

Index

- ABX index, 127
 Accenture and flash crash, 319, 320
 Accounting and risk management, 302
 Adjustable-rate mortgage (ARM), 175, 180
 Agency securities, 156
 AIG (American International Group), 227–230, 295, 342
 Allison, Herbert, xix, 78, 82
 Alvarez, Scott, 220
 Amaranth Advisors LLC, 103
 Angelides, Philip, 219
 Antoncic, Madelyn, xix, 207
 Apgar, William C., Jr., 180
 AQR Capital Management, 129, 131, 134, 139
 A.R. Baron brokerage, 142
 Arbitrage, 306–308, 384–385
 Arbitrage trades of LTCM, 67
 Arb spread, 61
 Archstone real estate investment trust, 204, 206, 211
 Argent Mortgage Company, 176
 ARM (adjustable-rate mortgage), 175, 180
 Asness, Cliff, xix, 134
 Asset-backed securities, 386–387
 Auto companies, bailout of, 342
 Azimuth Trust, 260, 261

 Bagehot, Walter, 302, 349
 Bailouts of banks, 301, 341, 342
 Banco Nazionale del Lavoro, 255
 Bankers Trust, consolidated balance sheet of, 31, 32–33
 Bank for International Settlements (BIS), 245–246. *See also* Basel Committee

 Bank holding companies, 218, 227
 Bank of America, 216
 Bank of Italy and LTCM, 99
 Bankruptcies and estimation of value of losses, 303–304
 Bankruptcy Abuse Prevention and Consumer Protection Act, 181
 Banks. *See also* investment banks; *specific banks*
 bailouts of, 301, 341, 342
 basic operations of, 143–144
 fees charged by, 347
 Greek debt exposure, 332–333, 334, 336
 as hedge funds, 112–113
 housing bubble and, 185–186, 291–292
 leverage and, 107–108
 Maughan on, 268–269
 provision of emergency credit by, 113–114
 runs on, 217, 243–244
 trust between, 234
 trust in, 214, 303
 Barclays, 193, 216, 244
 Barclays Global Investors (BGI), 129, 135, 138, 139
 Basel Committee:
 Basel I document, 246–248
 Basel II document, 248–250
 financial crisis and, 250–252
 guidelines of, 33
 overview of, 246
 Bear Stearns:
 bank run on, 265–266
 collapse of, 148–150, 151–154
 failure of hedge funds of, 123, 125–127

- Bear Stearns (*Continued*)
 history and reputation of, 141–143
 J.P. Morgan and, 146, 150–151
 leverage of, 193
 LTCM and, 80, 82–83, 143
 near-collapse of, 3, 106, 110
 repo system and, 145–147
 window dressing by, 144
- Begleiter, Steve, 126
- Benn, Orson, 176
- Berkshire Hathaway, 11. *See also* Buffett, Warren
- Bernanke, Ben, xix, 152, 168, 172, 175, 219, 221
- Black, Fischer, 53
- Black-Scholes formula, 53, 116
- Blankfein, Lloyd, xix, 216, 227
- Blasnik, Steve, xix, 275, 278–279, 292
- Bond arbitrage, 7–11
- Born, Brooksley, 181
- Box trade, 266–267
- Brady Plan, 65–66
- Brazilian C bonds, 65–67
- Brendsel, Leland, 167
- Broker-dealers, 312, 313
- Buffett, Warren, xix, 11, 78–79, 81–82, 93, 182, 209–210
- Buoni del Tesoro Poliennali, 50
- Buoni Ordinari del Tesoro, 51, 52
- Bush, George, 178
- Butler, Angus, 245
- Butterfly yield curve trades, 67, 283–284
- Callan, Erin, 197
- Capital, contingency, 113–114
- Capital adequacy ratio (CAR), 246–247
- Capital markets, 382
- Capital ratio and leverage, 163
- Capital-to-asset ratio, 33–34
- Carhart, Mark, xix, 133, 135, 138
- Cash business, 158
- Cassano, Joseph, 228
- Caxton macro hedge fund, 134, 259
- Cayne, James E. (Jimmy), xix, 80, 82–83, 88, 99, 126, 142, 143, 147, 148, 149–150, 151, 153–154
- CDOs. *See* Collateralized debt obligations
- CDSs (credit default swaps), 148, 228, 295–296
- CDX index, 127, 275, 277
- Central Bank of Russia, 75–77
- Chow, Andrew, 11
- Cioffi, Ralph, xix, 123, 125
- Citadel hedge fund, 286
- Citibank, 181, 193, 259
- CLA (collateralized lending agreement), 198
- Clearinghouses, 109–110
- Client services, 389–390
- Clinton, Bill, 178, 181
- CMBS securities, 280–282
- CMBX index, 127, 280, 281
- CMOs (collateralized mortgage obligations), 160
- Collateral-backed bonds, 46
- Collateralized debt obligations (CDOs):
 AIG and, 228
 Basel Committee and, 252
 Bear Stearns and, 125
 overview of, 159–162
 ratings agencies and, 184–185
- Collateralized lending agreement (CLA), 198
- Collateralized mortgage obligations (CMOs), 160
- Commercial paper, trust in, 233–234
- Commercial real estate, 195–196
- Commodity Futures Modernization Act, 181
- Compensation models, 110, 298
- Conflicts of interest:
 CDOs and, 161–162
 financial crisis of 2008 and, 297–298
 ratings agencies and, 183
- Conforming loans, 157–158
- Consolidated tape, 313
- Convergence trades, 39
- Copycat funds, 257, 262–263, 268–274
- Copycat investors:
 definition of, 1, 25
 effects of, 26
 Salomon Brothers, 2
- Corporate debt securities and loans, 385–386

