is the fact that his investors are getting restless from poor short-term quarterly returns.

*Burry thinks longer term than his investors, looking to maximize eventual gains rather than just chasing short-term profits. This is risky, however, because if the investors get restless and pull their money before the crash, Burry might suffer a big loss.*

Burry is in trouble because if Scion's assets fall enough, big Wall Street firms can cancel the bets he made with them. Furthermore, some of his investors will soon be eligible to take their money out. Burry discovers, however, that there is a loophole that allows him to "side-pocket" certain investments if he thinks a market is temporarily functioning the wrong way—and he uses this to protect his credit default swaps. He writes a quarterly report to defend himself, but it comes off as antagonistic. Even Joel Greenblatt, an early supporter of Burry, is pressuring him to abandon his bets, but Burry doesn't budge.

*When Burry "side-pockets" the credit default swaps, that basically means that he temporarily prevents his clients from withdrawing money. Normally, investors can pull money out of a fund, but they can't touch money Burry has side-pocketed. Obviously, this is a controversial move (and is intended to only be used for emergencies), which is why even an early supporter like Joel Greenblatt begins to question Burry's choice. (Later, Greenblatt claims that he only asked for money from Burry because he was facing similar pressure from his own clients that were trying to withdraw money.)*

In January 2007, right around the time of the Las Vegas convention, Burry has to explain to his investors why Scion is down 18.4 percent when the S&P is up over 10 percent. He becomes a villain, with his letters to investors being leaked to the press. Strange rumors about him going into hiding pop up. As 2007 goes on, Burry becomes increasingly sure that the subprime mortgage market is "a fraud perpetrated by a handful of subprime **bond** trading desks." He keeps his bets in the side pocket.

*For someone only looking at short-term numbers, it is easy to see why Burry's investors would be angry at him. The long-term numbers are very different, however—over the short lifespan of his fund, Burry has made his investors a lot of money. Lewis portrays Wall Street's obsession with the short term as something negative and even misleading, as short-term gains in this case obscure the broader dysfunction of the markets.*

On June 14, two important subprime mortgage **bond** hedge funds owned by Bear Sterns crash, and a publicly traded index of triple-B bonds goes down. Burry contacts major banks and finds they all have "systems problems" or "power outages." By the end of June, Burry's bets start to be marked as more valuable for the first time—because firms like Morgan Stanley and Goldman Sachs are also getting in on the trades.

*The simultaneous "systems problems" and "power outages" seem suspicious and could once again be an indication of Wall Street attempting to rig the system. Wall Street can't stop the crash, but it may be able to temporarily hold back the consequences.*

Burry finds his credit default swaps are suddenly in high demand; by July, they are rapidly increasing in value. An article in Bloomberg News covers some of the people who saw the catastrophe coming and made a profit: it includes Greg Lippmann, but it leaves out Eisman, Danny, Charlie, Jamie, Ben, and Vinny, as well as Burry. Burry is frustrated that his investors don't acknowledge his good work and grudgingly respects Lippmann for taking the same idea as Burry and running with it.

*The fact that Lippmann is in the article while the other Big Short traders aren't suggests that Lippmann's self-promoting has allowed him to attract more attention. Burry also cares about acknowledgement but doesn't chase it as eagerly as Lippmann does.*

## CHAPTER 9

Howie Hubler is an ex–college football player who, in 2004, runs Morgan Stanley's asset-backed **bonds** trading, effectively putting him in charge of subprime mortgage bets. During this period, quants at Morgan Stanley invent the credit default swap specifically to protect Hubler from risk—but Hubler and his traders steal the idea as their own.

*The fact that Hubler steals one of his big ideas suggests that he isn't honest and isn't creative enough to come up with his own ideas. His central involvement in the bond industry in 2004 suggests that he hasn't been able to spot the warning signs of the upcoming crash.*

Hubler's credit default swap is so tilted in Morgan Stanley's favor that they essentially predict that it would pay off no matter what—it's like buying flood insurance that pays out the entire value of the house, even if the house only got dusted with rain. They need to find really clueless traders to take such a bad deal, and by early 2005, Hubler has found enough of them to have $2 billion in credit default swaps. By spring of 2005, Hubler wants more credit default swaps, but it's getting harder because more traders like Mike Burry and Greg Lippmann are buying them.

