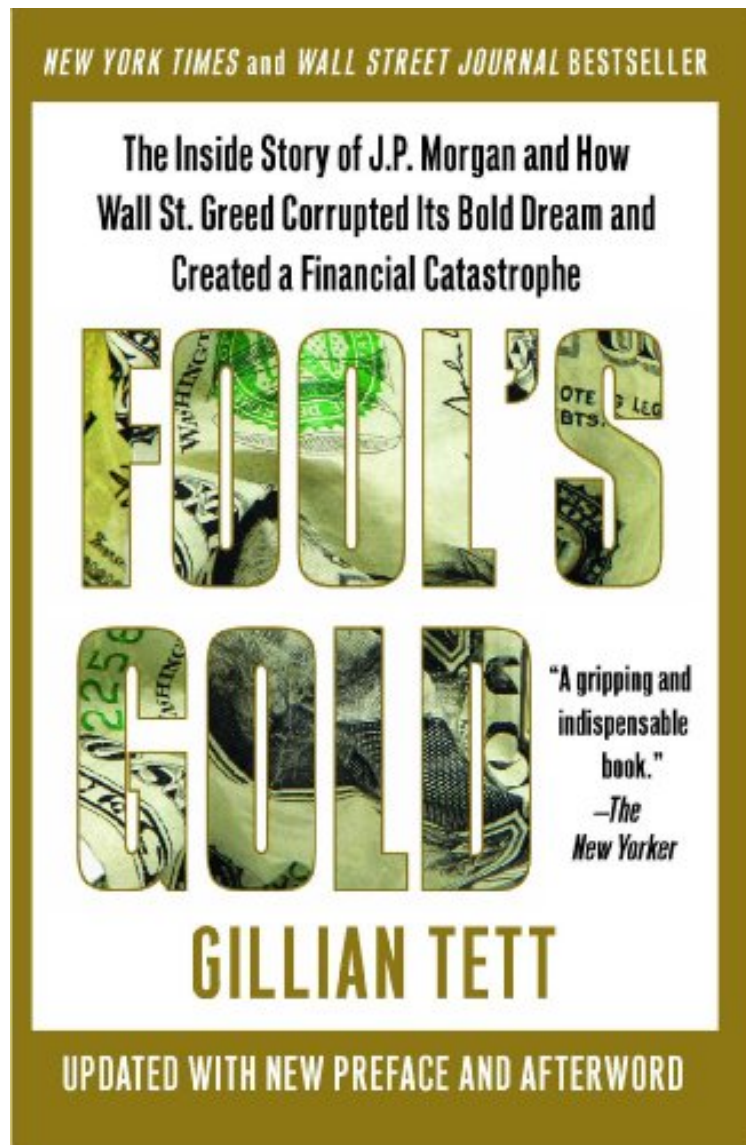


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## Fool's Gold: How the Bold Dream of a Small Tribe at J.P. Morgan Was Corrupted by Wall Street Greed and Unleashed a Catastrophe

Gillian Tett

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Gillian Tett : Fool's Gold: How the Bold Dream of a Small Tribe at J.P. Morgan Was Corrupted by Wall Street Greed and Unleashed a Catastrophe before purchasing it in order to gage whether or not it would be worth my time, and all praised Fool's Gold: How the Bold Dream of a Small Tribe at J.P. Morgan Was Corrupted by Wall Street Greed and Unleashed a Catastrophe:

2 of 2 people found the following review helpful. "What's aught but as 'tis valued . . . ?"By Stanley Crowe Gillian Tett

was very shrewd in focusing her account of the financial meltdown of 2007-09 on J. P. Morgan. JPM was one of the few banks that came out on the other side looking relatively good, and I surmise that it was because they had acted with a greater degree of restraint and responsibility that they were willing to have Tett tell their story, and I assume that she had a lot of access to almost all the players. At the same time, the focus on JPM didn't impede Tett from giving very clear explanations of key terms -- collateral debt obligations, asset backed securities, derivatives, credit default swaps, monoline insurance, leverage, capitalization, structured investment vehicles, and all the rest. She has a talent not just for clear explanations but for framing analogies that make the transactions understandable to non-experts like me. Of course, her focus on JPM means that we don't get inner views on the operations of, say, Merrill Lynch, Morgan Stanley, and Fannie Mae -- or the Federal Reserve or the Treasury, come to that -- but there are other books that will give you some of that. Sorkin's "Too Big To Fail" has the broader scope, but the downside of his broader approach is that the narrative is a bit diffuse and the character of individual actors less developed. No reason not to read both, however. Tett's focus gives her a chance to shape an arching narrative, for at the beginning we see a group of young JPM bankers disporting themselves in south Florida and in effect inventing credit derivatives. At the end of the book, she brings us back to that group, now dispersed fifteen years later, and wondering what the heck happened. How did a strategy they developed with the aim of dispersing risk end up increasing it? That's the story Tett's telling, and it's clear that at the end she and the original bankers still believe that their invention was a good thing -- a tool, as one of them put it, but one that was used for purposes that the inventors never intended (or imagined, it seems), and purposes that might have been subverted with better regulation, better oversight, and more attention from the upper-levels of bank management to what the young guns were doing. More than the other books on the crisis that I've read, Tett gives me an understanding of the "shadow banking system" and its relation to the big banks. Especially chilling was the explanation of how some banks -- though not JPM -- encouraged the setting up of separate "structured investment vehicles" (SIVs) for off-the-books trading that enabled them to make a lot of money when the going was good with a "parent" bank that was in fact undercapitalized. There were capital requirements for investment banks (that is, a certain percentage of their assets had to be always available as capital just in case there was a "run" on the bank) and compliance was monitored by the Fed. However, there were no such requirements for SIVs, and because the SIV trades were not on the parent bank's balance