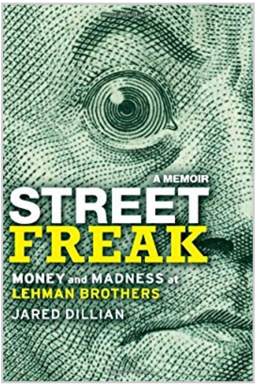
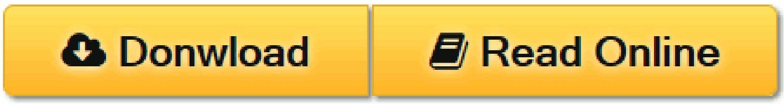


Street Freak: Money and Madness at Lehman Brothers

By Jared Dillian



Street Freak: Money and Madness at Lehman Brothers By Jared Dillian

When Jared Dillian joined Lehman Brothers in 2001, he fulfilled a life-long dream to make it on Wall Street—but he had no idea how close to the edge the job would take him.

Like Michael Lewis's classic *Liar's Poker*, Jared Dillian's *Street Freak* takes readers behind the scenes of the legendary Lehman Brothers, exposing its outrageous and often hilarious corporate culture.

In this ultracompetitive Ivy League world where men would flip over each other's ties to check out the labels (also known as the "Lehman Handshake"), Dillian was an outsider as an ex-military, working-class guy in a Men's Wearhouse suit. But he was scrappy and determined; in interviews he told potential managers that, "Nobody can work harder than me. Nobody is willing to put in the hours I will put in. I am *insane*." As it turned out, on Wall Street insanity is not an undesirable quality.

Dillian rose from green associate, checking IDs at the entrance to the trading floor in the paranoid days following 9/11, to become an integral part of Lehman's culture in its final years as the firm's head Exchange-Traded Fund (ETF) trader. More than $1 trillion in wealth passed through his hands, but at the cost of an untold number of smashed telephones and tape dispensers. Over time, the exhilarating and explosively stressful job took its toll on him. The extreme highs and lows of the trading floor masked and exacerbated the symptoms of Dillian's undiagnosed bipolar and obsessive compulsive disorders, leading to a downward spiral that eventually landed him in a psychiatric ward.

Dillian put his life back together, returning to work healthier than ever before, but Lehman itself had seemingly gone mad, having made outrageous bets on commercial real estate, and was quickly headed for self-destruction.

A raucous account of the final years of Lehman Brothers, from 9/11 at its World Financial Center offices through the firm's bankruptcy, including vivid portraits of trading-floor culture, the financial meltdown, and the company's ultimate collapse, *Street Freak* is a raw, visceral, and wholly original memoir of life inside the belly of the beast during the most tumultuous time in financial history. In his electrifying and fresh voice, Dillian takes readers on a wild ride through madness and back, both inside Lehman Brothers and himself.

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- 368 pages

Editorial Review

Review

“[A] disturbingly candid memoir . . . the highly personal journal of a poor kid who quit the U.S. Coast Guard to chase his dream of becoming a trader. . . . His narrative crackles with authenticity . . . the dominant tone is unsparingly confessional and even modest. Dillian’s snail’s-eye view is what makes his book a valuable companion to previous volumes on Lehman. . . . From hair-trigger decisions to trashy banter, Dillian captures how the market feels from inside the belly of a trading room. . . . [A] blunt and sometimes hilarious account.” ***—Bloomberg***

“This revealing, personal memoir of a volatile period in the dual lives of a big-time trader and the fallen American giant Lehman Brothers is depicted in the fueled words of Dillian, a major figure at the company. . . .Writ[ing] in a style that veers from gonzo lucidity to precise trader chatter . . . Dillian offers a candid look at the demise of a corporate behemoth.” ***—Publishers Weekly***

“Thank God for the 3rd element, because if it wasn’t for lithium Jared Dillian might still be in the psych ward looking for his shoelaces. Instead, we get *Street Freak*, the best Wall Street memoir in a bunch of years. This guy can really f***ing *write*. *Street Freak* is more than just a great read, though. For anybody who’s ever gone off the rails, or thought they might, it’s a comforting reminder that there’s always a way back.”
—John Rolfe, coauthor of *Monkey Business: Swinging Through the Wall Street Jungle*

“Always vivid, by turns hilarious and sad, this is an electrifying memoir about not only money and madness, but the madness of money. It left me wondering yet again about the shifting boundaries between sanity and insanity.” **—Siri Hustvedt, author of *The Summer Without Men***

“A scathing critique of selfish, scrambling men so driven to earn a buck that they lose all sight of the world beyond the tickers. . . . Dillian hardly fit the mold of the rich, Northeastern prep-schooler, and his outsider status served as a great attribute, offering him a clearer view of an industry both morally and economically bankrupt.” ***—Kirkus Reviews***

"A bipolar math whiz [and] amusingly caustic writer whose new memoir pulls no punches about a financial career that nearly cost him both his sanity and his life." **—Fortune.com**

About the Author

Jared Dillian is the founder of the subscription-based, daily financial market report *The Daily Dirtnap.* He worked on the Pacific Options Exchange from 1999 to 2000, and was a trader for Lehman Brothers from 2001 to 2008, specializing in index arbitrage and ETF trading. Dillian is a graduate of the United States Coast Guard Academy and earned a Masters in Business Administration from the University of San Francisco. He lives in Myrtle Beach, South Carolina. Visit JaredDillian.com.