*At first, Hubler's strategy isn't so different from what Greg Lippmann, Mike Burry, and Steve Eisner are doing. Because he works at Morgan Stanley, he's able to get particularly good terms on the deals he offers.*

Hubler becomes a powerful force at Morgan Stanley, making up about 20 percent of the firm's profits by April 2006. He expects that his $2 billion in credit default swaps will soon yield $2 billion in profits. Because of pressure to make a profit, however, he sells off some of his credit default swaps on triple-A-rated subprime CDOs (which are supposedly less risky than lower ratings). Basically, Hubler is betting that some triple-B-rated **bonds** will go bad but not all of them. As Lewis puts it: "He was smart enough to be cynical about his market but not smart enough to realize how cynical he needed to be."

*Though Hubler makes his reputation on shorting, he eventually starts to go long on the highest-rated bonds, suggesting that he doesn't realize what people like Burry realize: that the highest grade of bonds is often just as risky as the lower grades.*

Hubler is taking a huge risk, perhaps without realizing it, by essentially betting on the same CDO tranches that Cornwall Capital are betting against and the same **bonds** that FrontPoint Partners and Scion Capital are betting against. Hubler trusts the bond ratings and considers the bets he's making to be risk-free.

*Hubler does not do the same level of research as FrontPoint or Cornwall, and as a result, he finds himself in a dangerous financial position.*

From early February to June 2007, the subprime mortgage market is being propped up by a few Wall Street firms, but starting in June, they all begin to quietly change their minds.

*Again, it seems that Wall Street's ability to put off the crash is limited and that the crash is, ultimately, inevitable.*

In April 2007, Hubler second-guesses his large gamble but ultimately decides to keep some of his subprime position rather than take a loss of tens of millions of dollars. The decision ends up costing Morgan Stanley almost $6 billion.

*Hubler succumbs to the sunk-cost fallacy—he doesn't want to take the loss, even though it would prevent him from taking more losses in the future. It seems like Hubler was never a very savvy trader—he was just operating in a market that was, for a while, rigged in his favor.*

By May 2007, Hubler is in conflict with Morgan Stanley management, but not over credit default swaps. He threatens to quit but is offered more money, which he takes.

*The web of relationships on Wall Street can get complicated. Once again, the higher ups at a Wall Street firm don't seem to know how to manage a trader.*

It takes another month before Morgan Stanley starts asking what would happen if large numbers of lower-middle-class Americans began defaulting on their debt. They are frightened by the possible answers, but they continue to believe that such a thing would never happen.

*Jamie and Charlie first made their fortune by betting on bad events that people didn't want to imagine could happen. Here, it seems like history is about to repeat itself. This is also another example of how the culture of optimism on Wall Street blinds traders to risk, whereas people like Eisman who are more pessimistic have a clearer view of reality.*

In early July 2007, Morgan Stanley gets a call from Greg Lippmann at Deutsche Bank: Hubler and his team owe them $1.2 billion, since the credit default swaps have moved in Lippmann's favor. Morgan Stanley and Deutsche Bank dispute the value of the credit default swaps. Ultimately, Morgan Stanley wires over $600 million to Deutsche Bank.

*Because Hubler didn't cut his losses earlier (and because Morgan Stanley made such an effort to hold on to him), Morgan Stanley now owes a huge amount of money to Deutsche Bank.*

As time passes, Hubler and his team keep refusing to make deals and ultimately lose money for Morgan Stanley. He doesn't understand that the triple-B **bonds** in a CDO are 100 percent correlated, meaning if one goes bad, they're all bad. Hubler loses billions for Morgan Stanley—the single worst trade in the history of Wall Street—and he also loses his job. Other major banks lose even more money.

