College of Business Book Review by Grace C. Allen

Title: “The Big Short: Inside the Doomsday Machine”

Author: Michael Lewis

Publisher: W. W. Norton & Company

Length: 264 pages

Price: $15.35

Reading Time: 6 hours

Reading Rating: 7 (1 = very difficult, 10 = very easy)

Overall Rating: 3 (1 = average, 4 = outstanding)

Once again Michael Lewis has given us a behind the scenes look at Wall Street through an entertaining and fast-paced book. His previous book, “Liar’s Poker”, tells an autobiographical story about his three years on Wall Street with Salomon Brothers investment firm in the 1980s. That story reveals the financial folly and greed of Wall Street and Lewis’ belief that Wall Street would come to a reckoning; however, he never imagined it would take over two decades. This gifted writer now tells the story of the 2007-2008 financial crisis from another unique perspective. The major characters in the book are people you most likely have never heard of – not Bernanke, Geithner, Prince or O’Neal but the few who saw the writing on the wall and positioned themselves to make huge profits as the market crashed.

The book begins with a prologue that describes how Meredith Whitney, an unknown analyst for Oppenheimer and Co., announced to the market in October 2007 that Citigroup had been so negligent in managing its affairs that it would have to slash its dividend or go under. This revelation is attributed to the sell-off of financial stocks. Lewis wondered who else (besides hedge fund manager John Paulson) had anticipated the subprime mortgage meltdown. He called Whitney and she provided him with a handful of hedge fund managers who had made massive bets against the subprime industry. Some of these investors became the characters in “The Big Short”.

Through his cast of colorful characters Lewis educates the reader about the role that subprime mortgages, CDOs (collateralized debt obligations), credit default swaps, rating agencies, banks and overly aggressive managers and traders played in creating the perfect financial storm. If the reader doesn’t understand financial derivatives (don’t worry, neither did most of Wall Street), by the end of the book he or she will have a better grasp of these synthetic securities and how their obscurity contributed to the financial debacle.

I highly recommend this book but it most likely will make the reader frustrated, and perhaps angry, by the greed and sheer stupidity of Wall Street. Even more frustrating than the billions of dollars that was lost at the hands of managers and traders is the fact that many of these same irresponsible individuals walked away with tens of millions of dollars of personal gains.

Grace C. Allen is a professor of finance in the College of Business. Her interests include financial planning, investments and corporate finance. For previously reviewed books, visit us at our website at www.wcu.edu/cob/.