- Correlation:
 copycats, puppies, and counterparties, 25–27
 economics, 24–25
 between LTCM strategies before and during crisis, 377–378
 overview of, 21–22
 pre- and during LTCM crisis, 87–88
 short-term and long-term, 27–28
- Corzine, Jon, xix, 11
- Counterparties:
 bankrupt firms and, 236
 booking of derivative profits by, 296
 confidence and, 218
 due diligence of, 115
 interaction of, 302–304
 Lehman Brothers and, 224–225
 LTCM and, 108–110
 overview of, 26–27
- Cox, Christopher, xix, 150, 215
- Cramer, Jim, xix, 77
- Crash of 1987, cause of, 2
- Credit default swaps (CDSs), 148, 228, 295–296
- Credit risk, 159, 164, 246
- Crockett, Andrew, xix, 220, 245, 268, 269
- Crowds/crowding:
 crisis of, 350–351
 desirability of, 1
 effects of, 1–2
 interconnected, 101–102, 289–291
 in 1998, 88
 in quant crisis, 138–139, 140
- Currency union, 324. *See also* European Union
- Dark pool, 312, 313
- Deacon, Tom, 261
- Dealer community and hedge funds, 235
- Default risk of mortgages, 158
- Dektar, Daniel, 262, 263, 270, 271
- Dendreon, 313
- Derivatives, 294–297
- Dimon, Jamie, xx, 75, 151, 216, 218, 227, 234, 346
- Directional bets, 39
- Diversification, 27–28, 118
- Dodd, Chris, xx
- Dodd-Frank rules, 346–347, 349
- Dominion Bond Rating Service Limited, 182, 184
- Dornbusch, Rudi, xx, 84
- Drexel, 235
- Druckenmiller, Stanley, xx, 78
- Duration tool, 117
- Dynamic portfolio insurance, 2
- Dynamic risk hedging, 305–306
- Economic system choices, 349–350
- Einhorn, David, xx, 210–211
- Eisinger, Jesse, 209
- Electronic communication network (ECN), 312
- Emergency lines of credit, 113–114, 146
- Emerging market trades, 65–67
- Endeavor Fund, 262, 268, 272, 274
- Equity cash, 382–383
- Equity derivatives, 383–384
- Equity finance, 384
- Equity market, crash of, 309. *See also* Flash crash
- Equity relative-value trades, 63–65
- European Central Bank, 325, 326, 328, 335
- European cross-country swap trade, 44–46
- European Monetary Union plan, 330
- European Union (EU):
 early years of, 330–332
 future of, 335–337
 membership conditions of, 324–327
 members of, 323–324
 pros and cons of membership, 328–330
 ten-year government interest rates, 331
- Fabozzi, Frank, 17
- Fairy-Tale Decade, 339–340, 344, 346
- Fannie Mae (FNMA):
 bailout of, 341, 342
 bonds issued by, 46–47, 155–157
 business of, 157–158
 CDOs and, 159–162
 government rescue of, 187–188
 hedge funds and, 162–165
 leverage ratios, 192, 193
 lobbying by, 178–179