*Hubler seems to be either too proud or too short-sighted to realize what a disastrous position he holds. His refusal to back down ultimately leads to a historic loss for Morgan Stanley.*

In December 2007, Morgan Stanley holds a call with investors to explain the year's extreme losses. The CEO of the company is asked to explain the loss and gives a jargon-filled response that leads Lewis to conclude "the CEO himself didn't really understand the situation."

*Once again, a major player on Wall Street tries to cover up a bad situation by using complex, jargon-filled language and hoping that others won't be able to understand. This shows how jargon often isn't a mark of sophistication—it can actually hide that someone doesn't have a clear enough understanding of a topic to explain it clearly.*

By August 1, 2007, the last buyer of subprime mortgage **bonds** finally stops purchasing more. Shareholders bring a lawsuit against Bear Stearns, which frightens Cornwall Capital, since many of their credit default swaps are through Bear Stearns. They also stand to lose money if the U.S. government steps in to guarantee all subprime mortgages.

*As the markets head for a crash, no one is safe. Though Cornwall Capital have a smart position, they could still take a huge loss, emphasizing how all trades have some level of risk.*

Ben, currently living in England, is put in charge of reducing Cornwall's exposure if Bear Stearns were to go down. On Friday, August 3, he calls several places and only gets interest from one bank, UBS. But by Monday, August 6, people at Citigroup, Merrill Lynch, and Lehman Brothers are also clamoring for a deal. By Thursday, Ben has completed a deal with UBS, turning their initial million-dollar bet into over $80 million.

*Unlike Hubler, Ben knows when to cash out, and he helps Cornwall turn their theoretical profits into real profits before it's too late. The big Wall Street firms are also finally realizing that they need to change their strategies, but for some it will be too late.*

Later, on August 31, 2007, Mike Burry takes his own credit default swaps out of the side pocket and begins to unload them. By the end of the year, his portfolio of less than $550 million will have earned profits of more than $720 million. He shoots off an email to Greenblatt's firm that simply says, "You're welcome." Burry buys them out of his company.

*Burry's controversial strategy has been proven correct. His email and subsequent buyout of Greenblatt suggest that Burry holds grudges. While his behavior might get him fired in another industry, because he makes so much money, he has leeway to act how he wants.*

Burry reflects on the role Asperger's has played in his life. Like many with Asperger's, Burry uses his intense interests as a way to escape from the real world. His therapist helps him identify the role that "ego-reinforcement" plays in his mental health—and the stress that his interest in the financial markets is causing for him. Eventually, he loses interest in the markets altogether and picks up guitar, even though he didn't previously have any particular talent for it or interest in it.

*Though Burry first uses his victory as an opportunity to gloat, he eventually uses it as a time for self-reflection. His realization that the money itself isn't what's important is spurred partly by what he learned about autism from his son's diagnosis and his own research.*

Six months after Burry gives up finance, the International Monetary Fund estimates that U.S. subprime-related assets have lost a trillion dollars. Every major Wall Street firm is negatively affected in some way.

*Despite Wall Street's attempt to put a positive spin on things, hard numbers reveal that the subprime mortgage meltdown was catastrophic.*

## CHAPTER 10

Lewis uses a metaphor to describe the unraveling of the financial system: "Two men in a boat, tied together by a rope, fighting to the death. One man kills the other, hurls his inert body over the side—only to discover himself being yanked over the side."

*Metaphors like the one Lewis uses can make complex topics easier to understand. Here, he is implying that the big banks are fighting with each other to survive, but they're so intertwined that even the "victorious" banks get pulled down. Even the Big Short traders realize they will have to live in a broken financial system.*

By the end of 2007, FrontPoint has doubled the size of their fund, from $700 million to $1.5 billion. Both Danny and Vinny want to realize their profits and get out—partly because they still don't trust Lippmann, even though he helped make them richer.

*The Big Short traders are smart enough to cash out, knowing that the market is so volatile that they could very quickly lose it all.*

Eisman, however, still sees his short position as part of a moral crusade against big Wall Street firms. By March 14, 2008, FrontPoint has a short position on basically every financial firm connected to subprime mortgage **bonds**. Eisman is invited to give a speech that day at Deutsche Bank's headquarters, alongside a famous investor named Bill Miller (who owns a lot of stock in Bear Stearns) and former Federal Reserve chairman Alan Greenspan.

