VANITY FAIR

EXCERPT

Betting on the Blind Side

Michael Burry always saw the world differently—due, he believed, to the childhood loss of one eye. So when the 32-year-old investor spotted the huge bubble in the subprime-mortgage bond market, in 2004, then created a way to bet against it, he wasn't surprised that no one understood what he was doing. In an excerpt from his new book, *The Big Short*, the author charts Burry's oddball maneuvers, his almost comical dealings with Goldman Sachs and other banks as the market collapsed, and the true reason for his visionary obsession.

BY MICHAEL LEWIS • PHOTOGRAPH BY JONAS FREDWALL KARLSSON

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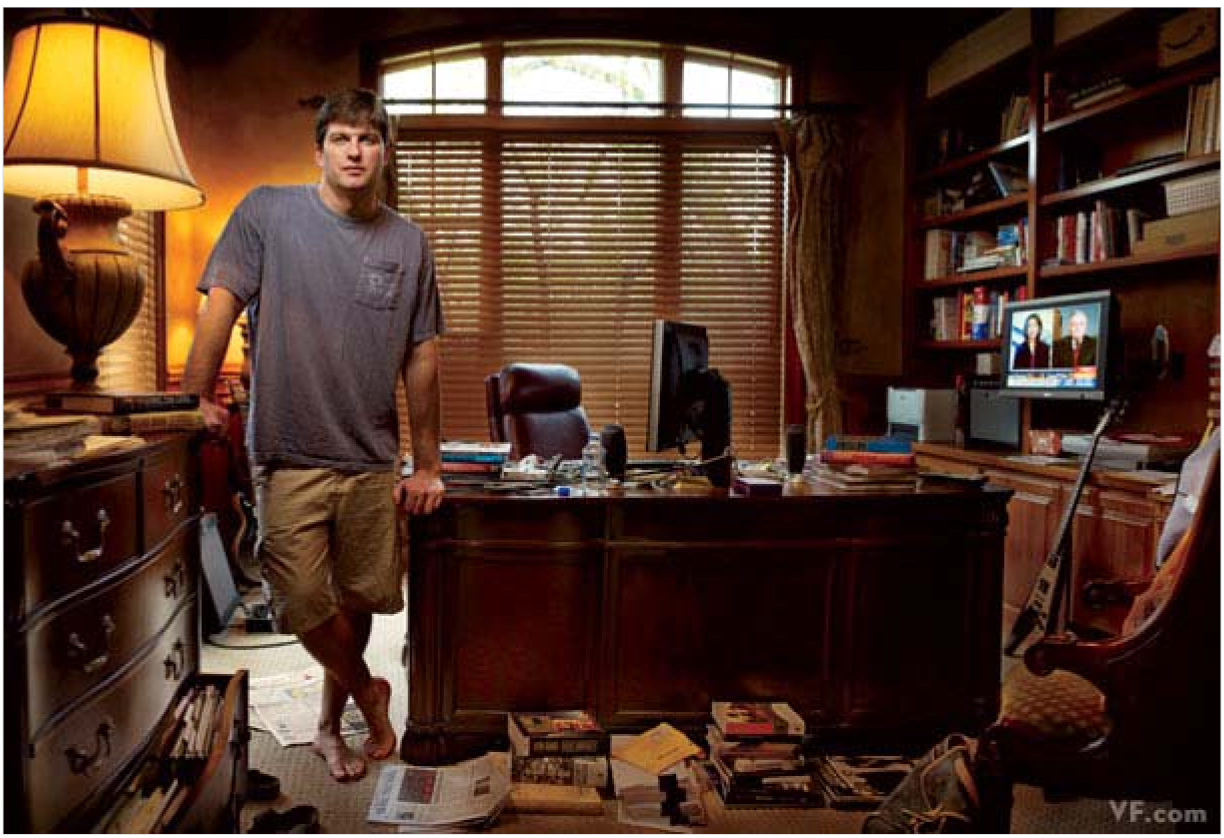

Dr. Michael Burry in his home office, in Silicon Valley. "My nature is not to have friends," Burry concluded years ago. "I'm happy in my own head."

Excerpted from The Big Short: Inside the Doomsday Machine, *by Michael Lewis, to be published this month by W. W. Norton; © 2010 by the author.*

In early 2004 a 32-year-old stock-market investor and hedge-fund manager, Michael Burry, immersed himself for the first time in the bond market. He learned all he could about how money got borrowed and lent in America. He didn't talk to anyone about what became his new obsession; he just sat alone in his office, in San Jose, California, and read books and articles and financial filings. He wanted to know, especially, how subprime-mortgage bonds worked. A giant number of individual loans got piled up into a tower. The top floors got their money back first and so got the highest ratings from Moody's and S&P, and the lowest interest rate. The low floors got their money back last, suffered the first losses, and got the lowest ratings from Moody's and S&P. Because they were taking on more risk, the investors in the bottom floors received a higher rate of interest than investors in the top floors. Investors who bought mortgage bonds had to decide in which floor of the tower they wanted to invest, but Michael Burry wasn't thinking about buying mortgage bonds. He was wondering how he might short, or bet against, subprime-mortgage bonds.