- Fannie Mae (FNMA) (*Continued*)
- losses of, 186–187, 190
 - political pressure on, 177
 - profits of, 165, 167–168
 - risk and, 159
 - stock price of, 168
 - subprime mortgages of, 180
 - threats posed by, 188–190
 - total residential mortgage securities outstanding, 166
- Farber, Jeff, 143
- Fat finger theory, 314
- Fazio, Antonio, xx, 99
- Federal Deposit Insurance Corporation (FDIC), 217, 294
- Federal Home Loan Mortgage Association. *See* Freddie Mac
- Federal National Mortgage Association. *See* Fannie Mae
- Federal Reserve (Fed). *See also* Bernanke, Ben; Greenspan, Alan
- Bear Stearns and, 152–153
 - as coordinator of last resort, 114–115
 - Greece and, 335
 - interest rates and, 170–171, 172, 299
 - Lehman Brothers and, 219–221, 225
- Felder, Eric, xx, 205
- Fidelity Investments, 146
- Financial crisis of 2008. *See also* Lessons from financial crisis
- Basel Committee and, 250–252
 - blaming Wall Street for, 340–344
 - causes of, 3
 - deleveraging, 285–286
 - housing bubble and, 306
 - ignored lessons and, 4
 - market imbalance, 282–285
 - market insanity, 275–281
 - overview of, 121–122, 123
 - real costs of, 344–346
 - timeline of, 124
- Financial sector, size and productivity of, 342–343
- Financial Services Authority (FSA, U.K.), 216
- Financial statements, clarity and transparency of, 302
- FINRA, 321, 322
- Fisher, Peter, 81
- Fitch, Inc., 182, 184
- Fixed-income derivatives, 388
- Fixed-income instruments, 385–388
- Flash crash:
- aftermath of, 321–322
 - causes of, 315–321
 - computer glitch and, 317–319, 321
 - in history, 313
 - overview of, 3, 311–312
 - stub quotes and, 319–321
 - theories of, 313–315
 - Waddell-Reed trade and, 316–317
- Flexner, Tom, 146
- Fly fishing, 314
- Fons, Jerome, 184
- Foreign exchange, 388–389
- Forest, Roderick, 271
- Frank, Barney, xx, 168–169, 178
- Fraud and housing bubble, 176
- Freddie Mac (FHLMC):
- bailout of, 341, 342
 - bonds issued by, 46–47, 155–157
 - business of, 157–158
 - CDOs and, 159–162
 - civil fine paid by, 179
 - government rescue of, 187–188
 - hedge funds and, 162–165
 - leverage ratios, 192, 193
 - lobbying by, 178
 - losses of, 186–187, 190
 - political pressure on, 177
 - profits of, 165, 167–168
 - risk and, 159
 - stock price of, 168
 - subprime mortgages of, 180
 - threats posed by, 188–190
 - total residential mortgage securities outstanding, 166
- Friedman, Paul, xx, 146
- Froeba, Mark, 184
- Fuld, Richard, xx, 76, 196, 197, 203, 204, 205, 209–210, 211, 212, 217, 220, 221–222, 298
- Fully funded pension funds, 236

