

## When the perfect storm hit

**O**ne trillion dollars. That's how much American taxpayers got to spend in the past two years for the bailout of Wall Street's investment houses, which engineered the subprime mortgage bond market's cataclysmic meltdown and were deemed "too big to fail" by our federal government leaders.

Exactly what caused the failure of this new and dominant market whose downfall devastated so many segments of our country's economy?

Michael Lewis' new book, "The Big Short: Inside the Doomsday Machine" (Norton, 2010) gives the author's spin on the depressing riches-to-rags-to-bailout story. It provides the author of "The Blind Side" and "Moneyball" with the opportunity to travel full circle from his first book, "Liar's Poker," which was all about the insanity of the 1980s bond market (delivered from his then-perspective as a young gunner at the most storied bond desk of that era, Salomon Brothers).

Successful writers usually have special talents; Lewis is the master of the metaphor. Critic Daniel Pink explains its value: "A picture is worth a thousand words; a metaphor is worth a thousand pictures."

Throughout "The Big Short," Lewis' primary metaphor to describe how the market collapse was a tug-of-war:

"On one side pulled the Wall Street machine making the loans, packaging the bonds, and repackaging the worst of the bonds into CDOs (collateral debt



### FRONTLINES

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obligations), and then, when they ran out of loans, creating fake ones

out of thin air; on the other side was a noble army of short-sellers betting against the loans. The optimists versus the pessimists. The fantasists versus the realists. The sellers of credit default swaps versus the buyers. The wrong versus the right."

Then, when the subprime mortgage bond market tanked, and threatened to take the entire American economy with it into another Great Depression, the tug-of-war rope-pulling image no longer worked. Instead, the metaphor morphed into a new rope analogy, that of "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."

On one side of both metaphors were government regulators and Fed Chairman Alan Greenspan, who failed to regulate a market that had essentially no oversight; rating agencies that rated bonds triple-A without knowing their risk; auditors who failed to identify flaky multibillion dollar transactions on financial statements; media commentators who didn't understand the markets

they were paid to analyze; ostrich-head-in-the-sand CEOs who lusted for revenue but lost track of what their traders were doing; mortgage companies that provided "gotcha" floating rates and increasing principal home loans to unqualified buyers; investment bank "wizards" who created unintelligible bond products; and last but not least, confused and duped investors. This band of screw-ups all came together and drove the subprime mortgage bond surge into a perfect storm.

On the other side of the tug-of-war and roped-in-a-boat metaphors from 2005 to 2008 were the players in what Lewis calls "the Doomsday Machine." Though their numbers were few, their wagers on the subprime market collapse were huge, and only late in the game did they come to realize that even the biggest and historically most profitable Wall Street investment houses lacked the funds to cover all the shorters' bets, leaving only the federal government with the power and resources to throw a lifeline to the roped-together adversaries, who were on the verge of drowning, and threatening to take down with them a huge part of the American economy.

Lewis is to nonfiction what John Grisham is to fiction — the ultimate storyteller whose memorable characters travel over steep peaks and valleys along an ever-shifting plotted path.

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