Every mortgage bond came with its own mind-numbingly tedious 130-page prospectus. If you read the fine print, you saw that each bond was its own little corporation. Burry spent the end of 2004 and early 2005 scanning hundreds and actually reading dozens of the prospectuses, certain he was the only one apart from the lawyers who drafted them to do so—even though you could get them all for $100 a year from 10kWizard.com.

The subprime-mortgage market had a special talent for obscuring what needed to be clarified. A bond backed entirely by subprime mortgages, for example, wasn't called a subprime-mortgage bond. It was called an "A.B.S.," or "asset-backed security." If you asked Deutsche Bank exactly what assets secured an asset-backed security, you'd be handed lists of more acronyms—R.M.B.S., hels, helocs, Alt-A—along with categories of credit you did not know existed ("midprime"). R.M.B.S. stood for "residential-mortgage-backed security." hel stood for "home-equity loan." heloc stood for "home-equity line of credit." Alt-A was just what they called crappy subprime-mortgage loans for which they hadn't even bothered to acquire the proper documents—to, say, verify the borrower's income. All of this could more clearly be called "subprime loans," but the bond market wasn't clear. "Midprime" was a kind of triumph of language over truth. Some crafty bond-market person had gazed upon the subprime-mortgage sprawl, as an ambitious real-estate developer might gaze upon Oakland, and found an opportunity to rebrand some of the turf. Inside Oakland there was a neighborhood, masquerading as an entirely separate town, called "Rockridge." Simply by refusing to be called "Oakland," "Rockridge" enjoyed higher property values. Inside the subprime-mortgage market there was now a similar neighborhood known as "midprime."

But as early as 2004, if you looked at the numbers, you could clearly see the decline in lending standards. In Burry's view, standards had not just fallen but hit bottom. The bottom even had a name: the interest-only negative-amortizing adjustable-rate subprime mortgage. You, the homebuyer, actually were given the option of paying nothing at all, and rolling whatever interest you owed the bank into a higher principal balance. It wasn't hard to see what sort of person might like to have such a loan: one with no income. What Burry couldn't understand was why a person who lent money would want to extend such a loan. "What you want to watch are the lenders, not the borrowers," he said. "The borrowers will always be willing to take a great deal for themselves. It's up to the lenders to show restraint, and when they lose it, watch out." By 2003 he knew that the borrowers had already lost it. By early 2005 he saw that lenders had, too.

A lot of hedge-fund managers spent time chitchatting with their investors and treated their quarterly letters to them as a formality. Burry disliked talking to people face-to-face and thought of these letters as the single most important thing he did to let his investors know what he was up to. In his quarterly letters he coined a phrase to describe what he thought was happening: "the extension of credit by instrument." That is, a lot of people couldn't actually afford to pay their mortgages the old-fashioned way, and so the lenders were dreaming up new financial instruments to justify handing them new money. "It was a clear sign that lenders had lost it, constantly degrading their own standards to grow loan volumes," Burry said. He could see why they were doing this: they didn't keep the loans but sold them to Goldman Sachs and Morgan Stanley and Wells Fargo and the rest, which packaged them into bonds and sold them off. The end buyers of subprime-mortgage bonds, he assumed, were just "dumb money." He'd study up on them, too, but later.

He now had a tactical investment problem. The various floors, or tranches, of subprime-mortgage bonds all had one thing in common: the bonds were impossible to sell short. To sell a stock or bond short, you needed to borrow it, and these tranches of mortgage bonds were tiny and impossible to find. You could buy them or not buy them, but you couldn't bet explicitly against them; the market for subprime mortgages simply had no place for people in it who took a dim view of them. You might know with certainty that the entire subprime-mortgage-bond market was doomed, but you could do nothing about it. You couldn't short houses. You could short the stocks of homebuilding companies—Pulte Homes, say, or Toll Brothers—but that was expensive, indirect, and dangerous. Stock prices could rise for a lot longer than Burry could stay solvent.