*As always, Eisman's strategy is directed in part by his emotions. Though his presentation with Bill Miller isn't a debate, it will pit two radically different perspectives on the market up against each other.*

On the day Eisman is set to speak, there are rumors that Bear Stearns is in trouble. Bill Miller nevertheless goes on stage before Eisman and speaks briefly about why Bear Stearns is still a good investment. Eisman takes the stage after him and gives a characteristically blunt speech about why the current financial markets are historically bad.

*Miller either isn't following the markets as closely as Eisman or has an incentive to spin things more positively than they are. Eisman, however, doesn't hold back and gives a harsh assessment.*

At the very moment Eisman is speaking, Bear Stearns stock begins falling rapidly. Eisman doesn't realize what's happening, but his speech is proven correct in real-time by the movement of the markets. Eisman credits Bear Stearns' surprising collapse to "leverage": the firm kept making riskier and riskier bets with its capital. Importantly, the risks of these speculative bets were hidden, since a large proportion of the **bonds** were triple-A rated (which are considered riskless for accounting purposes). At first it isn't even clear who besides Bear Stearns will have to eat the subprime losses and how big these losses will be.

*Like many people and firms in the book, Bear Stearns is undone by greed and a poor understanding of risk. Lewis brings this fall to life by picking a particularly dramatic moment—when Eisman was right in the middle of a speech about the problems with firms like Bear Stearns.*

In a Q&A after the Eisman's speech, Miller says Bear Stearns probably won't fail, since banks usually only fail when caught in criminal activities. Someone in the back of the audience points out that Bear Stearns has actually dropped 20 points since the speeches began. Miller is stunned but hesitantly says he'd buy more. Everyone rushes out, perhaps to sell shares of Bear Stearns, and Alan Greenspan speaks to a near-empty room.

*The fact that Miller predicts Bear Stearns won't fail at the very moment it's failing suggests how far some on Wall Street will go to avoid seeing the truth. Even when presented with direct evidence, he refuses to admit that he might be wrong.*

Lewis describes a typical morning at 6:40 a.m. on Wall Street, with the big bank employees headed in to work. The morning of September 18, 2008, is very different. For one, the streets are emptier, since Lehman Brothers filed for bankruptcy earlier in the week, and Merrill Lynch sold itself to Bank of America. The stock market is in freefall, and the Federal Reserve loaned $85 million to AIG to pay off its subprime losses. Along with the Treasury, the Fed is trying to calm investors, with little success.

*At last, the problems in the markets are impossible to ignore—the Federal Reserve's positive messaging does nothing to calm the markets, since everyone finally understands that this is a bloodbath. The big firms on Wall Street are forced to reckon with their risky business practices and the markets drop sharply as a result.*

FrontPoint is well-positioned to make massive profits. They have already unloaded all their credit default swaps for huge gains and they transition back to being regular stock market investors. They still have lots of traditional shorts on financial institutions, which are all falling in value, earning FrontPoint even more money. Danny knows he should be excited, but he's anxious instead. The fundamentals of investing suddenly don't seem to apply, as the markets are moving based on emotion now. Danny knows FrontPoint is in trouble if Morgan Stanley goes down, since Morgan Stanley technically owns them, and Morgan Stanley is in trouble. The stress causes Danny to think he's having a heart attack, but it turns out it's only an anxiety attack.

*Rather than putting all the money into one strategy, FrontPoint diversifies. Even though he has succeeded by making some once-in-a-lifetime trades, Danny can't enjoy his success and in fact even has anxiety attacks as a result. Reality sets in: even though a few people have won big, the subprime mortgage meltdown will have long-lasting, widespread effects.*

Cornwall is also successful, increasing its capital fourfold, but they too have trouble enjoying the victory. Ben and the others wonder where they should put all the money they've made in order to preserve it. Charlie starts getting migraines.

