Definition of good writing:

Details

Clarity

Emotion

Importance

The Big Short, written by Micheal Lewis, describes the events leading up to one of the worst financial catastrophes in history. Lewis opens with an introduction describing what it was like working on Wall Street as a financial analyst. While working at Salomon Brothers, Lewis was surprised that he was entrusted with enormous sums of money to make bets, all while having fundamentally little financial knowledge. Next, Lewis talks about the book he wrote after leaving Wall Street in 1988. The book Liar's Poker describes how a great awakening will occur, and thousands of young people like him working at investment banks would be recognized as frauds. Unfortunately, this great awakening did not happen until almost two decades later, the housing bubble burst. The Big Short details a small group of insiders who predicted the crash and clarifies how they saw what the investment banks, rating agencies, and government overlooked; through humor and emotion, Lewis takes us through the complex events leading up to this meltdown.

It began in the bond market, generally considered a snooze until a man working at Salomon Brothers had a brilliant idea. Louis Renary bundled together thousands of mortgage bonds, increasing their yield while at the same time keeping their risk low, and the Mortgage-backed security was born. Over the next thirty years, the number one industry in

America quickly became banking, and no one besides a group of insiders thought to look at what was going on. One of those insiders was Michael Burry, who lost his eye to a rare form of cancer at a young age. He assumed his glass eye was why he was so different from other people; he had trouble looking people in the eye and enjoyed spending most of his time alone. Described as obsessive, Burry was either possessed by a subject or had no interest in it at all. Then, in early 2004 he noticed that lending standards had declined dramatically; in his view, they had not just declined but instead had hit bottom. He saw something called: *the interest-only negative-amortizing adjustable-rate subprime mortgage.* Meaning the home buyer had the option to pay nothing; whatever interest owed to the bank could just be rolled into a higher principal balance. He also saw that when the tech bubble burst in 2001, housing prices in San Jose, the world's tech capital, went up. With the discovery of these facts, Burry was captivated, spending days researching alone in his office. He believed there are always clear indicators when a market crash occurs and began to look at the housing market, which had never crashed in its seventy-year history, for indicators that signaled an impending crash. Eventually, he was sure he wanted to bet against the housing market and created a way to do it, the Credit Default Swap.

Steve Eisman, like Burry, was interested in Mortgage-backed securities. Eisman was an unusual kid; his early teachers were impressed by how hard he studied the Torah. They were not as pleased to find out that the reason he was studying so hard was to find inconsistencies in the word of god. Nevertheless, his background made it easy to see he was keen to detail. A former lawyer turned financial analyst, Eismen joined Wall Street at an exciting time. The creation of the mortgage bond market had extended Wall Street into an area it previously had not been, the debts of ordinary Americans. Vincent Daniels was Eisman's numbers guy. Neither of them understood what was in a mortgage bond, but Eisman smelled something was off. So he tasked

Vinny with finding out exactly what was in these bonds. It took Vinny six months to figure out that subprime lending companies were growing so fast, using such opaque accounting practices, that they were able to mask that in reality, they had no actual earnings. These illusory, accounting-driven earnings are what is known as a Ponzi scheme. So Eisman and his team, including Vinny, began to short subprime lending companies, betting that their price will go down rather than up. Eisman wanted more, he hated the idea of big banks ripping off the average American and wanted to make them pay, but to his knowledge, there was no way to do so.

Enter Greg Lippman, a man who looked like he was designed to terrify a Wall Street customer. Lewis describes Lippman as similar to most people who traded bonds for a big foreign bank that had purchased a toehold in the U.S. financial markets. He was an American, tightly wound and thin, and he spoke too quickly for anyone to follow exactly what he was saying. He was controversial but a great bond trader in the meeting between Eismen and Lippman, a lengthy forty-two slide PowerPoint was shown. The point of the slide show was to illustrate that if losses on the loans in the mortgage bonds rose from the current 4 percent to 8 percent, an investor buying credit default swaps on these loans could make 6:1 up to 10:1 on their original investment. When asked if he was sure about the numbers, Lippman pulled out his show stopper, Eugene Xu, his one-person quantitative team. Lippman would brag that Xu had won a national math competition in China, and spoke no English, only numbers; Lippman would often say, "How can a guy who does not even speak English lie.". Lewis illustrates Lippman as an arrogant yet humorous bond trader, showing why he was first perceived as hard to trust. Eisman eventually bought into Lippman's trade only after asking him, "how are you going to fuck us over." Lippman replied he would "gouge out their eyeballs" on the fee he charged them entering and exiting the trade.

After much research Lippman, Burry, and Eisman were now sure that home prices did not have to drop for the CDO they were betting against to fail; they just had to stop going up. They knew that when the bonds failed, the effects on the economy would be drastic, millions would lose their homes, and much worse. What was not known was whom they were betting against, were the people on the other side of the trade just incompetent, or were they aware of the Ponzi scheme they were running. One of the people they were betting against turned out to be Joe Cassano, who is described as having a crude sense of financial risk, but a talent for bullying people who doubted him. The son of a police officer, under him AIG FP, became a dictatorship, a former trader recalls that Joe was upset he had lost money in a trade, Joe got on the phone with the trader in question and said, "When you lose money, it's my fucking money!". When confronted with the risk posed by the 50 billion dollars in subprime mortgage bonds AIG held, Joe became angry, and it took months to change his mind. Joe Cassano's lacking financial knowledge and difficult temperament left AIG badly exposed to the housing crisis and hurt the global economy.

Lewis illustrates these charters as unconventional thinkers, with odd personalities, even for the industry they were working in. He presents them as humorous, with relatable qualities, even though most are not very relatable. Anyone who has ever been fascinated by a particular topic can relate to Burry. Eisman is an underdog who wants to punish the rich who took advantage of the poor. Lippman brings some humor to a dark and complex narrative about how greed collapsed the world economy. Lewis also spends time describing characters like Cassano, whose thick-headedness can illuminate how the many intelligent people at the firms on Wall Street missed details or were ignored entirely and allowed a financial crisis to occur. Through detail about the characters and clarifying how a very complex situation in world trading markets occurred, Lewis can paint a picture of exactly how the housing market collapsed and the colorful characters involved.

References

Lewis, Michael. The Big Short. WW Norton, 2011.