A couple of years earlier, he'd discovered credit-default swaps. A credit-default swap was confusing mainly because it wasn't really a swap at all. It was an insurance policy, typically on a corporate bond, with periodic premium payments and a fixed term. For instance, you might pay $200,000 a year to buy a 10-year credit-default swap on $100 million in General Electric bonds. The most you could lose was $2 million: $200,000 a year for 10 years. The most you could make was $100 million, if General Electric defaulted on its debt anytime in the next 10 years and bondholders recovered nothing. It was a zero-sum bet: if you made $100 million, the guy who had sold you the credit-default swap lost $100 million. It was also an asymmetric bet, like laying down money on a number in roulette. The most you could lose were the chips you put on the table, but if your number came up, you made 30, 40, even 50 times your money. "Credit-default swaps remedied the problem of open-ended risk for me," said Burry. "If I bought a credit-default swap, my downside was defined and certain, and the upside was many multiples of it."

He was already in the market for corporate credit-default swaps. In 2004 he began to buy insurance on companies he thought might suffer in a real-estate downturn: mortgage lenders, mortgage insurers, and so on. This wasn't entirely satisfying. A real-estate-market meltdown might cause these companies to lose money; there was no guarantee that they would actually go bankrupt. He wanted a more direct tool for betting against subprime-mortgage lending. On March 19, 2005, alone in his office with the door closed and the shades pulled down, reading an abstruse textbook on credit derivatives, Michael Burry got an idea: credit-default swaps on subprime-mortgage bonds.

The idea hit him as he read a book about the evolution of the U.S. bond market and the creation, in the mid-1990s, at J. P. Morgan, of the first corporate credit-default swaps. He came to a passage explaining why banks felt they needed credit-default swaps at all. It wasn't immediately obvious —after all, the best way to avoid the risk of General Electric's defaulting on its debt was not to lend to General Electric in the first place. In the beginning, credit-default swaps had been a tool for hedging: some bank had loaned more than they wanted to to General Electric because G.E. had asked for it, and they feared alienating a long-standing client; another bank changed its mind about the wisdom of lending to G.E. at all. Very quickly, however, the new derivatives became tools for speculation: a lot of people wanted to make bets on the likelihood of G.E.'s defaulting. It struck Burry: Wall Street is bound to do the same thing with subprime-mortgage bonds, too. Given what was happening in the real-estate market—and given what subprime-mortgage lenders were doing—a lot of smart people eventually were going to want to make side bets on subprime-mortgage bonds. And the only way to do it would be to buy a credit-default swap.

The credit-default swap would solve the single biggest problem with Mike Burry's big idea: timing. The subprime-mortgage loans being made in early 2005 were, he felt, almost certain to go bad. But, as their interest rates were set artificially low and didn't reset for two years, it would be two years before that happened. Subprime mortgages almost always bore floating interest rates, but most of them came with a fixed, two-year "teaser" rate. A mortgage created in early 2005 might have a two-year "fixed" rate of 6 percent that, in 2007, would jump to 11 percent and provoke a wave of defaults. The faint ticking sound of these loans would grow louder with time, until eventually a lot of people would suspect, as he suspected, that they were bombs. Once that happened, no one would be willing to sell insurance on subprime-mortgage bonds. He needed to lay his chips on the table now and wait for the casino to wake up and change the odds of the game.

A credit-default swap on a 30-year subprime-mortgage bond was a bet designed to last for 30 years, in theory. He figured that it would take only three to pay off.

The only problem was that there was no such thing as a credit-default swap on a subprime-mortgage bond, not that he could see. He'd need to prod the big Wall Street firms to create them. But which firms? If he was right and the housing market crashed, these firms in the middle of the market were sure to lose a lot of money. There was no point buying insurance from a bank that went out of business the minute the insurance became valuable. He didn't even bother calling Bear Stearns and Lehman Brothers, as they were more exposed to the mortgage-bond market than the other firms. Goldman Sachs, Morgan Stanley, Deutsche Bank, Bank of America, UBS, Merrill Lynch, and Citigroup were, to his mind, the most likely to survive a crash. He called them all. Five of them had no idea what he was talking about; two came back and said that, while the market didn't exist, it might one day. Inside of three years, credit-default swaps on subprime-mortgage bonds would become a trillion-dollar market and precipitate hundreds of billions of losses inside big Wall Street firms. Yet, when Michael Burry pestered the firms in the beginning of 2005, only Deutsche Bank and Goldman Sachs had any real interest in continuing the conversation. No one on Wall Street, as far as he could tell, saw what he was seeing.

He sensed that he was different from other people before he understood why. Before he was two years old he was diagnosed with a rare form of cancer, and the operation to remove the tumor had cost him his left eye. A boy with one eye sees the world differently from everyone else, but it didn't take long for Mike Burry to see his literal distinction in more figurative terms. Grown-ups were forever insisting that he should look other people in the eye, especially when he was talking to them. "It took all my energy to look someone in the eye," he said. "If I am looking at you, that's the one time I know I won't be listening to you." His left eye didn't line up with whomever he was trying to talk to; when he was in social situations, trying to make chitchat, the person to whom he was speaking would steadily drift left. "I don't really know how to stop it," he said, "so people just keep moving left until they're standing way to my left, and I'm trying not to turn my head anymore. I end up facing right and looking left with my good eye, through my nose."

