AN EXECUTIVE SUMMARY OF
LIAR’S POKER by Michael Lewis

Who is Michael Lewis
Michael Lewis, born on October 15th, 1960, is an American finance journalist who has authored numerous bestselling books. Lewis attended Princeton University to attain his BA degree in Art History. Later, he went ahead to work with an art dealer in New York and studied at the London School of Economics. He worked by selling bonds at Salomon Brothers, but quit later to work on his books. He has published nine bestsellers that revolve around economics and finance. Read more about Michael Lewis describing his years at Salomon Brothers in this book: Liar’s Poker.

Preston and Stig’s General Thoughts on the Book
While the educational value of this book is subpar at best, this is clearly one of the most entertaining financial books I have read in recent years. I think most people in our community are fascinated by Wall Street and the culture for better or for worse, and no matter what your initial opinion is, you will likely learn something new from this book.

Coming from a career in trading myself (Stig), I can easily recognize how Michael Lewis felt when he started his career, and how he experienced the thrills in finance and bitter disappointment in other people – feelings that were often only minutes apart.

Preface
Michael Lewis describes Liar’s poker as a game played by individuals on Wall Street, where the main agenda is to trick and deceive people. Holding nothing back, Lewis talks about the years he spent working in Salomon Brothers, ever since he was hired in a bizarre manner and later became a bond trader. According to Lewis, economic decisions that were taken at a national level had the power to transform the security markets, thereby making the bonds extremely lucrative. This book reads more like a novel, thanks to Lewis’s ability to make non-fiction all the more interesting.

Chapter 1: Liar’s Poker
In this section, Lewis begins with an introduction that occurred in 1986, when he was working in the Salomon Brothers. He describes it as the first year that marked the decline of his firm. John Gutfreund, the well-known chairman, was often known for his walks around the office while he spoke to the traders to get a feel of the firm.

On that particular day, he headed straight to John Meriwether, a bond trader and member of the firm’s board. Gutfreund simply offered to play one hand for one million dollars with him. He was talking about Liar’s Poker, where they would bet for $1M. He also added that there were “no tears” allowed, which meant that the man who lost would have to be gracious and a sport about it.

To the reader’s benefit, Lewis explains more about Liar’s Poker. Played by traders in Wall Street, it was a betting game that involved some of the top ranked individuals, including Meriwether. The stakes were incredibly high and the players sat in a circle, holding $1 bills. However, $1M was too high, even for Meriwether and Gutfreund. At this point,
Lewis states that he was unsure about the purpose of Gutfreund’s challenge because he was likely to lose, thanks to Meriwether hailed as the king of the game.

Meriwether – stuck in a dilemma between losing $1M and upsetting his boss – simply reacted by saying that he’d rather play for $10M. Like any experienced and smart trader, Meriwether simply called the opponent’s bluff.

**Chapter 2: Never Mention Money**

Lewis describes a few more experiences he encountered in Salomon Brothers in this chapter. Thanks to an invite from St. James Palace, he had the opportunity to meet the Queen Mother. However, as fate would have it, he was sitting next to the wife of an individual who was the Managing Director at Salomon Brothers. Once he declared that he was into investment banking, she began talking to him, and as a result, he got a call from the MD himself a couple days later. He was also approached by Leo Corbett who was heading the recruiting department. He began working in Salomon Brothers at that point of time.

Lewis also describes why he chose to study History, instead of taking up Economics like everyone else. It appeared that many young men and women were keen to work in the corporate sectors of the prestigious Wall Street. Although he wasn’t interested at first, Lewis was drawn in and was interviewed by the Lehman Brothers. However, the interview ended pretty quickly and he realized that talking about money with the investment bankers was considered taboo.

**Chapter 3: Learning to Love Your Corporate Culture**

In this section, Lewis delves into deeper details about how the firm worked. He was paid about $48,000 per annum and talks about Salomon Brothers’ position in Wall Street. In the beginning, Salomon Brothers were slowly gaining their hold in bonds. As time passed by, they became one of the most knowledgeable firms in the business during late 1970s. Other companies weren’t worried about their dominance but that changed during 1979 when the Fed declared that the supply of money would be fixed. With the interest rates floating, this only meant that they would also fluctuate wildly, and as the bond market was inversely connected to the interest rates, those prices would swing too.

Secondly, as America began borrowing money faster than ever, the rates for borrowing also went up. To put that it numbers, Lewis explains that it shot up from $323B in 1977 to a whopping $7 trillion at around 1985. This made Salomon Brothers move ahead quickly as the profits kept rolling in. Lewis also explains about the biases in his workplace during the training program where they were divided into front and back-row individuals.

**Chapter 4: Adult Education**

Lewis talks about the MDs and other executives who often arrived to deliver lectures. At this point, the trainees would decide about whether they could trade or sell the bonds. Salespeople – like Lewis – were at the mercy of the traders since they had the power to determine how much bonus the salesmen would make at the end of the year. At the end of the day, the traders brought in the money and simply ruled the business.

Among the MDs and executives, Lewis talks about a few individuals such as “The Human Piranha” who made the trainees extremely nervous. He had no qualms about his profanity and wasn’t worried about humiliating people. Lewis also discusses about Sangroid who taught them that must breathe and completely live the financial world. The fact was that none of the trainees found any useful information at the end of these lectures because the lecturers rarely imparted anything other than gloating about their success.
At that point of the time, Equities had taken a major hit and nobody wanted to associate with it. Lewis says that it’s possible to make money whether you’re good or evil because such equations don’t really exist on the real trading floor.