sheet, the parent bank's capitalization appeared to be stronger than it was. If one wanted to be moralistic about it -- and why shouldn't one -- one could say that the deployment of SIVs enabled banks to evade capitalization requirements. However, when people started cashing in or seeking to sell because the value of their purchased instruments was dropping, the shadow SIV couldn't meet the demand and suddenly the parent bank was on the hook and losses started showing up on their balance sheets apparently out of nowhere. Soon, in many cases, the parent found itself short of capital too. So . . . what was the Federal Reserve to do? It's a great and sobering story. An obviously related matter that is very well accounted for by Tett is the degree to which it became almost impossible to put a value on mortgage-backed securities. Sellers invented complex instruments that involved the bundling together of millions of dollars in mortgage debt, which were then sliced up as "collateral debt obligation" (CDOs) and sold in "tranches" that carried, ostensibly, varying degrees of risk. But the models on which the risk assessments were made envisioned no collapse of house prices and the tide of foreclosures that followed. To complicate matters, new instruments had been developed that bundled CDOs -- CDOs of CDOs, aka "synthetic" CDOs -- and sliced and diced THEM -- and how THEIR values could be clearly established at such a distance from the original mortgages became a major problem. When banks didn't like the fact that the market value of their instruments was falling, it was awkward, to say the least, that they couldn't give a rationale for a higher value. When a bank admits that it doesn't know what its (supposed) assets are worth, then the panic is on . . . The irony isn't just that an invention intended to reduce risk actually made it worse. There's the irony that many of these bankers who followed Alan Greenspan in believing that the markets always got prices right didn't like it when the market started devaluing what they were selling. People who believed that the government shouldn't get involved in financial matters -- for that would stifle "innovation" -- were asking the government, in the shape of the Federal Reserve, to enable them to achieve adequate capitalization -- and try not to call it a "bailout," please! -- that had been undermined by the "innovations" by which they set so much store. The innovators weren't the only ones to blame, of course -- mortgage lenders (many of them unregulated and unscrupulous), inattentive and greedy mortgage purchasers, ratings agencies that were financed by the very people they were rating, credulous insurance companies, and -- some would say, though Tett doesn't get into this -- the Federal Reserve itself for failing to act promptly -- all can take their shares of the blame. Tett was academically trained as a social anthropologist and her feel for the cultures of groups in banking and for the psychology of panicky investors gives her telling of this story an interesting human dimension. It's not just a matter of "baddies" and "goodies." Jamie Dimon and his team at JPM resisted the siren song of easy profits when everybody else was making gazillions, and Dimon was able, in a crucial meeting with the Fed and the Treasury, to high-mindedly invoke civic responsibility -- but when Bear Stearns got in trouble and he saw a chance to gobble it up, he took it. NOTE: The title of this review is from Shakespeare's "Troilus and Cressida." In a crucial scene, the Trojans are debating whether Helen of Troy, whose kidnapping initiated the war with the Greeks, is worth keeping? The quotation I've used as a title is Troilus's assertion that yes -- we Trojans gave her the value she has, and

