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The Big Short: Inside The Doomsday Machine

Synopsis

In the tradition of Michael Lewisâ ™s blockbusters Moneyball and The Blind Side, the Encore edition of the #1 New York Times bestseller and â œone of the best business books of the past two decadesâ • (The New York Times) will tie in with the upcoming feature film starring Christian Bale, Brad Pitt, Ryan Gosling, and Steve Carell.When the crash of the US stock market became public knowledge in the fall of 2008, it was already old news. The real story of the crash began the previous year in bizarre feeder markets where the sun doesnâ ™t shine and the SEC doesnâ ™t dare, or bother, to tread: the bond and real estate derivative markets where geeks invent impenetrable securities to profit from the misery of lower and middle-class Americans who canâ ™t pay their debts. The smart people who understood what was or might be happening were paralyzed by hope and fear; in any case, they werenâ ™t talking. Michael Lewis creates a fresh, character-driven narrative brimming with indignation and dark humor, a fitting sequel to his #1 bestseller Liarâ ™s Poker. Out of a handful of unlikely heroes, Lewis fashions a story as compelling and unusual as any of his earlier bestsellers, proving yet again that he is the finest and funniest chronicler of our time. --This text refers to the Audio CD edition.

Book Information

Audible Audio Edition

Listening Length: 9 hoursÂ andÂ 27 minutes

Program Type: Audiobook

Version: Unabridged

Publisher: Simon & Schuster Audio

Audible.com Release Date: March 15, 2010

Language: English

ASIN: B003CN7E42

Best Sellers Rank: #4 inÂ Books > Audible Audiobooks > Nonfiction > Language Arts & Disciplines #5 inÂ Books > Reference > Writing, Research & Publishing Guides > Writing > Journalism & Nonfiction #9 inÂ Books > Business & Money > Biography & History > Economic History

Customer Reviews

Based on reading Michael Lewis' Liar's Poker and Moneyball, I wondered whether The Big Short would prove to be entertaining and informative. If you've read some of Lewis' books, you might agree that the "entertaining" part would seem to be a reasonably safe bet. It turns out, it is. The Big Short is fast-paced, straightforward, conversational and salty--very much like his earlier works.

Indeed, if you didn't know Michael Lewis had written this book, you could probably guess it. It is easy reading and very hard to put down. In short (no pun), The Big Short doesn't disappoint in being entertaining.In a sense, this book is similar to Moneyball in that Lewis tells his story by following a host of characters that most of us have never heard of--people like Steve Eisman (the closest thing to a main character in the book), Vincent Daniel, Michael Burry, Greg Lippmann, Gene Park, Howie Hubler and others.How informative is the book? Well, it may seem that Lewis has his work cut out for himself, since the events of the recent financial crisis are already well known. More than that, lots of people have their minds made up concerning who the perps of the last few years are--banks and their aggressive managers, "shadow banks" and their even more aggressive managers, hedge funds, credit default swaps, mortgage brokers, the ratings agencies, Fannie Mae and Freddie Mac, the Fed's monetary policy, various federal regulators, short sellers, politicians who over-pushed home ownership, a sensationalist media, the American public that overextending itself with excessive borrowing (or that lied in order to get home loans), housing speculators, etc. The list goes on--and on. Okay, so you already know this. The defining aspect of this book, however, is that it asks (and answers) "Who knew?" about the impending financial crisis beforehand. Who knew--before the financial crisis cracked open for everyone to see (and, perhaps, to panic) in the fall of 2008--that a silent crash in the bond market and real estate derivatives market was playing out? Indeed, the good majority of this book addresses events that occurred before Lehman's failure in September of 2008. In describing what led up to the darkest days of the crisis, Lewis does a good job helping the reader to see how the great financial storm developed. All in all, this is an informative book.Interestingly, in the book's prologue, Salomon Brothers alumnus Lewis explains how, after he wrote Liar's Poker over 20 years ago, he figured he had seen the height of financial folly. However, even he was surprised by the much larger losses suffered in the recent crisis compared to the 1980s, which seem almost like child's play now.For a taste of The Big Short, Steve Eisman was a blunt-spoken "specialty finance" research analyst at Oppenheimer and Co., originally in the 1990s, and he eventually helped train analyst Meredith Whitney, who most people associate with her string of negative reports on the banking industry, primarily from late 2007. Giving a flavor of his style, Eisman claims that one of the best lines he wrote back in the early 1990s was, "The [XYZ] Financial Corporation is a perfectly hedged financial institution--it loses money in every conceivable interest rate environment." His own wife described him as being "not tactically rude--he's sincerely rude." Vinny Daniel worked as a junior accountant in the 1990s (and eventually worked for Eisman), and he found out how complicated (and risky) Wall Street firms were when he tried to audit them. He was one of the early analysts to notice the high default rates on manufactured home loans, which led to Eisman writing a 1997 report critical of subprime originators. Michael Burry (later Dr. Michael Burry) was, among other things, a bond market researcher in 2004 who studied Warren Buffett and Charlie Munger, and who correctly assessed the impact of "teaser rates" and interest rate re-sets on subprime loans. In 2005, Burry wrote to his Scion Capital investors that, "Sometimes markets err big time." How right he would be.Greg Lippmann was a bond trader for Deutsche Bank, who discussed with Eisman ways to bet against the subprime mortgage market. Before home prices declined, he noted, for example, that people whose homes appreciated 1 - 5% in value were four times more likely to default than those whose homes appreciated over 10%. In other words, home prices didn't need to actually fall for problems to develop. (Of course, home prices fell a lot.) When Lippmann mentioned this to a Deutsche Bank colleague, he was called a Chicken Little. To which, Lippmann retorted, "I'm short your house!" He did this by buying credit default swaps on the BBB-rated tranches (slices) of subprime mortgage bonds. If that's not a mouthful, read further in the book for a description of Goldman Sachs and "synthetic subprime mortgage bond-backed CDOs." Then there's the AIG Financial Products story, told through the story of Gene Park, who worked at AIG, and his volatile boss, Joe Cassano.Did I say this book is informative? Here's a bit more: Did you know that a pool of mortgages, each with a 615 FICO score, performs very differently (and better) than a pool of mortgages with half of the loans with a 550 FICO score and half with a 680 FICO score (for a 615 average)? If you think about it, the 550/680 pool is apt to perform significantly worse, because more of the 550 FICO score loans develop problems. Think about how that got gamed.There's more, but hopefully you've gotten the point. This is a very interesting, entertaining and informative book that accomplishes what it sets out to do. Chances are you'll enjoy it.