His glass eye, he assumed, was the reason that face-to-face interaction with other people almost always ended badly for him. He found it maddeningly difficult to read people's nonverbal signals, and their verbal signals he often took more literally than they meant them. When trying his best, he was often at his worst. "My compliments tended not to come out right," he said. "I learned early that if you compliment somebody it'll come out wrong. For your size, you look good. That's a really nice dress: it looks homemade." The glass eye became his private explanation for why he hadn't really fit in with groups. The eye oozed and wept and required constant attention. It wasn't the sort of thing other kids ever allowed him to be unself-conscious about. They called him cross-eyed, even though he wasn't. Every year they begged him to pop his eye out of its socket—but when he complied, it became infected and disgusting and a cause of further ostracism.

In his glass eye he found the explanation for other traits peculiar to himself. His obsession with fairness, for example. When he noticed that pro basketball stars were far less likely to be called for traveling than lesser players, he didn't just holler at the refs. He stopped watching basketball altogether; the injustice of it killed his interest in the sport. Even though he was ferociously competitive, well built, physically brave, and a good athlete, he didn't care for team sports. The eye helped to explain this, as most team sports were ball sports, and a boy with poor depth perception and limited peripheral vision couldn't very well play ball sports. He tried hard at the less ball-centric positions in football, but his eye popped out if he hit someone too hard. He preferred swimming, as it required virtually no social interaction. No teammates. No ambiguity. You just swam your time and you won or you lost.

After a while even he ceased to find it surprising that he spent most of his time alone. By his late 20s he thought of himself as the sort of person who didn't have friends. He'd gone through Santa Teresa High School, in San Jose, U.C.L.A., and Vanderbilt University School of Medicine, and created not a single lasting bond. What friendships he did have were formed and nurtured in writing, by e-mail; the two people he considered to be true friends he had known for a combined 20 years but had met in person a grand total of eight times. "My nature is not to have friends," he said. "I'm happy in my own head." Somehow he'd married twice. His first wife was a woman of Korean descent who wound up living in a different city ("She often complained that I appeared to like the idea of a relationship more than living the actual relationship") and his second, to whom he was still married, was a Vietnamese-American woman he'd met on Match.com. In his Match.com profile, he described himself frankly as "a medical resident with only one eye, an awkward social manner, and $145,000 in student loans." His obsession with personal honesty was a cousin to his obsession with fairness.

Obsessiveness—that was another trait he came to think of as peculiar to himself. His mind had no temperate zone: he was either possessed by a subject or not interested in it at all. There was an obvious downside to this quality—he had more trouble than most faking interest in other people's concerns and hobbies, for instance—but an upside, too. Even as a small child he had a fantastic ability to focus and learn, with or without teachers. When it synched with his interests, school came easy for him—so easy that, as an undergraduate at U.C.L.A., he could flip back and forth between English and economics and pick up enough pre-medical training on the side to get himself admitted to the best medical schools in the country. He attributed his unusual powers of concentration to his lack of interest in human interaction, and his lack of interest in human interaction ... well, he was able to argue that basically everything that happened was caused, one way or the other, by his fake left eye.

This ability to work and to focus set him apart even from other medical students. In 1998, as a resident in neurology at Stanford Hospital, he mentioned to his superiors that, between 14-hour hospital shifts, he had stayed up two nights in a row taking apart and putting back together his personal computer in an attempt to make it run faster. His superiors sent him to a psychiatrist, who diagnosed Mike Burry as bipolar. He knew instantly he'd been misdiagnosed: how could you be bipolar if you were never depressed? Or, rather, if you were depressed only while doing your rounds and pretending to be interested in practicing, as opposed to studying, medicine? He'd become a doctor not because he enjoyed medicine but because he didn't find medical school terribly difficult. The actual practice of medicine, on the other hand, either bored or disgusted him. Of his first brush with gross anatomy: "one scene with people carrying legs over their shoulders to the sink to wash out the feces just turned my stomach, and I was done." Of his feeling about the patients: "I wanted to help people—but not really."

He was genuinely interested in computers, not for their own sake but for their service to a lifelong obsession: the inner workings of the stock market. Ever since grade school, when his father had shown him the stock tables at the back of the newspaper and told him that the stock market was a crooked place and never to be trusted, let alone invested in, the subject had fascinated him. Even as a kid he had wanted to impose logic on this world of numbers. He began to read about the market as a hobby. Pretty quickly he saw that there was no logic at all in the charts and graphs and waves and the endless chatter of many self-advertised market pros. Then along came the dot-com bubble and suddenly the entire stock market made no sense at all. "The late 90s almost forced me to identify myself as a value investor, because I thought what everybody else was doing was insane," he said. Formalized as an approach to financial markets during the Great Depression by Benjamin Graham, "value investing" required a tireless search for companies so unfashionable or misunderstood that they could be bought for less than their liquidation value. In its simplest form, value investing was a formula, but it had morphed into other things—one of them was whatever Warren Buffett, Benjamin Graham's student and the most famous value investor, happened to be doing with his money.