that's what she's worth! and we're MEN, and we're going to fight to keep her. His brother Hector, tired of a seemingly endless war, isn't having it: "Brother," he says, "she is not worth what she doth cost the keeping . . ." It's a great moment in a great and disturbing play.<sup>0 of 0 people found the following review helpful. GREAT BOOK TO EXPLAIN THE 2008 FINANCIAL CRISIS FOR ORDINARY PEOPLE!</sup>By Robert Del RossoGreat Book! I have been reading Gillian Tett's articles in the Financial Times for about 18 years and she really does a good job here of explaining exactly how the 2008 Financial Crisis happened and the role that Derivatives played in the crisis. Farmers had used Derivatives such as "Wheat Futures" and "Corn Futures" for over 100 years, to lock in their Future Selling Price, with no problem. If not, then a Farmer would not have had the confidence needed to plant crops and do all the backbreaking work needed to get food out of the ground for us to eat. (Or for Animals to eat --so we could eat them!) If you are confused about how "Derivatives" were pumped up on "Steroids" in the 1990s, and led to the 2008 Financial Crisis, Ms. Tett does a great job to explain how that happened. And that point she makes about the "364-Day Loophole" shows what is wrong with Financial Regulation (or the lack thereof): As long as a Line of Credit was under 365 Days, a Bank did not have to "fund" it. So the Bank would make the Line of Credit expire in 364 Days (or less). Real Cute, isn't it? That means the potential Borrower Corporation might "think" they have a "Line of Credit", but when they go to use it in a Crisis --as in Sep. 2008 --- they CANNOT, since the Bank did not fund it! And that was LEGAL???! REALLY? THAT WAS LEGAL??? Supposedly, that did not happen only ONCE, but many times in 2008! Those who say we do not need any Bank Regulation choose to ignore glaring problems such as the above "364-day Loophole"! I wonder if the Bill Clintons, George Dubya Bushes, Senator Mitch McConnells, Speaker John Boehner, Jamie Dimons, Alan Greenspans, Ben Bernankes, Robert Rubins, Tim Geitners and Janet Yellins of this world have ever read Ms. Tett's book? If they have, I do not see any of them with the courage to respond publicly about what it says! And what they intend to do to prevent another Crisis like Sep. 2008! should make this book into an Original Series! I smell Emmy Award! Do they give Emmys for Web Series? Or Webbys?(BTW, Another great book is "Derivatives: The Wild Beast of Finance", by Alfred Steinherr (1998). I think it's on ! Now, if the Bill Clintons, George Dubya Bushes, Alan Greenspans and Robert Rubins of this world had read that 1998 book,---- in 1998 --- then maybe the 2008 Financial Crisis and the 700 BILLION Bailout would NEVER have happened!<http://www.linkedin.com/in/rdelrosso20016> of 6 people found the following review helpful. Fool's Gold by Gillian TettBy Edward A. TomchinI've been following the crash since 2008 and before. This is without doubt the best book I've read on the subject. Ms. Tett, a renowned reporter for the Financial Times, was on the inside at the very beginning of the derivatives fiasco and has written clearly, concisely and insightfully into the machinations which led to the collapse of the global economy. That said, she is also a very entertaining writer who knows how to keep a reader involved. I read this book from cover to cover in three days. Not only are there attributions and references, but she also adds a glossary for the complex financial instruments created and an excellent index. This is worth the money and your time. Read Fool's Gold and find out exactly what, how and who caused the crash. It will become a permanent part of your library.