Chapter 5: A Brotherhood of Hoods
This section discusses mortgages in great detail. In the 1980s, home mortgages weren’t considered worth the time of bigwigs in Wall Street, even when the size of this market grew up to $1.2 Trillion. Mortgages acted like preserves for S&L managers, but the problem was that they weren’t even tradeable. In order to solve this predicament, mortgages began to be securitized. However, the firm didn’t acknowledge the fact that these mortgages could also be repaid any time.

Lewis talks about Ginnie Mae bonds to help the reader understand everything better. Although they sought to securitize the mortgages to bonds, nobody was interested because of the issues that surrounded them. However, Bob Dall, who worked as a bond trader at Salomon, began displaying a lot of interest in Ginnie Mae. He felt that there was a lot of money to be made and even convinced John Gutfreund to help him. As a result, Lewie Ranieri, an individual who worked on utility bonds, was transferred into the mortgage division. Ranieri was driven and would stop at nothing. The mortgage division had no business and this created a huge gap between them and the other departments in the firm. At this point of time, other mortgage departments in Wall Street simply shut down, but Ranieri continued to expand.

Chapter 6: The Fat Men and Their Marvelous Money Machine
As described in the earlier chapter, the mortgage market was on a rise in the 1980s. Since Salomon Brothers already had a mortgage department set up, they were equipped to handle it. They bought in large quantities and by 1982, they had bought about $150M and it shot up to $275M by 1985. It was a great time for the firm, but unfortunately, it wouldn’t last.

Howie Rubin, who walked in to work at the mortgage department, was being paid hefty sums because he was bringing in a lot of money. Right in his 2nd year, he was making about $175,000, which was only $90,000 in his first year. Regardless of the fact that he was paid well, he chose to leave the firm and joined Merill Lynch since he was offered about $1M annually. This incident began to raise speculation as to who deserved all the money. Should the firm benefit more, or is it really the traders who deserve a lion’s share?

At this point, Gutfreund tried to do some damage control when he realized that the top traders were quickly abandoning the firm. However, his effort fell flat because every other trader wanted a bigger compensation. The firm was losing its hold in the industry.

Chapter 7: The Salomon Diet
After talking to Gutfreund, more mortgage traders began to leave Salomon Brothers. The situated worsened with one blow after another and everything in the firm was spinning wildly out of control. A major gripe was that the traders had to compete with the best – the ones who left the firm. Earlier, the firm made loads of money when they had the monopoly. Nobody was even aware of what they would even cost. However, when the situation changed, the profit margins reduced dramatically.

The firm did everything it could in order to save the department, but the magic of the olden days couldn’t be recreated. As the mortgage department continued to lose excessive amount of money, the turf war against the other
departments continued to increase. Lewie Ranieri even moved to the managerial department, but things came to a grinding halt when he was fired by Gutfreund.

Chapter 8: From Greek to Man
This chapter discusses Lewis’s transformation in the firm. While he struggled to make money for his clients, he learnt important lessons during the course of time. He also realized that every man was on his own. Although he felt overwhelmed when handling so much money, he had the incredible ability to learn things fast. He was known as the Geek trader who wasn’t really experienced, but that was about to change soon.

With small traders coming to him, Lewis was making about $10M every year for the firm. His mentors, Dash and Alexander, taught him a lot. When dealing with an Arab customer, he managed to sell a priority bond – the very bond the firm was very enthusiastic for the salesmen to push – that was worth about $86M. This incident earned him a blessing from the high and mighty in the firm.

Chapter 9: The Art of War
Lewis’s reputation grew in the firm, but he had his share of bad experiences too. Just when he and Alexander had worked hard to customize a financial product for a German customer, another MD in the firm took all the credit for himself. Lewis wasn’t in a mood to let that pass, so he devised a plan to get even with him. Ultimately, it led to a point where the “Opportunist” was fired from the firm.

Due to mismanagement, however, the firm wasn’t making enough money to satisfy its employees. While everyone expected to make a huge bonus, they were disappointed when they weren’t compensated quite well. Amidst all the chaos, Lewis still managed to make $90,000 – the highest for any employee on his very first year.

Chapter 10: How Can We Make You Happier?
In this chapter, Lewis describes how Revlon, a cosmetics company, were making advances for a hostile takeover. Lewis also talks about Michael Milken, a man who was responsible for increasing the value of junk bonds. In fact, he was so good at it that he made $550M for himself when he was at his peak. Customers flocked to him to make money. His specialty was that he would squeeze corporate borrowers, instead of doing it with the customer, and this rewarded him more than anything.

At this point, the concept of acquisitions and mergers had taken over Wall Street where investment banks were heavily involved. Salomon Brothers unfortunately missed this golden opportunity and found themselves in a threatening position. Lewis also talks about how Gutfreund convinced his friend, Warren Buffett, to give them a loan of $700M. Although this loan wasn’t advantageous to the shareholders, Gutfreund convinced them that it was.

Chapter 11: When Bad Things Happen to Rich People
In this final chapter, Lewis talks about how Salomon Brothers continued to decline after the huge stock market crash. Not only did the firm suffer financially, but it was also planning to cut about 1000 jobs. The London office was the one to take a hit and at the end of it all, 500 people were fired and Lewis describes this as a chaotic phase.

The bond market was performing pretty well, so all was not lost, but the Salomon Brothers couldn’t gain an upper hand even in that department either. Since the company lost money, the bond value decreased and the firm had to lose the Southland deal. Additionally, they also lost about $100M on another deal, sinking deeper and deeper into problems. At the end of the year, most people had lost their jobs, but Lewis was surprised to not only continue with
his job, but also receive a bonus. The Salomon Brothers seemed to have realized that they needed to keep the top players happy, but they were too late since Lewis had already decided to quit the job.