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Spartacus | October 2, 2007

The market has its own intelligence. It has a sort of malignant omniscience that dictates that the market will do whatever fucks over the most people at any given moment in time. It knows your positions, and it knows your fears. You are a sinner in the hands of an angry God, and your positions are going to pay. Like Santa Claus, sort of, except that the market doesn't care who's been naughty or nice; more often than not, naughty wins. The market cares who is the most exposed, who is the most out over his skis, and who has taken the most risk at any given moment. And once the market has ascertained the point of maximum pain, it will move, violently, in that direction, causing the greatest number of people to lose the most money.

It was moving that way for me today, having just been lifted on two million shares of IWM, an exchange-traded fund that tracks the fortunes of small capitalization stocks. The perpetrator this time was Spartacus, a monstrous hedge fund that managed billions of dollars in assets, run by only a dozen men and boys. Their trading desk consisted of a few Staten Island kids who had walked bass-ackward into a pot of gold, and was led by a Snidely Whiplash character, an evil genius Russian named Yevgeny. Yevgeny was rumored to have earned $50 million last year by picking off slowpoke retard ETF traders like me, hoovering money out of my P&L and into his in a brutal daily transfer of wealth.

Yevgeny didn't give a damn that he was trading small cap stocks. He didn't have an opinion as to whether small cap stocks would outperform large cap stocks on an economic basis. He was not making a strategic investment for the fund. For all he knew, he was trading May wheat. He cared about small cap only because it moved more than large cap; it was more volatile. And with greater volatility comes more opportunities to fuck people over. His trade was causing about $170 million to be rammed into two thousand tiny stocks, increasing the price of each of them by about .2 percent, getting two thousand CEOs momentarily excited for their companies' prospects as they watched their tickers turn green on Yahoo! Finance—that is, until Yevgeny decided to turn around and sell.

This particular trade was already turning into a shit show, because when the fastidious, obsessive sales trader Andrew Duke quoted me, I thought I heard him ask for a price on one million shares. When the ticket arrived electronically on my screen, it read twice as much:

B IWM 2,000,000 SPRTC M048392049832

I knew I was in big trouble. I had lost $140,000 before I'd even printed the trade, given that the ETF had rallied several cents, and being short two million shares, I was losing $20,000 a tick. This was going to be an exercise in stuffing ten pounds of shit into a five-pound bag.

D.C. and I looked at each other. We had been working together long enough to be able to communicate by visual semaphore.

When I first met D.C., I didn't like him. He was one of those perfect Ivy League mannequins, all J. Crew and hair helmet. He was also a Garden City guy. Garden City amounts to a massive Wall Street cult on Long Island, where any able-bodied male born within the city limits has a birthright to a job at a major investment bank. My disdain, at the beginning, was barely concealed. But D.C. was no ordinary cake eater. He was, literally, perhaps the best lacrosse player in the country. At five nine (generously) and 150 pounds, you wouldn't figure him to be the world's greatest athlete. He barely lifted weights and managed only the occasional run around Central Park. But he was, quite simply, the most coordinated human being on earth, and nearly ambidextrous at that. People who are gifted in one way are often gifted in others, and as a trader, D.C. was the silent assassin.

Once I began working with him in 2004, I liked him instantly. In addition to his physical gifts, he was the most competitive person I knew. I would occasionally tire of the Hundred Years' War with the sales force. D.C. never backed down. He fought to make money on every single trade. And he was profoundly disappointed when he didn’t.

Perhaps the most interesting thing about D.C. was that he was exceedingly uninteresting. He had no deep, dark secrets, no skeletons in his closet, no illicit romances, no addictions, no nothing. It was impossible to believe that someone, especially in this business, could be that well adjusted. He was also a notoriously private person, so even if he was doing lines off a hooker’s fake tits at two in the morning in the W Hotel, I was never going to find out. In a way, his profound dullness made him just as much of a misfit as everyone else.

We were a great team: I had the raw smarts and the passion for finance, and he had the trading dexterity and the persistence. Occasionally, however, someone would sneak one past the goalie, and we would have to clean up the mess. This time, it was Spartacus, and this time, it was a million-dollar mess.

“Holy shit,” says D.C. I shrug. We’ll figure something out.

