1. It aint what you dont know that gets you into trouble, its *what you know for sure aint so*.
   - Mark Twain
2. Lewis Ranier's Mortgage Backed Securities (MBS)
   1. Banks lend loan (say 100$ mortgage) to public and make money on the interests (12%).
   2. Now they created bonds/securities backed by theses loans. These bonds will give the buyer 10% return. So bank makes 2% net profit.
   3. People will pay their debts and if they cant bank can sell the house to recoup their loans + interest. Viola $$$
3. Enters Michael Burry
   1. Found most of these mortgages are defaulting (lenters not able to pay their EMI, or making late payments).
   2. These people didnt had good credit scores to get the loan in the first place.
   3. Not only that, these MBS are filled with extremely risky subprime adjustable-rate loans.
4. Ok what does that mean ?
   1. Lewis Ranier's Mortgage Backed Securities (MBS) got banks billions in dollars by their 2% fee.
   2. But then banks ran out of mortgages to put into bonds. Because there are only so many people with good jobs to buy them.
   3. So, banks started filling these bonds with riskier mortgages (called *subprime*). Basically lent someone loan who might not be able to pay it back or has bad credit score.
   4. More mortgages they give, more bonds they can sell, more money they make.
5. Action ! MB finds it out ..
   1. These mortgages were expected to be 65% AAA (meaning 65% of the underlying assets supporting the security or bond are rated AAA).
   2. But they were not.
6. So why short ? Shorting means betting that underlying stock/bond's value will decrease. (nope I answered when shorting is done ... what does shorting mean then, Later).
   1. Risky mortgages (people wont pay their debts, sell house) will lead to abundance in housing.
   2. Abundant housing will drop the house value.
   3. So, MBS wont be able to recoup their investments.
   4. MBS value will drop.
   5. So, short them now !!!
7.