*Though being an underdog can be stressful, being on top creates its own pressures. Here, Ben and Charlie learn this and first begin to grapple with it.*

On September 18, 2008, even the pessimistic Charlie Ledley is surprised. The losses that major Wall Street firms are reporting are way beyond even what he expected.

*Lewis emphasizes the severity of the crash by showing that even pessimists didn't expect how bad it was going to get.*

After his successful bet against the financial industry, Michael Burry wonders what people in the future will think about him. He looks for ways to get out of money management so that he no longer has to deal with Scion Capital's investors. On November 12, he sends a final letter to investors indicating that he's closing down the fund. He has some trouble quitting because the fund has a 35-year-contract (even though he made enough money to pay everyone in full), but lawyers are able to sort it out.

*After finally proving himself to his investors, Burry isn't eager to continue doing the same thing. The fact that someone with so much aptitude would willingly leave the industry suggests the mental (and perhaps physical) toll it can take on a person. It might also reflect Burry's own restlessness and desire for new challenges.*

At the steps of St. Patrick's Cathedral with his partners Vinny and Danny, Eisman considers how he wants to be, now that he is no longer an underdog (something he used to take pride in). He gets a reputation as a genius—even the doctors at his colonoscopy have heard this about him. Vinny has some doubts about what they did, since he feels like he may still have been part of the corrupt financial system. But Eisman is more self-assured and sees the fall of Wall Street as justice.

*Even someone as self-assured as Eisman gets disoriented by sudden fame. Vinny's concern that he helped further a corrupt system may be valid—in many ways the Big Short traders did operate similarly to traditional Wall Street traders, and they profited off the misery of others. But Lewis also shows the many ways in which the Big Short traders were outsiders and how they worked in a way that was backed up by better data and clearer thinking.*

On the ground on Wall Street, it isn't clear that anything major has happened. People go about their business in Manhattan. Lewis asks, "How long would it take before the people walking back and forth in front of St. Patrick's Cathedral figured out what had just happened to them?"

*Lewis's ending leaves room for ambiguity. Clearly, something massive has happened in the finance world, and it will ripple out into other industries. But at the same time,* The Big Short *deals with abstract and complicated deals that don't necessarily have an immediate effect on the average person on the street of Manhattan. Though on Wall Street, it seems inevitable that a reckoning will come at some point, at the moment Lewis is writing about, it's ambiguous what form this reckoning will take. Lewis's book itself will play a role in educating people about what really went down in the financial industry and how it affects them.*

## EPILOGUE

At about the same time that Eisman, Danny, and Vinny are at St. Patrick's, Lewis goes to lunch with his old boss, John Gutfreund. He hasn't seen Gutfreund since quitting Wall Street, and in the time between then, Gutfreund has taken heavy flak for his role as the CEO of Salomon. Lewis talks about how, in the time since the 1980s, Wall Street had tried to clean up its act, looking outwardly less like a rowdy boys club—but that this was all "camouflage" to disguise the risky business practices they were undertaking.

*Lewis once again inserts himself into the story. His meeting with Gutfreund offers an opportunity to look back on the Wall Street of the 1980s and how it's changed (and how it hasn't) since then.*

Gutfreund used to lie about not knowing Lewis, since his book *Liar's Poker* caused Gutfreund public relations problems. At lunch, however, he is polite to Lewis. They talk about the financial crisis, with him claiming it was simple greed, while Lewis claims it's more complicated: "a system of incentives that channeled the greed."

*Lewis shows that Gutfreund is complicated: despite his many reasons to dislike Lewis, they share some things in common, and Gutfreund talks with him politely. Nonetheless, Gutfreund seems to have a simplistic understanding of what's wrong with Wall Street. He frames it in moral terms—a matter of greed—while Lewis recognizes that it's greed combined with a system of perverse incentives that have created systemic issues in the finance world.*

To Lewis, the line between gambling and investing is "artificial and thin." He suggests maybe investing is "gambling with the odds in your favor."