From award-winning Financial Times journalist Gillian Tett, who enraged Wall Street leaders with her news-breaking warnings of a crisis more than a year ahead of the curve, Fool's Gold tells the astonishing unknown story at the heart of the 2008 meltdown. Drawing on exclusive access to J.P. Morgan CEO Jamie Dimon and a tightly bonded team of bankers known on Wall Street as the "Morgan Mafia," as well as in-depth interviews with dozens of other key players, including Treasury Secretary Timothy Geithner, Tett brings to life in gripping detail how the Morgan team's bold ideas for a whole new kind of financial alchemy helped to ignite a revolution in banking, and how that revolution escalated wildly out of control. The deeply reported and lively narrative takes readers behind the scenes, to the inner sanctums of elite finance and to the secretive reaches of what came to be known as the "shadow banking" world. The story begins with the intense Morgan brainstorming session in 1994 beside a pool in Boca Raton, where the team cooked up a dazzling new idea for the exotic financial product known as credit derivatives. That idea would rip around the banking world, catapult Morgan to the top of the turbocharged derivatives trade, and fuel an extraordinary banking boom that seemed to have unleashed banks from ages-old constraints of risk. But when the Morgan team's derivatives dream collided with the housing boom, and was perverted through hubris, delusion, and sheer greed by titans of banking that included Citigroup, UBS, Deutsche Bank, and the thundering herd at Merrill Lynch—even as J.P. Morgan itself stayed well away from the risky concoctions others were peddling—catastrophe followed. Tett's access to Dimon and the J.P. Morgan leaders who so skillfully steered their bank away from the wild excesses of others sheds invaluable light not only on the untold story of how they engineered their bank's escape from carnage but also on how possible it was for the larger banking world, regulators, and rating agencies to have spotted, and heeded, the terrible risks of a meltdown. A tale of blistering brilliance and willfully blind ambition, Fool's Gold is both a rare journey deep inside the arcane and wildly competitive world of high finance and a vital contribution to understanding how the worst economic crisis since the Great Depression was perpetrated.

From Publishers Weekly Starred . At once a gripping narrative, an education in derivatives, and a most lucid origin-story for the current financial meltdown, it's no surprise the author of this volume is an award-winning Financial Times journalist. Taking readers back to the invention of credit-derivative obligations (CDOs) at J. P. Morgan in 1994, and the subsequent exponential growth of that market, Tett (*Saving the Sun*) deploys a remarkable sense of pacing, generating real suspense over rapidly inflating debt on bank balance sheets; by the time Lehman Brothers fails, the book has become a bonafide page-turner. Tett explains how credit derivatives seemed a win-win for the financial world, freeing up capital, increasing profits, and diversifying risk, but makes the missteps equally clear as the industry hurtles toward a largely-unforeseen wave of loan defaults (the worst since the Great Depression). Interestingly, J.P. Morgan was one of a handful of banks sufficiently prescient to imagine this "perfect storm" of simultaneous defaults, and so never became over-reliant on CDOs. Ignoring the tacked-on, preachy epilogue (in which Tett advocates her specialty, social anthropology, as a way to avert future such crises), Tett's explosive, illuminating narrative is the one to read for anyone confused by the present financial mess. "To understand the calamity on Wall Street, we need erudite financial analysis and good old-fashioned stories about human fallibility. Gillian Tett, who oversees global market coverage for The Financial Times, offers some of each. She shows us the financial world through the eyes of her talented but short-sighted subjects. The author excels at recreating this fevered environment. She also deciphers Wall Street mumbo-jumbo in terms that a lay reader, or at least a determined