- Geithner, Timothy, xx, 152–153, 215, 216, 220, 221
- Gelband, Michael, xx, 204–205
- Gensler, Gary, 188
- Ginnie Mae (GNMA):
 bonds issued by, 46, 156
 business of, 157
 mortgage market and, 187
- Giovannini, Alberto, xx, 113, 255
- Global distribution/sales, 389
- GlobalOp Financial Services, 261
- Gluckstern, Steven, 261
- Goldman Sachs. *See also* GSAM
 AIG and, 230
 Bear Stearns and, 149
 CDOs of, 162
 concerns about survival of, 226–227
 Convergence Asset Management, 25
 Global Equity Opportunities Fund, 129
 hedge funds of, 138
 LTCM and, 80, 81
 profits of, 192, 230–231
 real estate exposure, 194–195
 stock price of, 230
- Gourinchas, Pierre Olivier, 333
- Government. *See also* Federal Reserve
 control of market by, 349
 policy lessons from financial crisis of 2008, 298–301
 sale of debt by, 54–55
- Government and agency obligations, 385
- Government-sponsored enterprise (GSE).
See also Fannie Mae; Freddie Mac
 overview of, 159
 as “too big to fail,” 293
- Graduated payment mortgage (GPM), 174, 175
- Gramm-Leach-Bliley Act, 181
- Greece:
 choices facing, 333–335
 competitiveness in world trade, 329, 333
 debt crisis in, 3, 291, 331, 332–333
 disadvantages of EU membership for, 328–330
 economy of, 326, 327
 entry into European Union, 323
 IMF and EU packages for, 335
- Greed and housing bubble:
 commercial banks, 185–186
 home owners, 177
 media and regulators, 180–181
 overview of, 170–173
 politicians, 177–180
 rating agencies, 182–185
 real estate agents and mortgage lenders, 173–177
- Greenberg, Alan (Ace), xx, 141–142, 143, 148
- Greenspan, Alan, xx, 82, 163–164, 170, 171, 172, 177–178, 181, 188–189, 245, 299
- Gregory, Joseph, xx, 197, 204, 205, 212
- Griffin, Kenneth, 286–287
- GSAM, 129, 133, 135–136, 137, 139, 140
- GSE. *See* Government-sponsored enterprise
- Gutfreund, John, xx, 10
- Haghani, Victor, xx, 8, 12, 13, 254
- Haircuts, 26, 38, 115, 289
- Hausman, Jerry, 8
- Hawkins, Gregory, xx, 8, 9, 12, 100, 259
- Hedge fund gate, 305
- Hedge funds:
 average returns of, 287
 of Bear Stearns, 123, 125–127
 function of, 235
 of Goldman Sachs, 138
 growth management by, 290
 GSEs and, 162–165
 housing market and, 286
 lessons from financial crisis of 2008, 304–306
 relative-value, 06, 292
- High-frequency trader theory, 314–315
- High-yield securities, 386
- Hilibrand, Larry, xx, 7, 9, 12, 13, 18–19, 78–79, 100, 254, 272
- Hindy, Ayman, 258, 272
- Home equity loans, 177
- Home owners and housing bubble, 177, 291
- Household net worth, 344–345

- Housing bubble. *See also* Greed and housing bubble
 blame for, 341
 circle of greed causing, 170–173
 Federal Reserve and, 299
 financial crisis of 2008 and, 306
 overview of, 168–170
- Huang, Chi-Fu, xxi, 12, 19, 258, 268, 269, 272, 306
- HUD (Housing and Urban Development), affordable-housing goal of, 179
- Hufschmid, Hans, xxi, 9, 12, 19, 84, 85–86, 100, 253–254, 260–261
- Hunsader, Eric Scott, 321
- Hybrid ARM, 175
- ICD (Investment Corporation of Dubai), 210, 213
- IG (investment grade) index, 275, 277
- III Fund LP, 262, 263, 268, 269, 272, 274, 306
- Illiquid securities, 39
- Implied volatility, 53
- Income distribution, 346
- Index art, 39
- Indices:
 ABX index, 127
 average returns of, 287
 CDX index, 127, 275, 277
 CMBX index, 127, 280–281
 IG index, 275, 277
- IndyMac, 185, 186
- Insurance, basics of, 229–230
- Interest-rate risk, 159, 175
- Interest rates, 299
- Interest-rate swap (IRS), 236–238
- International Swaps and Derivatives Association, 236, 250, 303
- Internet stock bubble of 2000, 2, 169, 171
- Investment banks. *See also specific banks*
 capital markets, 382
 client services, 389–390
 conflicts of interest, 297
 corporate and risk management, 390
 demise of, 218
 equities, 382–385
 exposure to residential real estate, 194
 fixed income, 385–388
 foreign exchange, 388–389
 global distribution, 389
 leverage of, 193
 Main Street and, 391
 mortgage market and, 191–193
 overview of, 381–382
 profits, 192
 research, 389
 stock prices, 226
 structure, 225, 344
 technology, 390
- Investment Corporation of Dubai (ICD), 210, 213
- Investment grade (IG) index, 275, 277
- Investors, interconnected, 289–291
- IRS (interest-rate swap), 236–238
- Isaacs, Jeremy M., 207
- Italian swap and government zero curve, 237
- Italian swap spread, 50–52
- Italy, debt burden of, 335–336
- Iwanowski, Ray, xxi, 135, 138
- Japanese box trade, 266–267
- Japanese swap spread, 48–49
- Japanese warrant trade, 38–39
- Jittery markets, 315
- Johnson, James, 167
- Jones, Bob, xxi, 135
- J.P. Morgan:
 Bear Stearns and, 146, 150–151
 Lehman Brothers and, 214–215, 225
 leverage of, 193
 LTCM and, 78, 80
 Washington Mutual and, 185, 186
- JWM Partners, LLC:
 collapse of, 281
 deleveraging of, 285–286
 Hilibrand and, 272
 losses at, 266, 268, 269, 270, 274
 market insanity and, 274–275
 overview of, 253–257
 Rosenfeld and, 265
- Kabiller, David, 134
- Kapor, Mitch, xxi, 8