*Lewis both romanticizes the finance industry (by comparing it to gambling, which can be glamorous) while also puncturing some of the myths that traders tell about themselves (since if everything's a gamble, no one is really smart enough to predict the markets correctly every time).*

Gutfreund asks Lewis why he invited him to lunch. Lewis doesn't want to tell the truth: that, though he doesn't think Gutfreund is evil, he does think that a decision Gutfreund made is what ultimately led to the recent collapse of Wall Street. This decision was to take Salomon Brothers from a private partnership to a public corporation, transferring the risk from the partners to the shareholders. The effect, writes Lewis, was to make firms into a "black box" where no one really knows what's going on inside.

*Lewis draws a clear line of historical cause and effect to show how decisions in the past led to the subprime mortgage meltdown of 2007. Once again, he puts forward the idea that the complexity of Wall Street firms became a way to hide the risk.*

The U.S. government didn't bail out individual subprime borrowers but did bail out the big Wall Street firms that made bad bets. The people in government attempting to "resolve" the crisis were "the very same people who had failed to foresee it." The Troubled Asset Relief Program (TARP) set aside $700 billion to buy subprime assets from banks, allowing some firms to be compensated for their terrible bets.

*The government bailout is an important epilogue to the main events of* The Big Short. *Though the tenth chapter ends with a major change seemingly coming to Wall Street, in fact the Troubled Asset Relief Program meant that the changes weren't nearly as drastic as someone like Eisman would've predicted, with many of the banks being deemed "too big to fail" while individual borrowers—who lost the homes they'd purchased—got nothing.*

Even the $700 billion from TARP wasn't enough to stabilize the financial industry. Some leaders on Wall Street and in the government tried to frame the disaster as a simple panic, suggesting that the problems were not as severe as they seemed. Lewis disagrees, stating that "every major firm on Wall Street was either bankrupt or fatally intertwined with a bankrupt system." He describes the government's response as "free money for capitalists, free markets for everyone else."

*Though Lewis's main focus is usually on explaining, he also editorializes on occasion. In this case, he makes clear his disapproval of how the government handled the bailout. His logic is that the big banks were rewarded for engaging in risky behavior while other victims (like people who defaulted on subprime loans) got nothing.*

Eisman also looks at the problems that occurred after the bailout. He thinks the problem is that the banks were so central to the U.S. economy and that "there's no limit to the risk in the market." Banks are too big to fail not just because of size or relevance, but because of all the side bets that are made on them.

*The system of side bets recalls the story Lewis told earlier about the two men tied together in a boat. The bets make it so that no bank goes down alone: everything is so intertwined that one failure could take down the full system.*

Lewis asks Gutfreund how he feels in hindsight about his decision to turn Salomon Brothers from a partnership to a corporation. Gutfreund agrees that the effect was to transfer the risk to shareholders and ultimately to the government itself. "It's laissez-faire until you get in deep shit," he tells Lewis. He asks Lewis what the whole conversation is for.

*Though Gutfreund did things Lewis disapproves of, Gutfreund shows that he is capable of looking back on his past actions with some objectivity. He ends up agreeing with Lewis on some important issues.*

Lewis tells Gutfreund that he's thinking of doing an anniversary edition of *Liar's Poker*, now that the world it described is mostly gone. Lewis still finds Gutfreund interesting, even as he disapproves of his influence on Wall Street. Gutfreund has reason to dislike Lewis, at one point joking that *Liar's Poker* destroyed Gutfreund's career in order to make Lewis's, though he remains outwardly courteous. Gutfreund offers Lewis a deviled egg, which Lewis accepts. Lewis realizes it's the best thing on the menu, a simple egg turned into something complicated and appealing.

*The deviled egg is an ambiguous image to end the book on. In some ways, it resembles synthetic CDOs, which take something relatively simple (mortgages) and spin them into something extremely complex and risky. Though Lewis has just finished a book all about the dangers of these types of deals, perhaps he is acknowledging that he can see the appeal, just as he sees the appeal of the deviled egg that Gutfreund has ordered.*

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