The market has its own chemistry, its own pressure. Traders, after enough time, learn to trade a market by feel. A trading floor is a room full of dogs, cats, and squirrels that can sense an oncoming storm. All morning, stocks had been like a manhole cover rattling around on the pavement, hinting at some imminent terrific explosion. When Yevgeny bought, the manhole cover shot up into the air.

I bought a million shares as fast and as sloppy as I could. Satisfied with my handiwork, I sat and trembled slightly as I watched IWM trade 20 cents above where I’d offered it. I lost $70,000 on the first million that I covered, and I was out $200,000 on the second million, which I hadn’t even touched yet. This is important, because I’d have to buy even more IWM in order to trade out of the dangerous position, and that would only make the losses worse. If you have one hundred thousand shares to buy, you’ll have to buy it at progressively higher prices to fill your order. The purchases you make at 10:30 drive up the cost of purchases you make at 10:35.

I was trying to restrain myself. The old me would have been pounding on the desk until I bruised the heels of my hand, and yelling, “*Goddamn motherfuckers!*” at the top of my lungs. But no matter what Spartacus or any of my other customers did, I was determined to act professionally and to not lose my cool. I had embarrassed myself one too many times with a hurricane of a temper tantrum on the trading floor, which was always followed up by an emotional hangover on the way home. The market, along with its malignant intelligence and chemistry, now had the new me: the cooler-than-the-other-side-of-the-pillow me, the future senior vice president and general sizeola Lehman Brothers trader.

I had two choices. I could hedge the trade now and lock in a sure $270,000 loss, which would destroy any profits we’d make for the rest of the day. Or I could wait to see what the market did and hope to buy back my IWM at a lower price later. The problem was, if I used a binomial tree to model each and every possible outcome, the likelihood of breaking even was less than one in twenty.

The probability was actually worse than that, given that it was Spartacus. The hedge fund was big enough and determined enough to push the market in their direction. When Spartacus bought, they didn’t buy just from one bank, they went around Wall Street and bought from everybody. I saw the prints going up.

09:52:02 IWM 1.0M 85.44 T

Only forty-two seconds later, another IWM transaction with another bank, and then another, each one driving the price higher …

09:52:44 IWM 2.0M 85.47 T
09:53:30 IWM 1.0M 85.55 T
09:54:11 IWM 2.0M 85.61 T

This is what we called “getting steamrolled” or “shitting on our print.” It meant that Spartacus had an order that was too large to give to a single counterparty, so they were splitting it up and spreading it around. It is good etiquette to give the entire order to one broker and let him work it over time to get the best price. It is bad etiquette to spray the street with your order flow like that—bad enough behavior to get you cut off from most places—but Spartacus denied it every time. They lied about their trades, even when there was a gargantuan pile of evidence against them. They were bad guys.

I turned to D.C., whom I always consulted in times of stress. “What do you think?” I asked him. He shook his head solemnly. This was out of his realm of experience, taking a $250K hickey before a trade was even half over.

“Okay,” I said to the speechless D.C., “I think Spartacus is trying to bully this market higher, and I think it’s going to run out of gas. No way am I buying back these IWMs—not until they get back to scratch.”

When I am in a losing trade, my body undergoes a physiological reaction. I cannot leave my seat; I feel chained to it. I hunch over my desk, staring at the screen, watching the chart go higher, tick for tick. I don’t really sweat, but I do tremble with fear and rage. I curse my life, and I hate myself in spite of the hundreds of thousands of dollars that I make. I am sick of being the doormat for all these arrogant hedge fund punks. I want to choke the living shit out of the sales trader that brought in the trade. I desperately need a drink. I feel the urge to verbally destroy the first person that talks to me. I start to think that torture is too good for some people. I hate everything and everybody, I see nothing but darkness, and the only thing that makes me feel better is even more hate; a higher, more cynical form of revulsion.

I watched the P&L on my GPM, the software which gave me a realtime view of my P&L: ($330,000). ($375,000). ($420,000). *This is getting ridiculous. Am I just being stubborn? Or do I have a rational explanation for why I think the market is suddenly going to reverse in my direction? I can’t lock in a $420,000 loss. It can’t possibly get worse*.

It gets worse. The market rallies more: ($610,000). ($700,000).

I had lost $700,000, and I hadn’t touched a share of the stock.

D.C. looked at me. “This is a disaster,” he said. “Yes,” I agreed, but I was frozen in my hunched-over position, staring at the chart, and I couldn’t manage to say much else. I felt like I’d swallowed a medicine ball.

It’s one thing to get run over on a trade. It’s another thing altogether to get run over for a whole *percent* in fifteen minutes. It’s unlikely for even entire asset classes—stocks or bonds as a collective entity—to move a percent in fifteen minutes. Such is Spartacus. You can’t just take the other side of their trades; you have to buy with. Once their trades start hitting the tape, every little weasel watching sees the prints and the price action and starts pushing it higher.