Burry did not think investing could be reduced to a formula or learned from any one role model. The more he studied Buffett, the less he thought Buffett could be copied. Indeed, the lesson of Buffett was: To succeed in a spectacular fashion you had to be spectacularly unusual. "If you are going to be a great investor, you have to fit the style to who you are," Burry said. "At one point I recognized that Warren Buffett, though he had every advantage in learning from Ben Graham, did not copy Ben Graham, but rather set out on his own path, and ran money his way, by his own rules.... I also immediately internalized the idea that no school could teach someone how to be a great investor. If it were true, it'd be the most popular school in the world, with an impossibly high tuition. So it must not be true."

Investing was something you had to learn how to do on your own, in your own peculiar way. Burry had no real money to invest, but he nevertheless dragged his obsession along with him through high school, college, and medical school. He'd reached Stanford Hospital without ever taking a class in finance or accounting, let alone working for any Wall Street firm. He had maybe $40,000 in cash, against $145,000 in student loans. He had spent the previous four years working medical-student hours. Nevertheless, he had found time to make himself a financial expert of sorts. "Time is a variable continuum," he wrote to one of his e-mail friends one Sunday morning in 1999: "An afternoon can fly by or it can take 5 hours. Like you probably do, I productively fill the gaps that most people leave as dead time. My drive to be productive probably cost me my first marriage and a few days ago almost cost me my fiancée. Before I went to college the military had this 'we do more before 9am than most people do all day' and I used to think I do more than the military. As you know there are some select people that just find a drive in certain activities that supersedes everything else." Thinking himself different, he didn't find what happened to him when he collided with Wall Street nearly as bizarre as it was.

Late one night in November 1996, while on a cardiology rotation at Saint Thomas Hospital, in Nashville, Tennessee, he logged on to a hospital computer and went to a message board called techstocks.com. There he created a thread called "value investing." Having read everything there was to read about investing, he decided to learn a bit more about "investing in the real world." A mania for Internet stocks gripped the market. A site for the Silicon Valley investor, circa 1996, was not a natural home for a sober-minded value investor. Still, many came, all with opinions. A few people grumbled about the very idea of a doctor having anything useful to say about investments, but over time he came to dominate the discussion. Dr. Mike Burry—as he always signed himself—sensed that other people on the thread were taking his advice and making money with it.

Once he figured out he had nothing more to learn from the crowd on his thread, he quit it to create what later would be called a blog but at the time was just a weird form of communication. He was working 16-hour shifts at the hospital, confining his blogging mainly to the hours between midnight and three in the morning. On his blog he posted his stock-market trades and his arguments for making the trades. People found him. As a money manager at a big Philadelphia value fund said, "The first thing I wondered was: When is he doing this? The guy was a medical intern. I only saw the nonmedical part of his day, and it was simply awesome. He's showing people his trades. And people are following it in real time. He's doing value investing—in the middle of the dot-com bubble. He's buying value stocks, which is what we're doing. But we're losing money. We're losing clients. All of a sudden he goes on this tear. He's up 50 percent. It's uncanny. He's uncanny. And we're not the only ones watching it."

Mike Burry couldn't see exactly who was following his financial moves, but he could tell which domains they came from. In the beginning his readers came from EarthLink and AOL. Just random individuals. Pretty soon, however, they weren't. People were coming to his site from mutual funds like Fidelity and big Wall Street investment banks like Morgan Stanley. One day he lit into Vanguard's index funds and almost instantly received a cease-and-desist letter from Vanguard's attorneys. Burry suspected that serious investors might even be acting on his blog posts, but he had no clear idea who they might be. "The market found him," says the Philadelphia mutual-fund manager. "He was recognizing patterns no one else was seeing."

By the time Burry moved to Stanford Hospital, in 1998, to take up his residency in neurology, the work he had done between midnight and three in the morning had made him a minor but meaningful hub in the land of value investing. By this time the craze for Internet stocks was completely out of control and had infected the Stanford University medical community. "The residents in particular, and some of the faculty, were captivated by the dot-com bubble," said Burry. "A decent minority of them were buying and discussing everything—Polycom, Corel, Razorfish, Pets.com, TibCo, Microsoft, Dell, Intel are the ones I specifically remember, but areyoukiddingme.com was how my brain filtered a lot of it I would just keep my mouth shut, because I didn't want anybody there knowing what I was doing on the side. I felt I could get in big trouble if the doctors there saw I wasn't 110 percent committed to medicine."