- Keynes, John Maynard, xxi
 Kirk, Alex, xxi, 197, 204, 207
 Kohn, Donald, 212
 Komansky, David, 82
 Korean Development Bank (KDB), 207, 212–213, 215
 Krasker, William, xxi, 8, 9, 12, 261
 Kravis, Henry, 271
 Krisnamacher, Arjun, xxi, 9, 12, 100, 254
 Kroner, Ken, xxi, 137–138, 304, 305–306
 Kuwait Investment Authority, 207
- Larson, Jeff, 128
 Leach, Jim, xxi, 178
 Leahy, Dick, xxi, 7, 9, 12, 19, 88, 254
 Lehman Brothers:
 business exposure, 196–202
 capital markets division, 196, 197, 199
 capital seeking by, 207–213, 224
 clearinghouses and, 110
 client services division, 198
 consequences of failure of, 233–236, 244
 consolidated balance sheet, 31, 32–33
 counterparties and, 224–225, 303
 distribution of investments of, 200
 earnings announcement, 214
 failure of, 3, 82, 106–107, 191
 Fed and, 219–221, 225
 final days of, 213–217
 Global Real Estate Group, 205, 206, 208
 guilt of, 222–224
 as intermediary, 233
 J.P. Morgan and, 214–215, 225
 legal opinion on bankruptcy of, 225–226
 leverage, 292
 liquidity pool, 215
 liquidity stress test results, 154
 losses of, 211, 214
 market imbalances and, 296
 moving business strategy, 203
 profits of, 192, 199
 real estate exposure, 193–196, 200–202, 203–207, 222
 Repo 105, 222–223
 repo imbalance and, 241–243
 Reserve Primary Fund and, 233
 run on, 217–219, 243–244
 Russian default and, 76
 size of, 112
 stock price, 208, 211, 213, 214
 storage business strategy, 203
 swap imbalance and, 236–241
 Lehman Brothers Bank, 388
 Lenders:
 of last resort, 300
 marking to market by, 106
 mortgage, and housing bubble, 173–177
 Lessons from financial crisis:
 arbitrage, 306–308
 conflicts of interest, 297–298
 counterparty interaction, 302–304
 derivatives, 294–297
 hedge funds, 304–305
 interconnectedness and crowds,
 289–291
 leverage, 291–293
 overview of, 308
 policy lessons, 298–301
 risk management, 301–302
 systemic risk and “too big to fail,”
 293–294
 Lessons from LTCM failure:
 compensation, 110
 contingency capital, 113–114
 counterparties and clearinghouses,
 108–110
 counterparty due diligence, 115
 Fed as coordinator of last resort,
 114–115
 interconnected crowds, 101–102
 leverage, 105–108
 overview of, 119
 quantitative theory, 116–118
 regulation, 118–120
 size of firms and “too big to fail,”
 110–113
 spread the love, 115–116
 VaR, 102–105
 Leverage:
 capital ratio and, 163
 dangers of, 23, 105–108
 of investment banks, 192, 193
 lessons from financial crisis, 291–293
 at LTCM, 22, 30–31, 34–35