In the run-up to the housing collapse of 2007-2008, houses weren't merely expensive, they were insanely expensive. Yet just when it seemed that prices couldn't go higher, some fool would come along and pay an enormous sum for a glorified hovel. You didn't have to be a genius to realize that American real estate was overvalued. It did, however, take something special to figure out how to make money off the madness. A group of between ten and twenty people did just that, making the bet of a lifetime that author Michael Lewis callsÂ "The Big Short"The cast of characters in Lewis's highly readable chronicle of the collapse (and what led to it) includes a misanthropic former medical resident, a money manager who saw himself as Spider-Man, and a pair of men in their thirties who started with $110,00 in a Schwab account they managed from a backyard shed in Berkeley, California. "Each filled a hole," Lewis writes. "Each supplied a missing insight, an attitude to risk which, if more prevalent, might have prevented the catastrophe."Ever since he left Salomon

Brothers to writeÂ Liar’s Poker, the classic 1989 account of his years as a bond salesman, Lewis has been waiting for a day of reckoning. Little did he realize that the Wall Street he once knew now seems quaint. By 2007, it had morphed into a financial Frankenstein, a "black box" filled with hidden risks on complicated bets that could destroy its creators, but only if the government allowed it to do so.The first to figure out how to use the system against itself was a man named Michael Burry, who once described himself in an online personal ad as "a medical student with only one eye, an awkward social manner, and $145,000 in student loans." Burry possesses an intellect so unusual that Lewis turns his journey of self-discovery into a fascinating subplot. While working the grueling schedule of a medical resident, Burry started writing about stocks in an online forum. (He also took apart his personal computer and put it back together between 16-hour shifts at Stanford Hospital, prompting his superiors to send him to see a shrink.) When he quit medicine to start the hedge fund Scion Capital, admiring investors tracked him down and gave him money.When Burry started buying insurance in 2005 on nearly two billion dollars’ worth of bonds backed by lousy mortgages, his investors thought he had gone nuts and nearly mutinied. But in 2007, when the housing market began to crumble and Burry’s bet paid off, everyone realized that his predictions weren’t crazy so much as a sane interpretation of a market gone mad.Burry might have set the trade in motion, but he was no salesman. The one who took his idea and ran with it, the "Patient Zero" of this tale, was a bond salesman at Deutsche Bank named Greg Lippmann, who went around telling everyone he could that the end was near. Only a few took his advice, but most who did became extremely rich. (John Paulson, who made an astounding personal profit of four billion dollars, is the subject of another recent book on the same theme, Gregory Zuckerman’sÂ The Greatest Trade Ever.)The reader can’t help but root for this gang of financial renegades as they take on a corrupt and rotten system. Still, The Big Short lacks the pure narrative drive of Lewis’ best-selling sports books,Â MoneyballÂ andÂ The Blind Side. The new work draws its energy from a different source, a palpable undercurrent of anger at the excesses of Wall Street the author shares with his subjects. Lewis is justifiably outraged at the behavior of Wall Street and what its trillion-dollar subprime-mortgage business truly represented: a means of extracting money from the bottom of America’s social pyramid and moving it to the top. The problem isn’t that Lehman Brothers failed, he shrewdly observes, but that it was allowed to succeed in the first place.Lewis reserves special scorn for the biggest banks. Goldman Sachs was selling large volumes of bonds backed by subprime mortgages and, at the same time, betting against the junk it was peddling.Â The Big ShortÂ also tells the little-known tale of how Morgan Stanley allowed a single trader to lose more than $9 billion.It’s appalling, but not much has changed. Most Wall Street CEOs who set a course for the iceberg remain in power today. The blind are still leading the blind. At any rate, as Lewis observes, they still can't see things any better than a one-eyed former medical resident.

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