Then something miraculous happened. The market stopped going up. It began to consolidate. It seemed like it *wanted* to go higher, but it couldn’t. It was possible that Spartacus had bullied the market one too many times.

IWM started to trade lower. And lower. Now, the first instinct a trader has when he’s lost $700,000 is to close out the trade at down $600,000 and declare victory. I repeated to D.C., “I am not buying back a share of this thing until it gets back to unch.”

Now, *unch*, short for “unchanged,” is kind of an arbitrary level to aim for. Behaviorists, like the Nobel Prize winner Daniel Kahneman, believe that markets are driven by decision theory and information biases, and they call this “anchoring.” Nobody likes to lose money on a trade, so they’ll risk losing even more—an infinite amount—just to break even. It makes no sense to choose the price at which you got lifted as an anchoring point; in fact, it’s completely arbitrary. But this is what I was doing, and I knew it. I was ashamed of myself, but I was tired of losing money to these bastards, and I was going to break even on a trade if it killed me.

The P&L started to move my way: ($550,000). ($490,000). ($425,000). I began to ease the death grip on my mouse. I sat back in my chair a little bit. My neck muscles began to relax.

In some areas of the financial markets, it’s possible for both the buyer and the seller to make money on a trade. That may seem counterintuitive, but it happens quite a bit. In ETFs, however, it’s a zero-sum game. Stock goes up, buyer wins, seller loses. Stock goes down, seller wins, buyer loses. It turned my customers, even the friendly ones, into my enemies.

Every day I went to work and went to war with Spartacus. It was a war we could not win; most of the time we got run over on their trades, and if we ever made money on a trade, Spartacus would demand a price improvement, threatening to pull their business if we didn’t acquiesce. Heads I win, tails you lose. All I could do was try to minimize the damage. The fund had paid us $6 million in commissions this year, and we had lost all of it and then some; we found ourselves trying to use other customers to subsidize Spartacus’s losing business. I wanted them to just go away.

Andrew Duke didn’t want them to go away. He was the sales trader who had the unpleasant task of covering Spartacus within his larger book of bastards. He was a human shield. Tall and competent, Duke had worked his way up from being an “admin,” a glorified secretary, into a sales role. He was grumpy, and deeply cynical, like me. I liked him. But we were not friends. Wall Street had made us enemies.

Duke was compensated based on how much his customers traded with the firm. Whether they traded stock, ETFs, or options, his customers paid commissions. The more his customers traded, the more Duke got paid. Duke didn’t want Spartacus to go away. He wanted them to keep trading, even if it meant that, on balance, Lehman Brothers lost money to them. I was compensated by the profit and loss of my cozy little ETF desk, and I had no interest in losing money. It didn’t matter how much I complained to Duke that Spartacus was a loser—he was going to keep picking up the phone anyway.

Duke looked over at me. We made eye contact. He looked away. Duke knew that we’d gotten hosed on the trade, and he didn’t particularly want to have a conversation about it.

Meanwhile, IWM continued to fall. I started to jiggle my legs, which is what I did when I was happy. We were close to breaking even on the trade.

Enough is enough. I had a million shares to buy, and I started to bid, 100,000 shares at a time, in penny increments. *Figure bid for a hundred. Ninety-nine bid for a hundred. Ninety-eight bid for a hundred*. The market continued to fall. *Come to Butt-head*. I beckoned.

I finished buying stock. I looked up at GPM: ($70,000). We received $60,000 in commissions on the trade, so I had lost $10,000, which was essentially breaking even.

I high-fived D.C., which was sad, because we were high-fiving each other about losing money. I then walked over to Duke and stood behind him.

“How bad was it?” he asked.

“Take a guess.”

Duke winced. “I can’t even imagine,” he said. “Sorry about the mix-up, but I thought I pretty clearly said two million—”

“We lost ten grand,” I stated flatly.

Duke stood up and held out a hand. “Now, that is some trading. *No way* I would have been able to stay short that long.”

“Guess that’s why they pay me the big bucks.” In all honesty, Duke probably got paid more than me just to pick up the phone.

But I had gutted out a near seven-figure loss and made it all the way back to scratch, staring down one of the biggest hedge funds on the street. If trading had a hall of fame, I would be in it for that trade alone.

I got up from my desk. I had to hang a whizz—I’d swallowed down a giant coffee and been glued to the screens, white-knuckling the IWM trade for the better part of the morning. I walked down the aisle of salespeople and looked over their shoulders at their screens. A few had ESPN.com up. Takeareport.com. One girl was shopping for shoes.

