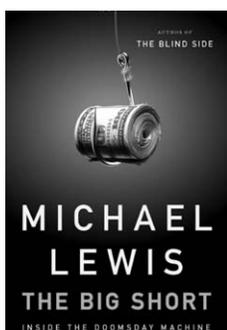


RECOMMENDED READING

The Big Short: Inside the Doomsday Machine

by Michael Lewis (©2010, W.W. Norton & Co., 266 pages)

REVIEWED BY WILLIAM P.J. MCCARTHY, CRE



THERE HAVE BEEN AS MANY BOOKS recently written about who and what caused the recent financial crisis as there are excuses for this debacle. If you are interested in a book that both reads like fiction due to its cast of characters, yet provides you with an insider's perspective of what occurred on Wall Street and beyond during the

global financial meltdown and subprime mortgage fiasco that peaked in 2008, then the book to read is *The Big Short: Inside the Doomsday Machine* by Michael Lewis. For those of us in the real estate and finance industries, you will read in amazement how widespread and deep the greed, corruption and incompetence of some of the supposedly best minds and most privileged leaders in business led to the loss of \$1.75 trillion in wealth in the subprime mortgage markets, shamed capitalism and ruined thousands of lives in the process.

Michael Lewis is a brilliant chronicler of business affairs, who by focusing on some of the more interesting and controversial characters, has the rare ability to also take complicated issues and subject matter and create fascinating vignettes. As a former Wall Street bond trader, Lewis knows where to look for information and what questions to ask, and whom to ask. Lewis first rose to prominence when at just twenty-four he released *Liar's Poker* in 1989, about his experiences with the then prominent Wall Street firm, Salomon Brothers—an intriguing, fast-paced look behind the scenes of the bond and capital markets. Lewis still can't seem to get over the fact that he was paid hundreds of thousands of dollars and bonuses

for advising clients on the purchase of stocks and bonds when he readily admits at his age, with no practical experience, he had no clue what he was doing. This sense of amazement about how fees are set and generated and what constitutes expertise and experience carries on in *The Big Short*. However, whereas his previous book, *Liar's Poker*, dealt with millions of dollars of transactions, *The Big Short* deals in the billions.

The Big Short is Lewis' eighth book. Several have been best sellers including his exposé on Silicon Valley entitled *The New New Thing*; the economics of big time sports, *Moneyball*; and perhaps his best known work, *The Blind Side*, which recently was made into an Academy Award-winning film about the unlikely life and career of football star Michael Oher. (*The Big Short* could also be made into a great movie). Lewis' style is to tell the story through the narrative of several prominent and obscure participants. He does this very effectively in *The Big Short*, which he considers a tale about systematic mass delusion.

About the Reviewer



William McCarthy, CRE, FRICS, R.I., is a property developer and owner, and a real estate agent and consultant based in Burnaby, British Columbia. McCarthy is the immediate past president of the Real Estate Institute of Canada, and has served as a director and officer of several other professional and community organizations.

A Counselor of Real Estate since 1995, he duncumis a member of the CRE Consulting Corps and has participated in two major assignments for the Corps. McCarthy currently chairs the CRE Ethics Committee.

The Big Short: Inside the Doomsday Machine

We are introduced to Steve Eisman, who tells Lewis of his journey from being a strident Republican to what he referred to as the financial markets' "first socialist," as he became increasingly concerned and outraged over how deceptive and corrupt the entire mortgage lending business was becoming. And then Eisman and his team discovered what Lewis refers to as the gold mine. Reviewing the first round of subprime mortgages in intimate detail, Eisman, a Harvard-trained lawyer, first became incensed, and then calculating, when he realized that realtors, appraisers, mortgage brokers, banks, regulators, governments—everyone who could take a cut of the action—were encouraging unqualified and delusional individuals to purchase residential real estate they could never afford. As traders Charlie Ledley and Jamie Mai told Lewis in the book: "The best way to make money on Wall Street was to seek out whatever Wall Street believed was least likely to happen, and bet on it happening," such as the greatest domestic economic crisis since the Great Depression.

Eisman was not the only individual to ponder or analyze the subprime and securitization boom. The Deutsche Bank bond salesman Greg Lippmann was also thinking about how to make money on top of the subprime loans. The key would be to buy credit default swaps and derivatives, those exotic and ultimately useless creations of Wall Street, impossible to qualify or quantify, or even explain. Wall Street simply invented artificial ways to generate fees and bonuses—without care or consideration for the consequences. First securitize junk mortgages, and then create dubious insurance schemes to capitalize on the defaults.

One of the first and most focused analysts to see the potential windfall of the credit default swaps, and the money to be made by betting on the collapse of the subprime market, is the most interesting character portrayed in the book, Dr. Michael Burry. Burry was an introverted loner who had lost an eye to cancer. Later

diagnosed with Asperger's Syndrome, he became a medical doctor and part-time stock analyst, whose research and attention to detail created a cult following in the industry. Requiring little sleep, and with both the fascination of and ability to study and chart massive and convoluted mortgage documentation and deal sheets, Burry knew the subprime was a farce, and that the bond rating agencies were willing participants in this scheme. Everything was rated a "buy." How could 80 percent of these extremely questionable and risky pooled mortgages be rated Triple-A, the same as U.S. Treasury debt? Burry noted there was an opportunity to essentially hedge against the collapse of some of these funds. Credit default swaps were the way. Lewis explains that while Wall Street firms were temporarily able to hide the risk by complicating it, a handful of proactive analysts and investors, such as Burry, knew that betting against these notes would pay off—massively. This was the Big Short.

(If you go onto the *60 Minutes* website, look for the March 14, 2010 edition where Michael Lewis talks about his book, and Michael Burry is profiled in a fascinating expose. In addition to reading *The Big Short*, you should also see the movie "Inside Job," which just recently won the Academy Award for Best Feature Length Documentary. The events and many of the personalities discussed in *The Big Short* are featured, and dealt with harshly).

The Big Short is an enjoyable read and an illuminating expose of one of the most shameful periods in American business. By 2009, the American taxpayer had assumed more than \$1 billion of bad debt and subprime losses. Homeownership is the noble dream of all hard-working families. Real estate is the foundation of a successful and flourishing economy. To see how these pillars of a free society were manipulated and abused for no purpose other than greed is difficult for us, the conscientious real estate professionals, to comprehend. *The Big Short* reveals the painful consequences that result when individual and corporate ethics and standards are allowed to free fall. ■