lay reader, can understand." (Paul M. Barrett *The New York Times Book*) "The physics of finance is complex, but Tett explains the world of derivatives as well as any book for lay readers ever has." (Time) "Tett, a Financial Times reporter who covered the credit markets, was one of the few people to have seen the implosion coming. She was perfectly placed to follow the story as it happened, and to pull together the story of how we got here. There are a number of different ways of peeling this particular onion; Tett does so through the J. P. Morgan team that helped create the new credit derivatives. These lie at the heart of the current crisis, and Tett's account of their invention and dispersal makes *Fool's Gold* a gripping and indispensable book." (The New Yorker) "I can't imagine a better vehicle to tell the story of credit derivatives—the financial instruments that laid the groundwork for the financial crisis—than the one Gillian Tett uses in *Fool's Gold*. The author, a top reporter and columnist for the Financial Times, views the whole mess through the prism of a single company: JPMorgan Chase; she has a good story here, too, taking us inside the genesis of the crisis. It all began at a Boca Raton hotel in 1994, where a rambunctious crew of idealistic bankers broke noses, threw bosses into the pool, and conceptualized the financial product that would cause the near-destruction of the world economy a little more than a decade later. It's fascinating to follow this crew over the next fifteen years, as they navigate the shoals created by their own invention." (Columbia Journalism) "Ms. Tett was in the vanguard of those who foresaw the implosion in the credit markets. And in *Fool's Gold*; she deftly explicates Wall Street dynamics; At the heart of *Fool's Gold* is Ms. Tett's portrait of the high-octane culture at J.P. Morgan in the 1990s. She shows the premium that young hotshots there placed on "innovation" and "creativity," and her book starkly illustrates the folly of using mathematical models to predict human behavior and the Las Vegas-like betting embraced by many bankers." (Michiko Kakutani *The New York Times*) "[Tett] does an excellent job of assembling the facts. Her clear and simple accounts of complicated financial instruments are superb." (Wall Street Journal) "In a major irony alert, Tett details how many of the derivatives that helped crash the economy were cooked up by the brains at J.P. Morgan. The concepts were then taken by the rest of Wall Street, and WaMu, and you know what happened. Tett had access to Morgan executives, including Dimon. It's a riveting read." (Seattle Times) "Fool's Gold is a welcome and engaging read. Tett digs down to its origins in a carefully researched account, guided by in-depth access to JPMorgan Chase CEO Jamie Dimon and several of the members of the JPMorgan team. Tett steadily unravels how what began as an alcohol-fueled, youthful brainstorming getaway by several dozen young bankers who worked for the "swaps" department—a corner of the derivatives universe that was one of the fastest-growing areas of finance—went haywire." (Kerry Hannon *USA Today*) "Gillian Tett's *Fool's Gold* finds a nice middle ground between gripping narrative and detached analysis." (Robert Samuelson *Newsweek*) "The book comes closer than anything I've read to nailing down the connection between the rise of credit default swaps and all the craziness in housing finance." (Justin Fox *The Curious Capitalist* (Time.com blog)) "Of the crop of books that aim to make sense of the global financial crisis, few are more lucid than Gillian Tett's *Fool's Gold*." (Dan Gross *Newsweek*) About the Author Gillian Tett oversees global coverage of the financial markets for the Financial Times, the world's leading newspaper covering finance and business. In 2007 she was awarded the Wincott prize, the premier British award for financial journalism, and in 2008 was named British Business Journalist of the Year. Tett is the author of *Saving the Sun: How Wall Street Mavericks Shook Up Japan's Financial World and Made Billions* and *The Silo Effect: Ordered Chaos, the Peril of Expertise, and the Power of Breaking Down Barriers*.