Lazy. As I opened the door to the men’s room, I thought about how much money we could all make if people put in an eight-hour day. Here was a group of highly intelligent, highly educated people, with all the resources, all the information, all the market data in the world, all the tools and the talent necessary to suck money out of the market, and people chose to spend their days shoe shopping. Theories on market efficiency had killed people’s work ethic. If you can’t beat the market, then why try? *But you can win*, I thought. *The market can be beaten*. And here you had people sitting there dicking the dog and waiting for the phone to ring. How about making outgoing calls? How about looking up a list of institutions and cold-calling accounts? How about doing some technical analysis? How about coming up with some trade ideas to send to clients? This was the most passive, spoiled, unmotivated group of motherfuckers I had ever come into contact with.

I stepped up to the urinal. At that moment, I was hung like a seahorse. Risk kills libido. The reason hedge fund traders hang around clubs for “models and bottles” is because it is a substitution effect for their sex drive, which evaporates when exposed to huge amounts of risk on a daily basis. I was like a neutered cat. Most weeks, I would forget to whack off. I didn’t even have any blood flow. I was worried about atrophy. Christ.

Back on the trading floor, the buzz from earlier that morning had died down. The sun was starting to come through the windows facing Seventh Avenue. Analysts were starting to compile lunch runs. Trading, like sailing, is 95 percent boredom and 5 percent sheer terror. Activity comes in spurts, and most of it happens in the first hour after the open. There is a perception that it gets busy around the close, but it really doesn't. Dozens of traders were milling about the floor, each one making at least a million bucks, and they were getting paid for about a half hour of work.

Before I even sat back down at my desk, I could tell from the pinched look on D.C.'s face that we had been picked off once again. I didn't even have to ask—Spartacus. D.C. pointed at a chart of XLE on his screen, the energy ETF. It looked like a monstrous priapism.

Goddamnit. I looked at the CTI. Sure enough, there was a buy ticket for 500,000 XLE. I looked at the quote monitor—there were three other orders being printed outside of Lehman. Normally, when the market moves one direction, stocks are generally correlated; that is, they all tend to move in the same direction. Right then, energy stocks were moving up while the rest of the stock market was going down. Spartacus had a knack for being long the one sector that was going up or being short the one sector that was going down. Either they were astute investors, or they were using predatory trading techniques to force the market their way. Either way, it was impossible to trade with someone who was *always right*.

The more I thought about it, the angrier I became. The vast majority of our customers were good citizens, and we had one assface that was fucking things up for everybody. I spent hours trying to trade proprietarily to make a little extra scratch, and these guys would put mustard on it and eat it. And there was an additional cost, too: the time and psychic energy we spent managing Spartacus's bombs was time that we could have spent actively trading on our own behalf. The time I spent that morning staring at IWM, I could have spent looking for a spot to get short the market; D.C. and I might have been able to share a high five that actually meant something.

"Duke!" I yelled. He looked at me. "What the fuck? Didn't I just talk to you about this?" He shrugged. It was useless yelling at him; he was just the order taker, the conduit, the traffic cop.

"Fucking piece of shit! Motherfucker!" People were beginning to pay attention to us, waiting for another famous Dillian blowup. I wasn't going to give them the satisfaction. I was a new man. No more hothead Dillian. I was Buddhist Dillian.

Marty, my boss, turns around from his robot wars with the futures and asks me what's going on. Marty can't stop trading. He looks like Tom Hulce playing Mozart in *Amadeus*, who can't stop composing music, turning green while thinking up the Requiem on his deathbed.

"Fucking Spartacus again. They blew our heads off on IWM this morning, and they're doing it again on XLE. Look. Whole market selling off, XLE in our face."

"Trades going up outside of us, as always," adds D.C.

Marty puts on his sober manager hat. "Have you talked to Duke yet?"

"Talk to him? I talk to him all the time! He can't do anything about it. This is a bigger issue than Duke. This needs to go all the way up to the Snake. Or higher."

Marty is pursing his lips, preparing to speak the truth. "You can't have that conversation, because on the structured flow side, they've been buying worst-of call options like they're going to the electric chair, and we've been printing money off the business. We're making a lot more money in worst-ofs than you're losing in ETFs."

This was a familiar theme. ETFs are intended to be the loss leader. The missile sponge. We are supposed to give away capital for free so that people will trade sexier products with more edge. On the football team of trading, we are the left tackle. No glorious touchdown passes for us, just the daily grind at the line of scrimmage, and an unimpressive high-six-figure salary to go with it.

So we were stuck with Spartacus. It was like having the ugly stripper follow you around and sit in your lap all night. You can't exactly tell her to go away without causing a scene.

The more I thought about it, the more depressed I became. I went into trading to become a rock star, to make triple-digit returns, to become fantastically wealthy, and to be the envy of the financial community. What I was, in effect, was one of the snails that cleaned the fish tank of the financial markets. I spent most of my time playing defense, trying to prevent disasters while making tiny amounts of money on the margins. I was a janitor. And here we all were, with our Ivy League educations and our social class and our pedigrees and our friends, and we were all in one big room on a daily basis pissing into the wind. The number of people who were true financial decision makers on Wall Street was frighteningly small. The Soroses, the Falcones, the Paulsons—there were only a handful of people that truly influenced financial markets. I was not one of them. And I was never going to be one of them.

