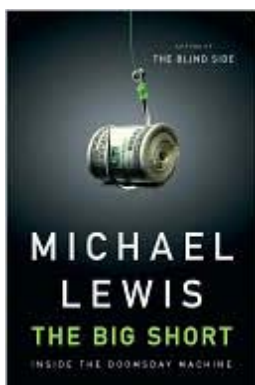


Book review: *The Big Short*



At the end of the 1980's Michael Lewis wrote a book called *Liar's Poker*. It became an international best seller, giving a highly entertaining insight into the greed that pervaded the City and Wall Street in the 1980s.

Michael Lewis has now written a book called *The Big Short* about the sub-prime mortgage market that was the catalyst for what is now dubbed the global financial crisis.

I am sure that readers' first reaction will be that they have heard enough about it already. However, this book is truly outstanding. Michael Lewis is a very knowledgeable writer about the financial markets, who also writes in a highly entertaining way about a difficult to understand subject. Along the way I found myself reading the best and clearest explanation of what the sub-prime disaster was all about.

The way Michael Lewis has done this is to take a story many of us may not have heard much about. This is a small group of people who independently developed an understanding of what was wrong about sub-prime and set about trying to work out how to profit from the coming disaster. Each of them in their own way made many millions of dollars out of shorting sub-prime loans using credit default swaps, hence the title of the book: *The Big Short*.

I found the individual stories read like a novel, yet they are true and well researched. The book takes us along the parallel journeys of these very unusual people. It is worth reading for this story alone. Yet there is more. As each story unfolds, Michael Lewis explains what sub-prime loans were, how they were cut up into tranches and sold as bonds or as collateralised debt obligations with the connivance of the ratings companies. Then how the banks creating these arcane instruments ran out of sub-prime loans and what some regard as fraud was perpetrated to try to keep the game going. Finally, we learn the story of how credit default swaps were created and how the short positions were created that would profit hugely from the eventual near collapse of the financial system. This subject is currently in the news with the charges against Goldman Sachs, who have been before the US Senate committee and are heading for the courts.

This book is the clearest explanation of these instruments and how sub-prime all came about and then played out that I have read anywhere. It is not difficult to read. In fact I found that I was picking it up again at every opportunity while I was travelling overseas. A bit sad you might think that I was reading about the markets while on holiday. However, this book is in my opinion worth it. I learned a great deal from it. I could not recommend it more highly.