Quant Perspectives

Book Review: *Decisions – Life & Death on Wall Street*

Author: **Janet Tavakoli**   Publisher: **Lyons McNamara (March 2015)**

By Joe Pimbley

Good things sometimes happen in life. In my case, I was fortunate to receive a copy of Janet Tavakoli's latest book (we will make "latest book" a hot link using the following link: http://www.amazon.com/Decisions-Life-Death-Wall-Street/dp/0985159073/ref=tmm_pap_title_0) with the request that I write this review.

I enjoyed Tavakoli's short collection of anecdotes and expostulations. I recommend it to all financial professionals as "down-time reading." My basis for this recommendation, however, requires some elaboration!

Let's start by noting that Tavakoli began her career as an engineer, then moved to the financial world in the early 1980s. She held a variety of positions across several financial institutions and rose in the ranks with an emphasis in structured finance and capital markets. She formed Tavakoli Structured Finance, Inc., in 2003, and has written several books and numerous articles.

The essence of Tavakoli is her outspoken opposition to many Wall Street and Washington activities, and her great success in getting her message to the public. Stated more simply, the name "Tavakoli" has immediate financial world recognition as "critic of the industry." Whether you agree with her views or not, you've got to admire her branding success. I certainly do.

Decisions states in the first paragraph of the preface: "This short book shares my opinions and insights about the race-to-the-bottom culture of Wall Street …" and "… is not meant to be a comprehensive overview of my career or of the state of the global financial markets."

The anecdotes and depictions that fill the book are generally of the following mold: "people did stupid and dishonest things; I warned of the dangers; nobody listened; politicians lied; and markets crashed just like I predicted." In reading this sentence, one might suspect that I am poking fun at Tavakoli. However, this is not so simple, because I do believe she’s mostly correct and accurate in her portrayals and assessments.

Strippers, Bailouts … and Elliot Spitzer

Tavakoli’s first scene shows us female strippers performing on the Merrill Lynch trading floor in the 1980s. Tavakoli was the only employee to object (both visibly and colorfully). Clearly, she was right and everybody else present was wrong or dishonorably passive.

In other vignettes, Tavakoli explains how the New York Fed misled and withheld information from the public both before and after the TARP bailouts. She devotes several pages to the escapades of Elliot Spitzer, and shares experiences and fates of her colleagues at firms such as Deutsche Bank.

The reader finds a great deal of humor and entertainment here. The irreverence blows in early in the book and never leaves. Tavakoli shares biting remarks for Sheryl Sandberg (how did *she* get in here?!), Michael Lewis, Hank Paulson, Tim Geithner, Barack Obama, Bill Clinton, Bob Rubin, George Bush, Goldman Sachs and many others. The only public figure to merit a positive spin is Paul Volcker, but then she bruises him as well.

In one episode, the head of global markets for a large bank hosted a Christmas party for employees with his mistress at his side rather than his wife. Tavakoli relates that many employees thought: “introduce her to your own spouse, not ours.”

Thus, *Decisions* is entertaining, light reading. To call Janet Tavakoli “a contrarian” would be an immense understatement. Even if the reader disagrees with her stance on some, most, or all topics, the perspective is valuable. While there are plenty of contrarians in the world (just go to the blogosphere), Tavakoli has more than enough knowledge, expertise and intelligence to merit our attention.

The Great Antagonist

Now let's go to the dark place. Every argument and every story has two sides. While Tavakoli is colorful and unambiguously direct and clear, she is also antagonistic.

The irreverence itself antagonizes some, but not all, people. She does not "meet you in the middle." Her strategy to win an argument appears to be to call the other side stupid and corrupt.

Life would be easier if there were a simple conclusion to draw here, such as "if you're civil to others, your influence will be greater." But that's not life. To summarize the risk manager's struggle within a typical organization, a risk executive friend of mine says: "ignore him if he's polite; complain if he's rude."

As a college student, I dealt once with a middle-aged businessman who was a vendor to my fraternity. As we negotiated an aspect of the service he provided to us, this man said: "the world is not black and white; it's all shades of gray."

That statement has stayed with me ever since (especially since I later realized the man had been defrauding all fraternities on campus). It's not a happy philosophy and, as befits the literal meaning, it embodies both valid lessons and false, self-serving interpretations.

***Not* So Black and White**

Tavakoli's *Decisions* plays the "black and white card" on many topics – for example, the *Financial Crisis Inquiry Commission* (FCIC) was a "mock inquiry." Yes, one could make that argument, but "truth" in this case is almost certainly in the gray zone. (Read the FCIC minority dissent!)

As a weightier example, consider the late-2008 bailout of AIG in which the U.S. government paid all bank counterparties – most notoriously Goldman Sachs – 100 cents on the dollar for AIG derivative obligations. Tavakoli calls the action "scandalous" and accuses Hank Paulson, a former Goldman CEO, and "his cronies" of blatant self-interest and conflict of interest in paying large taxpayer sums to Goldman and other banks.

What's more, she writes that this bailout entailed a "cover-up" that was "more egregious than the various bank rescues," and alleges that Paulson deliberately rejected a private rescue of AIG to ensure the large taxpayer payment to the banks.

Consider the meaning of these statements! Tavakoli alleges fraud (my word) in the amount of tens of billions of dollars by Paulson, Bernanke, Geithner and others (*i.e.*, the Fed and the White House)! Could these facts and the interpretation all be true? My view is that, yes, it could all be true. But let me add that there are other possible explanations.

When it comes to reasonably complex scenarios of this sort, I'm more of a "gray zone person" than a "black and white person." For a couple of reasons, my sense is that Paulson, Bernanke and Geithner (PBG) were merely stupid rather than flagrantly dishonest.

First, I find it entirely believable that neither the Fed nor the Treasury *even thought of negotiating* a discount on the AIG obligations with the bank counterparties. These are clueless and insular people.

Yes, I realize Paulson had been CEO of Goldman. But I remain unswayed. Bernanke and Geithner, of course, never ran or learned anything in the (real) financial world. Nobody within this PBG trio held a broad understanding of CDOs (and certainly not of derivatives referencing CDOs – the "troubled assets" of AIG).

Second, the PBG worldview entailed great fear of financial failure and market uncertainty. What they didn't understand is that (1) life and markets are inherently uncertain; (2) failure is a critically important market event to *strengthen* institutions and business methods; and (3) various forms of government control – e.g., bailouts, subsidies, conflicting and incoherent laws and regulations, random lawsuits, frivolous hearings and prosecutions and waivers of prosecutions for true crimes -- actually weaken our financial system.

Which view is right? Scandal and fraud? Or stupidity and fear? I don't know, but I'd vote for the latter as being more likely.

An Unnerving Narrative

In recommending *Decisions*, I also find myself dipping into the gray zone to give Tavakoli the benefit of the doubt. She narrates several stories of suicide among colleagues and acquaintances. These events support the book's themes of stress, ethical failings and entanglements, political machinations and a race-to-the-bottom culture.

Really, though, it's unfair. That is, it's unfair to the reputations of the victims and the tranquility of the surviving families.

It's also unfair to "truth" in the sense that mental illness and depression pervade all walks of life. One cannot simply write anecdotes of suicide to "prove a point" about Wall Street culture. The individual stories might well be indicative, but they're not at all conclusive.

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