The Observer

Review

The Greatest Trade Ever: How John Paulson Bet Against the Markets and Made \$20 Billion by Gregory Zuckerman

The story of one man's refusal to believe in the health of the housing boom tells us a great deal about the financial crisis, but is not a gripping general read, says Heather Stewart



Heather Stewart

Sun 7 Mar 2010 00.05 GMT

he mania that gripped investors in the wild bubble years of the oos is widely portrayed as a universal affliction, but in fact a few stubborn souls refused to succumb. This book tells the story of one such refusenik, hedge fund manager <u>John Paulson</u>, who was not only sceptical about the health of the over-inflated US housing market, but bet against it - and won.

The scale of Paulson's big bet, "the greatest trade ever", as Greg Zuckerman describes it, was extraordinary. By piling into complex "credit default swaps" against mortgages - in effect, insurance policies that would pay out if homeowners defaulted - his fund made an unthinkable \$15bn (£9.8bn) in a year, \$4bn of which he took home himself.

On a single morning in 2007, when gung ho sub-prime lender New Century announced it was in trouble, Paulson's fund clocked up gains of \$1.25bn - more than his idol George Soros made in his notorious gamble against sterling in 1992, when Britain was forced out of the European exchange rate mechanism.

Zuckerman also tells the stories of others who placed similar, much smaller trades, such as west coast property developer Jeffrey Greene, a friend of Paulson's before they fell out over his refusal to invest in his hedge fund. All these pessimistic investors were mavericks or outsiders, underlining how tough it was in those heady days to stand alone against the herd of charging bulls.

Zuckerman, a writer for the *Wall Street Journal*, is excellent at explaining the financial engineering that left bank bosses with only the vaguest understanding of their own balance sheets, and the trail that leads from bafflingly complex securities such as "collateralised debt obligations" to cash-strapped homeowners across the US. He is less successful, though, in turning his tale into a compelling human story.

Whenever he sketches in biographical details, they tend either to be clunky and implausible, or to remind us how dull financiers are. One of Paulson's few distinguishing characteristics is apparently that, notwithstanding his immense wealth, he still travels by train. When, after leading a playboy lifestyle well into his 40s, he decided to settle down, he wrote a list of the characteristics a suitable wife would need. At the top was "cheerful". "He quickly realised there was a woman he was attracted to who fit the bill and was sitting nearby: his assistant, Jenny."

Greg Lippman, a Deutsche Bank trader and one of the few insiders at a Wall Street investment bank to bet against the sub-prime market, "was so over the top and had so many affectations - such as pronouncing the world 'tranche' with a soft ch, as if to remind colleagues that it was the French word for slice - that his colleagues grew to enjoy his company." Crazy.

Some of the best books about Wall Street - Michael Lewis's <u>Liar's Poker</u>, and Roger Lowenstein's <u>When Genius Failed</u>, for example - are packed with larger-than-life characters whom we end up either rooting for or loathing. Admittedly, Zuckerman's subjects offer him scant material, but the less-than-thrilling personal tales he recounts make this book better as a telling exposition of one aspect of the financial crisis than a gripping general read.

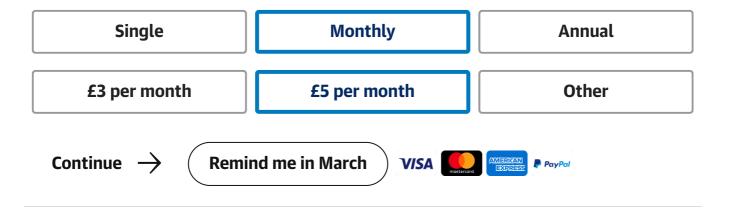
... as 2023 gathers pace, we have a small favour to ask. A new year means new opportunities, and we're hoping this year gives rise to some much-needed stability and progress. Whatever happens, the Guardian will be there, providing clarity and fearless, independent reporting from around the world, 24/7.

Times are tough, and we know not everyone is in a position to pay for news. But as we're reader-funded, we rely on the ongoing generosity of those who can afford it. This vital support means millions can continue to read reliable reporting on the events shaping our world. Will you invest in the Guardian this year?

Unlike many others, we have no billionaire owner, meaning we can fearlessly chase the truth and report it with integrity. 2023 will be no different; we will work with trademark determination and passion to bring you journalism that's always free from commercial or political interference. No one edits our editor or diverts our attention from what's most important.

With your support, we'll continue to keep Guardian journalism open and free for everyone to read. When access to information is made equal, greater numbers of people can understand global events and their impact on people and communities. Together, we can demand better from the powerful and fight for democracy.

Whether you give a little or a lot, your funding will power our reporting for the years to come. If you can, please support us on a monthly basis from just £2. It takes less than a minute to set up, and you can rest assured that you're making a big impact every single month in support of open, independent journalism. Thank you.



12/02/2023, 10:33	The Greatest Trade Ever: How John Paulson Bet Against the Markets and Made \$20 Billion by Gregory Zuckerman Busine

Most viewed