- Leveraged bank loans, 386
- Levitt, Arthur, 181
- Lewis, Joe, 151
- Lewis, Ken, xxi, 216
- LIBOR (London Interbank Offer Rate), 42, 234
- Liebowitz, Martin, 17
- Liew, John, 134
- Lim, Steven, 215
- Liquidity, price of during crisis, 60
- Liquidity risk, 302
- Liquid securities, 39
- London Interbank Offer Rate (LIBOR), 42
- Long swap spread trade, 361–362
- Long-Term Capital Management (LTCM).
See also Lessons from LTCM failure;
 Trades of LTCM
- Buffett hostile offer, 81–82, 93
- causes of failure, 2, 85–88
- consolidated balance sheet, 31, 32–33
- consortium bailout, 82–83
- copycat firms, 262–263, 268–274
- core trading strategies, 13
- correlation and, 24–27, 377–378
- daily profit and loss, 78
- early success of, 14–19
- fate of investors, 95–100
- founding partners, 12
- J.P. Morgan and, 78, 80
- JWMP compared to, 254, 256
- launch of, 11–12
- leverage, 22
- losses by trade category, 74
- Meriwether letter, 79–81, 89–92
- overview of, 5
- partner meeting and decision to sell, 77–79
- PGAM compared to, 258
- portfolio construction mistakes, 27–35, 68–69
- risk management system, 21–22
- Russian default and, 76–77
- spinoff and copycat returns, 257, 273
- spinoffs, 253–259, 265–274
- start of 1998, 71, 72
- summer of 1998, 71, 73
- wind down of, 84–85
- Low-documentation loans, 176, 180
- LTCM. *See* Long-term Capital Management
- Mack, John, xxi
- Madoff Securities, 294
- Market prices, as endogenous, 290
- Market risk, 248–249
- Mark-to-market accounting, 106, 302
- Marron, Donald, 99
- Matched-book funding, 387–388
- Matthews, Paul, 261
- Mattone, Vinny, 80, 99
- Maturity transformation, 144, 145
- Maughan, Deryck, xxi, 9–10, 75, 268–269
- Maxwell, David, 167
- Mayer, Jeff, 143
- MBS (mortgage-backed securities), 46–48, 125, 158, 326–387
- McCarthy, Lawrence, 196, 204
- McCulley, Paul, 189
- McDade, Herbert (Bart), 210, 212, 223
- McDonald, Lawrence, 183, 197, 202
- McDonough, William, xxi, 81, 83
- McEntee, James, xxi, 12, 259
- McGee, 205, 212
- McHale, Sharon, 180
- Measuring risk, 23–24
- Media and housing bubble, 180–181
- Mellon Bank, 146
- Merger arbitrage trades, 60–63
- Meriwether, John:
 career of, xxi
 on crowding, 88
 on financial insurance, 150
 as financial pioneer, 351
 JWMP Partners and, 253–257, 266, 268
 letter by, 79–81, 89–92
 at LTCM, 11, 12, 13, 18, 19, 85
 on post-Lehman period, 270
 at Salomon Brothers, 7–8, 9, 10, 11
 on 2008, 288
- Merrill Lynch:
 Bank of America and, 216
 Bear Stearns and, 126
 liquidity stress test results, 154
 real estate exposure, 194–195

- Merton, Robert, xxi, 9, 12–13, 19, 115, 116, 117, 255, 259, 295, 299–300, 301, 307, 348
- Metallgesellschaft, collapse of, 29
- Meyer, William, 83
- MF Global, 294
- Min, Euoo Sung, xxii, 212, 215
- Modest, David, xxii, 12, 259–260, 261
- Molinaro, Samuel, xxii, 143, 149
- Money market products, 386
- Moody's Investors Service, Inc., 182, 184
- Moral hazard, 111, 164, 220, 221, 301
- Morano, Tom, 143
- Morgan Stanley:
 exposure to residential real estate, 194–195
 leverage of, 193
 Modest at, 259–260
 PDT group, 134
 profits of, 231
 size of, 112
 stock price of, 230
- Mortgage-backed securities (MBS), 46–48, 125, 158, 386–387
- Mortgages. *See also* Fannie Mae; Freddie Mac
 adjustable-rate, 175
 collateralized mortgage obligations, 160
 creating cash flows on mortgage loans, 379–380
 graduated payment, 174, 175
 lenders and housing bubble, 173–177
 risk of, 158
 subprime, 161, 165, 167, 176, 180
 zero-down, 177, 178, 180
- Mozer, Paul, xxii, 10
- Mozilo, Angelo, 173
- Mudd, Daniel, 168
- Muller, Peter, xxii, 134
- Mullins, David, xxii, 12, 66, 260, 261
- Municipal and tax-exempt securities, 387
- Nagioff, Roger, xxii, 205, 207
- New York Stock Exchange, creation of, 312
- Ng, Lawrence, 258, 272
- Obama, Barack, 347
- Occupy Wall Street movement, 341
- Office of Federal Housing Enterprise Oversight, 163, 167, 178–179
- O'Meara, Chris, 207
- On-the-run/off-the-run trades, 54–57, 375–376
- Option-adjusted spread (OAS), 46–48
- Option pricing theory, 117
- Option theory, 52–53
- OTC derivative market, 181, 296
- Overnight repos, 145–146
- Over-the-counter (OTC) market, 103
- Oxley, Michael, 178
- Painting the tape, 314–315
- Palyi, Malchior, 182–183
- Pandit, Vikram, 227
- Papandreou, George, 332
- Parkcentral Global:
 CMBS trades, 280–281
 collapse of, 271–272
 gating game, 305
 losses at, 269
 as LTCM copycat fund, 262
 market insanity and, 275–281
 returns of, 268, 273, 274
 trade positions, 276–277
 trades of, 278, 279
- Paulson, Hank, xxii, 186, 207, 210, 211, 215, 220, 221
- Pension funds, as receivers, 236
- Perry, Michael, 186
- Platinum Grove Asset Management (PGAM):
 collapse of, 274–275, 281–282
 leverage of, 270
 losses at, 268, 269
 as LTCM spinoff, 258–259
 returns, 273
 success of, 272
- Politicians and housing bubble, 177–180, 291
- Polleccia, Ray, 318
- Preferred habitats, 236
- Prepayment risk of mortgages, 158
- Primary Dealer Credit Facility, 230

