Liar’s Poker

by Michael Lewis
**Liar’s Poker**

**Plot**

- Initially – *man versus man* - satire on the in-your-face Money Meritocracy on Wall Street and its bizarre, but not unexpected, affects on human behavior.

- Concluding - *man versus self* - a realization of the short-lived victory provided by money.
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The Context

- Investment banking in general and securities trading specifically.
- At one of the oldest & the biggest I-banks.
- During a transition period for Wall Street & Capital Markets.
- With bigger than life personalities.
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- The 1980’s. Beginning of widespread computer use and mass telecommunications.
- Reaganomics reigns – tax cuts, massive fiscal spending, & deregulation.
- Regulatory & structural changes in banking (DD&MCA) and financial securities.
- Baby Boomers hit the B-Schools.
- M & A work spirited by industrial economic shifts and the markets are booming.
Greed is more than OK, it’s wonderful.
Spending is a status symbol.
Investment banks step-out of the shadows and provide the perfect stage for a satire on greed and the manipulation of human relationships that follow.
A side story: Corporate aristocracy meets Academic meritocracy.
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The Game

- Play for significant stakes, enough to cause anxiety.
- Use a common $1 bill.
- Look at the serial numbers as if this is a Poker hand.
- It is a zero-sum game of truth & bluff.
- An analogy for how security-traders treated their customers.
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The Meaning of the Game
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The Meaning of the Game

When You think you are playing the Game, someone is playing You.
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Themes

- The power ...
- Greed sows ...
- There’s a difference between being rich and being ....
- How fast ...
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Themes

- The power of Money
- Greed sows its own seeds of destruction.
- There’s a difference between being rich and being wealthy (Chris Rock).
- How fast things can change.
The novel’s conclusion –

*a question and answer about value* –
“All you really need in life is the love of a good cat.”
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Book Outline

- Chapter 1: A vignette as the introduction. [5]
- Chapters 2-4: The Training Class. [61]
- Chapters 5-6: History & The Money Machine - mortgage bonds. [55]
- Chapter 7: Explosion at Salomon. [17]
- Chapter 8: Mentoring Mr. Lewis. [32]
- Chapter 9: Social Darwinism. [21]
- Chapter 10: Money Madness. [23]
- Chapter 11: What goes around … [22]
- Epilogue: Mr. Lewis’ epiphany. [3]
Mortgage Banking

1. Deposits are a source of cash for local banks.
2. Local bank makes local mortgage loans.
3. The local bank sells the mortgages to big, I-banks to get cash to start over again.
4. The I-bank sells packages the local mortgages, creates a CMO, and sells these to investors.
The effect of This ...
The effect of This ...

- Local banks become a conduit of debt paper to national & global financial intermediaries.
- Local mortgage risk is sold away, aggregated with other local mortgage risk presumably reduce overall mortgage risk (thru diversification).
- Local banks no longer hold their own mortgages, they sell them, get cash, and loan-it-out again – local markets become more liquid.
- The price of mortgages is now set outside the local market. Gresham’s Law?
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Quotes