What made it worse was that the sell-side trader was held in such low regard. We were all considered to be whores, basically; but beyond that, even the cash equities trader or the credit default swap trader garnered some respect. They were experts on individual companies: they knew and understood their stories of success or failure, were intimately familiar with sector trends, and had a near monopoly on investment flows. They were in high demand from the buy-side community because every buy-side trader wanted to pick their brains on who was long, who was short, and what they thought stock XYZ was going to do. Conversely, nobody wanted to talk to an ETF trader. An ETF trader was not an expert on individual stocks; he was an expert on liquidity. He was an expert on decidedly unsexy liquidity. He had the brains and the tools of a program trader and the dirtbag customers of an options trader. He was a wannabe, a nobody, an orphan.

I am never going anywhere in this organization. ETFs fell under volatility trading. The next logical promotion I could get would be head of volatility. But an ETF trader can't become head of volatility; that's like having a paralegal get nominated for the Supreme Court. I was condemned to a life of mediocrity.

I hate my job.

Duke yelled over to us. "A million SPYs, how?"

He was asking for a two-way market on a million shares of SPY, the S&P (Standard & Poor's) 500 exchange-traded fund. It was for Spartacus. Again. Ugly stripper. I was supposed to show him a price where he could sell one million SPYs, and a price where he could buy one million SPYs, his choice. This was a reasonably big trade, about $135 million.

D.C. fielded the trade. "Twenty-eight at thirty-two!" D.C. was telling him he could sell them at twenty-eight cents or buy them at thirty-two. The "big number," or the "handle," was not relevant to making a market, whether it was $135.32 or $136.32.

"*Sold!*" yelled Duke.

Simultaneously, the market lurched lower. The price was now $136.20, before we even had a chance to hedge. Like that, $80,000 just disappeared.

What the fuck.

I snapped.

I grabbed a tape dispenser, lifted it high above my head, and slammed it into the desk with all my might.

“I’m gonna have his BALLS IN A JAR!” I yelled at Duke at the top of my lungs. Except, all anybody heard was “BALLS IN A JAR!”

Silence.

An undercurrent of “*ballsinajarwhat’sthatsupposedtomeanidon’tknowpret tyfunnyballsinajar*” spreads across the floor.

Meanwhile, a cloud of dust settled around me. The tape dispenser had been filled with sand for weight. There was sand all over my suit, in my hair, on my glasses, my keyboard, my turret, and everywhere else. There was also a pool of blood forming on the desk, mixed in with the sand, where the serrated edge of the tape dispenser had nearly sliced off my pinky finger. I was standing there, trembling with rage, covered in blood and sand, all over having failed to prevent an $80,000 loss.

Now, $80,000 may sound like a lot. But what I didn’t know was that the mortgage desk had risk several orders of magnitude larger. I didn’t know that the leveraged loan book was big and toxic. I didn’t know that Lehman’s real estate portfolio was absolutely pornographic. There were assholes on every floor in the building who’d built up massive Captain Jack positions that they were unable to liquidate, and they were pissing money into the street. Our leaders were completely ignorant of the last eighty years of financial history, seemingly unaware of the fact that markets go through cycles of boom and bust, and that twenty-five years of credit expansion had led the financial markets to the edge of disaster.

I might have been able to save $80,000, but I wasn’t going to be able to save Lehman.

 PROLOGUE
Portrait of a Trader | October 2, 2007

Back in 1999, when the world was brimming with optimism, when there were purple Yahoo! taxicabs patrolling the streets of San Francisco, I was a clerk on the options trading floor of the Pacific Coast Options Exchange. It was there that I learned how the financial markets worked. I spent much of my time standing in the back of the Intel-Oracle pit with the other clerks and stock jockeys; that is, the area where traders in Intel and Oracle options congregated.

There was a trader in the pit named Jack Taylor. Jack was six four, 240 pounds, with no concept of personal space. He spent half his day in a personal fast market, almost as though he was on crack, trading everything in sight: “BUY YOUR BOOK, JAN 30 CALLS, 20 LOT! SELL YOUR BOOK, DEC 25 PUTS! SAGEOLA! SAGEAROONI!” He was all arms and legs, thrashing his crumpled-up risk reports, crashing into other traders in the pit, eating lobster and steak burritos, passing gas all over the rest of the crowd, and heading out back to have sex with one of the female exchange clerks behind the Dumpster.

I wanted to be like Jack.

I wanted to be like Jack because he seemed to be one of God’s simplest and most beautiful creations. Make money, good. Lose money, bad. Burrito, good. Hangover, bad. My life seemed terribly complicated, and if I could boil down my existence to this primordial level, then it would be an existentially freeing experience.