People who worry about seeming sufficiently committed to medicine probably aren't sufficiently committed to medicine. The deeper he got into his medical career, the more Burry felt constrained by his problems with other people in the flesh. He had briefly tried to hide in pathology, where the people had the decency to be dead, but that didn't work. ("Dead people, dead parts. More dead people, more dead parts. I thought, I want something more cerebral.")

He'd moved back to San Jose, buried his father, remarried, and been misdiagnosed as bipolar when he shut down his Web site and announced he was quitting neurology to become a money manager. The chairman of the Stanford department of neurology thought he'd lost his mind and told him to take a year to think it over, but he'd already thought it over. "I found it fascinating and seemingly true," he said, "that if I could run a portfolio well, then I could achieve success in life, and that it wouldn't matter what kind of person I was perceived to be, even though I felt I was a good person deep down." His $40,000 in assets against $145,000 in student loans posed the question of exactly what portfolio he would run. His father had died after another misdiagnosis: a doctor had failed to spot the cancer on an X-ray, and the family had received a small settlement. The father disapproved of the stock market, but the payout from his death funded his son into it. His mother was able to kick in $20,000 from her settlement, his three brothers kicked in $10,000 each of theirs. With that, Dr. Michael Burry opened Scion Capital. (As a teen he'd loved the book *The Scions of Shannara*.) He created a grandiose memo to lure people not related to him by blood. "The minimum net worth for investors should be $15 million," it said, which was interesting, as it excluded not only himself but basically everyone he'd ever known.

As he scrambled to find office space, buy furniture, and open a brokerage account, he received a pair of surprising phone calls. The first came from a big investment fund in New York City, Gotham Capital. Gotham was founded by a value-investment guru named Joel Greenblatt. Burry had read Greenblatt's book *You Can Be a Stock Market Genius.* ("I hated the title but liked the book.") Greenblatt's people told him that they had been making money off his ideas for some time and wanted to continue to do so—might Mike Burry consider allowing Gotham to invest in his fund? "Joel Greenblatt himself called," said Burry, "and said, 'I've been waiting for you to leave medicine.'" Gotham flew Burry and his wife to New York—and it was the first time Michael Burry had flown to New York or flown first-class—and put him up in a suite at the Intercontinental Hotel.

On his way to his meeting with Greenblatt, Burry was racked with the anxiety that always plagued him before face-to-face encounters with people. He took some comfort in the fact that the Gotham people seemed to have read so much of what he had written. "If you read what I wrote first, and then meet me, the meeting goes fine," he said. "People who meet me who haven't read what I wrote—it almost never goes well. Even in high school it was like that—even with teachers." He was a walking blind taste test: you had to decide if you approved of him before you laid eyes on him. In this case he was at a serious disadvantage, as he had no clue how big-time money managers dressed. "He calls me the day before the meeting," says one of his e-mail friends, himself a professional money manager. "And he asks, 'What should I wear?' He didn't own a tie. He had one blue sports coat, for funerals." This was another quirk of Mike Burry's. In writing, he presented himself formally, even a bit stuffily, but he dressed for the beach. Walking to Gotham's office, he panicked and ducked into a Tie Rack and bought a tie. He arrived at the big New York money-management firm as formally attired as he had ever been in his entire life to find its partners in T-shirts and sweatpants. The exchange went something like this: "We'd like to give you a million dollars." "Excuse me?" "We want to buy a quarter of your new hedge fund. For a million dollars." "You do?" "Yes. We're offering a million dollars." "After tax!"

Somehow Burry had it in his mind that one day he wanted to be worth a million dollars, after tax. At any rate, he'd just blurted that last bit out before he fully understood what they were after. And they gave it to him! At that moment, on the basis of what he'd written on his blog, he went from being an indebted medical resident with a net worth of minus $105,000 to a millionaire with a few outstanding loans. Burry didn't know it, but it was the first time Joel Greenblatt had done such a thing. “He was just obviously this brilliant guy, and there aren’t that many of them,” says Greenblatt.

Shortly after that odd encounter, he had a call from the insurance holding company White Mountain. White Mountain was run by Jack Byrne, a member of Warren Buffett’s inner circle, and they had spoken to Gotham Capital. “We didn’t know you were selling part of your firm,” they said—and Burry explained that he hadn’t realized it either until a few days earlier, when someone offered a million dollars, after tax, for it. It turned out that White Mountain, too, had been watching Michael Burry closely. “What intrigued us more than anything was that he was a neurology resident,” says Kip Oberting, then at White Mountain. “When the hell was he doing this?” From White Mountain he extracted $600,000 for another piece of his fund, plus a promise to send him $10 million to invest. “And yes,” said Oberting, “he was the only person we found on the Internet and cold-called and gave him money.”