- Prince, Chuck, xxii, 143
- Private client services, 389–390
- Private equity, 390
- Puppies, 26
- Quant Crisis of 2007:
causes of, 134–137, 290
counterparty transactions and, 304
overview of, 3, 129–130
shed show, 137–140
- Quant factors, erratic behavior of,
130–133, 139, 140
- Quantitative Financial Strategies, 260
- Quantitative portfolio factors, 133
- Quantitative techniques, 17, 116–118
- Quarterly reports, reduction of risk prior to,
144–145
- Quote stuffing, 314, 315, 321
- Raines, Franklin, xxii, 158–159, 168, 179
- Rating agencies:
conflicts of interest of, 297
dependence on, 291
housing bubble and, 182–185
- Real estate agents and housing bubble,
173–177
- Real estate bubble. *See* Housing bubble
- Real estate investing, 3
- Receivers, 236
- Recession of 2008, 345–346
- Reeves, Eddie, 272
- Refco, 235
- Regulation. *See also* Basel Committee;
Federal Reserve
challenge of, 346–347
housing bubble and, 180–181
interconnections and, 347–349
lessons from financial crisis of 2008,
298–301
lessons from LTCM crisis, 118–120
- Relative-value hedge funds, 292, 306
- Relative value trades, 39, 253–254,
266–267, 281, 286
- Renaissance Technologies, 129
- Repo imbalance and Lehman bankruptcy,
241–243
- Repo transactions:
Bear Stearns and, 145–147
definition of, 31, 42
Lehman Brothers and, 198
repo swaps of LTCM, 38
term repos, 43
- Reserve Primary Fund (RFP), 233
- Reverse repo agreements, 198
- Risk. *See also* Risk management
Basel I and, 247–248
credit risk, 159, 164, 246
failure of models of to account for
crowding and interconnectedness,
101–102
Freddie, Fannie, and, 152
liquidity risk, 302
market risk, 248–249
measuring, 25–24
of mortgages, 158
reduction of prior to quarterly reports,
144–145
systemic risk, 111–113, 294
tail risk, 205
- Risk arbitrage trades, 60–63
- Risk management:
at Bear Stearns, 147
at JWMP and PGAM, 281
at JWM Partners, 256
at Lehman Brothers, 223–224, 390
lessons from financial crisis of 2008,
301–302
- Risk management at LTCM:
broad outlines, 21–22
as cause of failure, 85–86
diversification, 27–28
mathematics of framework for,
355–359
operations, 28–29
raw evidence, 29–35
- Robertson, Julian, xxii, 78
- Rosenblum, Ira, 261
- Rosenfeld, Eric, xxii, 8, 9, 12, 13, 19,
51, 73, 79, 84–85, 88, 100, 254,
265
- Rosengren, Eric, 342
- Royal Dutch-Shell trade, 63–65