But I was wrong. Jack’s wild personality was a smoke screen, a defense mechanism that he had created to convince other people (and perhaps himself, too) that his life really was that uncomplicated. He was not a simple guy but a rather complex one: a smart kid who had graduated from an Ivy League school, who had made deliberate and rational choices about what to do with his life, and who was now having second thoughts. His acting out was his way of coping, his way of distracting himself from the reality that the financial markets are a cruel way to make a living.

Jack now owns a sandwich shop in Chicago: Jack’s Sandos.

All traders go through what Jack went through. They learn to cope with the idea that they are expendable. If you ever take a trip to an investment bank’s trading floor, look around. Try to find the rare and elusive silver fox. Try to count the number of traders over forty. You won’t find many.

Partly this is because of mathematics. If the markets are mostly a zero-sum game, then the winners stick around and the losers find other things to do with their lives. The likelihood of somebody lasting ten years is only about one in five hundred.

The bigger reason that you don’t see old farts on trading floors is because people self-select. After a number of years in the business, they say enough is enough, hand in their company ID, and they go raise alpacas outside of Spokane.

The important detail is that all traders are capitalists of one stripe or another. Some of them are even supercapitalists, staunch libertarians, politically well to the right of even the Republican Party. And capitalism requires a dedication to the pursuit of reality. A rock is a rock is a rock. A rock is not a tree, no matter what mental gymnastics you perform. Profits are profits. Losses are losses. And there is no *evading* losses. You see your P&L every day, and the negative number stares you in the face.

Back in the civilian world, people permit themselves to evade reality. If the market is down, they won’t open the brokerage statement. They will stop investing. They will give up. They will *hope* that things come back.

Being a professional trader allows no such evasion. Hope is not a strategy. If you have a loss, you had better figure it out, or you are out on your ass.

That is a hell of a way to live.

But only if you can get to work in the morning. Seven years of this.

I’m late. Again. Did I lock the front door?

If you’re a trader, it is important to exercise the illusion of control, because the reality is that you’re not in control of anything. The smartest man on Wall Street, after months and months of research on a single trade, has no control over the outcome. In the short term, his position can move against him and force him to liquidate the world’s best idea, only to make him watch as it appreciates 200 percent over the next six months.

I definitely turned the coffeemaker off. But I’m not sure I locked the front door.

Traders deal with probabilities. There is a probability distribution for interest rates, for the log return of stock prices, and for cheating on your spouse without getting caught. The world is filled with uncertainty, and you try to model it. You quantify it. I model the likelihood that someone will break into my house if I forget to lock the door, and I determine that it is infinitesimally small. But not small enough.

I'd better turn around and check the front door.

It is true that in the absence of trade, there is war. But trade is just a different kind of warfare: buyers continually demand lower prices, and sellers want more for what they're selling. A transaction occurs when—for a brief moment in time—buyer and seller can agree on a price. You'd think that both parties would be satisfied at this point, but in practice, they're more pissed off at each other than they were before. Everyone thinks he's getting screwed. A trading floor is filled with unhappy people, because nobody is ever satisfied.

Okay. Here we go.

Unlock, unlock.

Step outside. Turn around.

Lock dead bolt. Test doorknob. Push against door. *Feel* that it's locked.

Lock doorknob.

Lock dead bolt again. *Five, four, three, two, one*.

Lock door again. *Five, four, three, two, one*.

Lock dead bolt again. *Three, two, one*.

Lock door again. *Three, two, one*.

Lock dead bolt again.

Lock door again.

Jiggle doorknob. Locked. *Five, three, one. Five, three, one*.

In most of the world's markets, prices are sticky. The price of milk does not change on a second-by-second basis. It does not *tick*. Neither do the prices of air conditioners, coffeemakers, or MP3s. But a share of GE stock is worth more than it was just a second ago. In the financial markets, quoted prices are good for an instant; after that, they're stale. Numbers change, and there are consequences. People start yelling. In fact, traders yell all the time. Sometimes it's because they're angry with you, but mostly it is to convey a sense of urgency. *Five bid for ten thousand, immediate. Higher, now!* I've seen kids out of college who were completely unprepared for the brutality of trading. Someone yells, and they crumble. They literally shake. Trading is not for the weak, the indecisive, the passive, or the homeschooled.

Damn it.

Back to the house, all the way from the bus stop.

Forgot to check the refrigerator.

This is madness. The madness. It’s back again, isn’t it?

Intimidation, I found, works pretty well, but only to a point. It can get you the extra penny, the balance of the order, and the price adjustment. But it is not a necessary or even sufficient condition for success. There is the guy in the pit with the glasses that nobody pays attention to. He buys when other people are selling. He steps aside when a big order comes through. He’s cordial. He keeps up appearances, but it is impossible to tell if he is having a good day or a bad day. It is impossible to tell if he is having a good year or a bad year.

He is having a very good year. He is up $3 million.

The refrigerator’s closed.