In Dr. Mike Burry’s first year in business, he grappled briefly with the social dimension of running money. “Generally you don’t raise any money unless you have a good meeting with people,” he said, “and generally I don’t want to be around people. And people who are with me generally figure that out.” When he spoke to people in the flesh, he could never tell what had put them off, his message or his person. Buffett had had trouble with people, too, in his youth. He’d used a Dale Carnegie course to learn how to interact more profitably with his fellow human beings. Mike Burry came of age in a different money culture. The Internet had displaced Dale Carnegie. He didn’t need to meet people. He could explain himself online and wait for investors to find him. He could write up his elaborate thoughts and wait for people to read them and wire him their money to handle. “Buffett was too popular for me,” said Burry. “I won’t ever be a kindly grandfather figure.”

This method of attracting funds suited Mike Burry. More to the point, it worked. He’d started Scion Capital with a bit more than a million dollars—the money from his mother and brothers and his own million, after tax. Right from the start, Scion Capital was madly, almost comically successful. In his first full year, 2001, the S&P 500 fell 11.88 percent. Scion was up 55 percent. The next year, the S&P 500 fell again, by 22.1 percent, and yet Scion was up again: 16 percent. The next year, 2003, the stock market finally turned around and rose 28.69 percent, but Mike Burry beat it again—his investments rose by 50 percent. By the end of 2004, Mike Burry was managing $600 million and turning money away. “If he’d run his fund to maximize the amount he had under management, he’d have been running many, many billions of dollars,” says a New York hedge-fund manager who watched Burry’s performance with growing incredulity. “He designed Scion so it was bad for business but good for investing.”

Thus when Mike Burry went into business he disapproved of the typical hedge-fund manager’s deal. Taking 2 percent of assets off the top, as most did, meant the hedge-fund manager got paid simply for amassing vast amounts of other people's money. Scion Capital charged investors only its actual expenses—which typically ran well below 1 percent of the assets. To make the first nickel for himself, he had to make investors' money grow. "Think about the genesis of Scion," says one of his early investors. "The guy has no money and he chooses to forgo a fee that any other hedge fund takes for granted. It was unheard of."

By the middle of 2005, over a period in which the broad stock-market index had fallen by 6.84 percent, Burry's fund was up 242 percent, and he was turning away investors. To his swelling audience, it didn't seem to matter whether the stock market rose or fell; Mike Burry found places to invest money shrewdly. He used no leverage and avoided shorting stocks. He was doing nothing more promising than buying common stocks and nothing more complicated than sitting in a room reading financial statements. Scion Capital's decision-making apparatus consisted of one guy in a room, with the door closed and the shades down, poring over publicly available information and data on 10-K Wizard. He went looking for court rulings, deal completions, and government regulatory changes—anything that might change the value of a company.

As often as not, he turned up what he called "ick" investments. In October 2001 he explained the concept in his letter to investors: "Ick investing means taking a special analytical interest in stocks that inspire a first reaction of 'ick.'" A court had accepted a plea from a software company called the Avanti Corporation. Avanti had been accused of stealing from a competitor the software code that was the whole foundation of Avanti's business. The company had $100 million in cash in the bank, was still generating $100 million a year in free cash flow—and had a market value of only $250 million! Michael Burry started digging; by the time he was done, he knew more about the Avanti Corporation than any man on earth. He was able to see that even if the executives went to jail (as five of them did) and the fines were paid (as they were), Avanti would be worth a lot more than the market then assumed. To make money on Avanti's stock, however, he'd probably have to stomach short-term losses, as investors puked up shares in horrified response to negative publicity.

"That was a classic Mike Burry trade," says one of his investors. "It goes up by 10 times, but first it goes down by half." This isn't the sort of ride most investors enjoy, but it was, Burry thought, the essence of value investing. His job was to disagree loudly with popular sentiment. He couldn't do this if he was at the mercy of very short-term market moves, and so he didn't give his investors the ability to remove their money on short notice, as most hedge funds did. If you gave Scion your money to invest, you were stuck for at least a year.

Investing well was all about being paid the right price for risk. Increasingly, Burry felt that he wasn't. The problem wasn't confined to individual stocks. The Internet bubble had burst, and yet house prices in San Jose, the bubble's epicenter, were still rising. He investigated the stocks of homebuilders and then the stocks of companies that insured home mortgages, like PMI. To one of his friends—a big-time East Coast professional investor—he wrote in May 2003 that the real-estate bubble was being driven ever higher by the irrational behavior of mortgage lenders who were extending easy credit. “You just have to watch for the level at which even nearly unlimited or unprecedented credit can no longer drive the [housing] market higher,” he wrote. “I am extremely bearish, and feel the consequences could very easily be a 50% drop in residential real estate in the U.S.…A large portion of current [housing] demand at current prices would disappear if only people became convinced that prices weren’t rising. The collateral damage is likely to be orders of magnitude worse than anyone now considers.”