- Rubin, Robert, 181
- Russian government, default on debt by, 75–77
- Russian markets, 2
- Salomon Brothers:
- arbitrage trading group, 7–11, 17–18, 25, 116
 - bond-trading group shutdown, 75
 - copycat positions, 2
 - Traveler's Group purchase of, 73
- Schapiro, Mary, 348
- Scholes, Myron:
- Banco Nazionale del Lavoro project and, 255
 - Black-Scholes formula, 53, 116
 - career of, xxii, 9
 - on diversification, 118
 - on economic system choices, 349–350
 - on financial models, 351
 - on insurance, 297
 - on Lehman failure, 300–301
 - LTCM and, 11–13, 19, 79, 86
 - PGAM and, 258, 272, 292
 - on spreads, 284–285
 - on VaR, 250
- Schwartz, Alan, xxii, 143, 149, 152
- SEC (Securities and Exchange Commission), 322
- Securities:
- Agency, 156
 - asset-backed, 386–387
 - CMBS, 280–282
 - corporate debt, 385–386
 - high-yield, 386
 - illiquid, 39
 - liquid, 39
 - mortgage-backed, 46–48, 125, 158, 386–387
 - municipal and tax-exempt, 387
- Securitization, 159–160, 202
- Security price volatility, 53
- Self help status, 318
- Shadow banking system, 143–144
- Sharpe, William, xxii, 79
- Sharpe ratio, 14
- Shed show, 137–140
- Short swap spread trade, 362–363
- Shustak, Robert, xxii, 12, 260
- Simon, James, xxii
- Size of firms and “too big to fail,” 110–113
- Slap hands, 314
- Sloan, Bob, 149
- Smith Breeden Mortgage Partners, 262–263, 268, 269, 270–271, 272, 274
- Snow, John, 188
- Solender, Michael, 143
- Solomon, David, 149
- Soros, George, xxii, 78, 79
- Sowood Capital, 128
- Spector, Warren, xxii, 99, 126, 147
- Spoofing, 314
- Standard & Poor's, 182, 184
- Standard quant factors, erratic behavior of, 130–133, 139, 140
- State Street, 129, 137, 139, 146
- Statistical arbitrage (stat arb) funds, 130
- Steel, Robert, 212
- Stock price manipulation, 315
- Stress tests, 154, 302
- Stub quotes, 319–321
- Subprime mortgage market collapse, 127–129
- Subprime mortgages, 161, 165, 167, 176, 180
- Sun, Tong-Sheng, 258, 272
- Swap business, 157–158
- Swap spreads:
- behavior of longer-term, 282–283
 - computing returns from zero-coupon returns, 373
 - derivation of approximate returns, 365–368
 - historical average, 240
 - Italian, 50–52
 - Japanese, 48–49
 - mechanics of, 361–363
 - U.S., 239
- Syron, Richard, 167
- Systemic risk, 111–113, 294

- Tail risk, 205
TARP (Troubled Asset Relief Program),
243, 342
Term-financing, 28
Term repo transactions, 43
Term Securities Lending Facility, 230
Thain, John, xxiii, 221
Thatcher, Margaret, 332
“Too big to fail,” 110–113, 293–294
Trades of LTCM:
emerging market, 65–67
equity relative-value, 63–65
European cross-country swaps,
44–46
fixed-income volatility, 52–54
Italian swap spread, 50–52
Japanese box spread, 48–49
long U.S. mortgage securities,
46–48
on-the-run/off-the-run, 54–57
other, 67–68
overview, 37–40
portfolio of, 68–69
risk arbitrage, 60–63
short longer-term equity index volatility,
57–60
short U.S. swaps, 41–44
Treasuries, spread of LIBOR over, 234
Trillium Brokerage Services, 315
Troubled Asset Relief Program (TARP),
243, 342
Tykhe Capital LLC, 129
UBS and LTCM, 97–98
Unemployment, 345
Upton, Bob, xxiii, 144, 149
Value-at-risk (VaR) of portfolios, 23,
102–105, 250, 251–252
Vega, 58
Viner, Cliff, xxiii
Vineyards, 351–352
Volatility, return, at LTCM, 29–30
Volatility trades, 52–54, 57–60
Volker, Paul, xxiii
Waddell-Reed trade, 316–317
Wall Street, as shadow banking system,
143–144
Walsh, Mark, 205
Warrants, 38
Washington Mutual (WaMU), 185–186
Webb, Jim, 261
Weicher, John C., 179
Weill, Sandy, xxiii, 73, 75
White, Lawrence, 188
Williams, Wesley, 261
Window dressing, 144–145
Zero-coupon daily returns:
computing, 369–371
computing swap spread returns from,
373
Zero-down mortgage, 177, 178, 180
Zubrow, Barry, 218

<http://www.pbookshop.com>

<http://www.pbookshop.com>

<http://www.pbookshop.com>

<http://www.pbookshop.com>