Back upstairs.

I can’t stand this.

Windows. Bathroom windows, office windows, bedroom windows.

Computer off, printer off.

Concentrate.

Coffeemaker off. Lights off.

Porch windows.

Ready.

It is more important to be smart than it is to be big, or fast, or a jerk. And on Wall Street, there are all kinds of smart. There are mathematicians, people who can find the flaws in Nobel Prize–winning options pricing models. There are computer geeks. There are poker players. There are the social psychologists, like me, who know that human behavior runs in patterns over time. Any or all of them can get rich. The people who don’t are the people who don’t ask questions, the people who consider it a birthright to act as a tollbooth attendant, taking their nickel from the market, not a care in the world.

Different pattern this time. Nine, eight, seven, six, five, four, three, two, one.

Lock door.

Lock dead bolt.

Jiggle doorknob. Locked. *Nine, five, one. Nine, five, one.*

Remember that. And catch your bus.

This is a choice. You can choose not to do this.

There are those who think it is terribly unproductive to have an entire class of people dedicated to buying and selling money. They say that buying and selling money doesn't actually produce anything. It's just moving wealth around from one pile to the next. Even if that were true, it doesn't mean that anyone should care: to most people, making money is an end in itself. There are those, however, who spend their entire career on Wall Street and can't explain what it is they do for a living when they go home to their children at night. They're embarrassed for themselves, because they feel that they're not a force for good in the world.

To me, making money was an end in itself. But beyond that, it is important for any economy to have deep, liquid capital markets. Lost in the debate about the credit crisis—about whether or not it was good for banks to be lending money to people who would have great difficulty paying it back—is the concept that these people, for the first time, had *access* to capital. Without the existence of capital markets, without people like me and Jack Taylor, none of the dot-com companies, even the so-called good ones, like Amazon, would have been able to raise capital on such attractive terms. The same can be said for just about every bubble, every capital markets phenomenon. In markets, people make mistakes. But for every mistake made, someone, somewhere, benefits.

Did I lock the door?

You locked the door. You did nine-five-one.

I can remember doing nine-five-one, but I can't remember locking the door.

So get off the bus.

Being a trader, to me, meant that for the first time in my life, I was looking out for myself. Me looking out for myself was a good thing. Because I was looking out for myself, because I sought to buy low and sell high, good things were happening in the world. A money manager was able to sell something at an inflated price, and his clients—dentists and teachers and bus drivers—all benefited. But I didn't care. I just wanted to get paid.

This came with a price.

For most people, it is their sanity. Go to a casino late at night and observe. Money at risk brings out the worst in human behavior. There is the plainly shitfaced man in his fifties who is betting $2,000 on a single hand of blackjack, ignoring his wife's calls, the phone vibrating incessantly in his pocket. There are the prostitutes. There are the counters, also known as the "advantage" players. All of these creatures exist in the capital markets in one form or another. Their behavior is excusable when there is money at stake. But it makes for a short career.

Again.

Back windows. Front windows.

Coffeemaker off. Lights off.

Porch windows.

This is going to be it. I'm not coming back again.

Plastic utensils and Velcro shower curtains are in your future if you keep this up.

I would be the exception, I thought. I was perfectly suited to trading. A former military officer and math whiz, thoughtful yet aggressive, intellectual yet vulgar, I could survive—no, thrive—in any trading environment. I remembered prices like they were yesterday. I saw patterns. And I was brutal enough to fight for the last penny. I wasn't going to be one of those guys who bailed out after a few years and went to something soft and forgiving, like consulting. I wasn't going to leave the business and write a book about how awful Wall Street was. Pussies.

I walked through life knowing that what I was doing was right. My insides matched my outsides. There is nothing so precious in this world as a man who is in the right place at the right time; who knows that he is doing what he is meant to be doing; who knows that if God exists, He placed him here on this earth to be a trader.

Oh no.

On the bus. Almost in the tunnel now.

Not again.

But take a hundred people and put them in separate rooms, each with a computer terminal and no windows, and allow them to trade futures. Give them each a million dollars. Don't let them come out for a week. Ninety of them will lose everything. Nine of them will manage to break even, maybe making a few hundred thousand dollars in the process. One of them will get rich.

All of them will go insane trying.

I thought this was supposed to get better. I thought this was supposed to go away.

I had gone mad trying. But then, everyone goes mad trying. Lehman Brothers was too small to be an investment bank and too large to be an insane asylum. The difference between me and everyone else was that I was man enough to admit it.

Off the bus and running down the street, back to the house.

Just tell yourself you're being crazy. That's all it is. This isn't real. It's all in your head.

Sweating through my suit.

But when I get like this, I can't tell what's real and what's not.

That's why it's called crazy.

People staring at me.

Did you remember your meds? I remembered my meds.

This is a hell of a way to live.

Users Review

From reader reviews:

Daria Gertz:

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