On May 19, 2005, Mike Burry did his first subprime-mortgage deals. He bought $60 million of credit-default swaps from Deutsche Bank—$10 million each on six different bonds. “The reference securities,” these were called. You didn’t buy insurance on the entire subprime-mortgage-bond market but on a particular bond, and Burry had devoted himself to finding exactly the right ones to bet against. He likely became the only investor to do the sort of old-fashioned bank credit analysis on the home loans that should have been done before they were made. He was the opposite of an old-fashioned banker, however. He was looking not for the best loans to make but the worst loans—so that he could bet against them. He analyzed the relative importance of the loan-to-value ratios of the home loans, of second liens on the homes, of the location of the homes, of the absence of loan documentation and proof of income of the borrower, and a dozen or so other factors to determine the likelihood that a home loan made in America circa 2005 would go bad. Then he went looking for the bonds backed by the worst of the loans.

It surprised him that Deutsche Bank didn’t seem to care which bonds he picked to bet against. From their point of view, so far as he could tell, all subprime-mortgage bonds were the same. The price of insurance was driven not by any independent analysis but by the ratings placed on the bond by Moody’s and Standard & Poor’s. If he wanted to buy insurance on the supposedly riskless triple-A-rated tranche, he might pay 20 basis points (0.20 percent); on the riskier, A-rated tranches, he might pay 50 basis points (0.50 percent); and on the even less safe, triple-B-rated tranches, 200 basis points—that is, 2 percent. (A basis point is one-hundredth of one percentage point.) The triple-B-rated tranches—the ones that would be worth zero if the underlying mortgage pool experienced a loss of just 7 percent—were what he was after. He felt this to be a very conservative bet, which he was able, through analysis, to turn into even more of a sure thing. Anyone who even glanced at the prospectuses could see that there were many critical differences between one triple-B bond and the next—the percentage of interest-only loans contained in their underlying pool of mortgages, for example. He set out to cherry-pick the absolute worst ones and was a bit worried that the investment banks would catch on to just how much he knew about specific mortgage bonds, and adjust their prices.

Once again they shocked and delighted him: Goldman Sachs e-mailed him a great long list of crappy mortgage bonds to choose from. “This was shocking to me, actually,” he says. “They were all priced according to the lowest rating from one of the big-three ratings agencies.” He could pick from the list without alerting them to the depth of his knowledge. It was as if you could buy flood insurance on the house in the valley for the same price as flood insurance on the house on the mountaintop.

The market made no sense, but that didn’t stop other Wall Street firms from jumping into it, in part because Mike Burry was pestering them. For weeks he hounded Bank of America until they agreed to sell him $5 million in credit-default swaps. Twenty minutes after they sent their e-mail confirming the trade, they received another back from Burry: “So can we do another?” In a few weeks Mike Burry bought several hundred million dollars in credit-default swaps from half a dozen banks, in chunks of $5 million. None of the sellers appeared to care very much which bonds they were insuring. He found one mortgage pool that was 100 percent floating-rate negative-amortizing mortgages—where the borrowers could choose the option of not paying any interest at all and simply accumulate a bigger and bigger debt until, presumably, they defaulted on it. Goldman Sachs not only sold him insurance on the pool but sent him a little note congratulating him on being the first person, on Wall Street or off, ever to buy insurance on that particular item. “I’m educating the experts here,” Burry crowed in an e-mail.

He wasn’t wasting a lot of time worrying about why these supposedly shrewd investment bankers were willing to sell him insurance so cheaply. He was worried that others would catch on and the opportunity would vanish. “I would play dumb quite a bit,” he said, “making it seem to them like I don’t really know what I’m doing. ‘How do you do this again?’ ‘Oh, where can I find that information?’ or ‘Really?’—when they tell me something really obvious.” It was one of the fringe benefits of living for so many years essentially alienated from the world around him: he could easily believe that he was right and the world was wrong.

The more Wall Street firms jumped into the new business, the easier it became for him to place his bets. For the first few months, he was able to short, at most, $10 million at a time. Then, in late June 2005, he had a call from someone at Goldman Sachs asking him if he’d like to increase his trade size to $100 million a pop. “What needs to be remembered here,” he wrote the next day, after he’d done it, “is that this is $100 million. That’s an insane amount of money. And it just gets thrown around like it’s three digits instead of nine.”

By the end of July he owned credit-default swaps on $750 million in subprime-mortgage bonds and was privately bragging about it. “I believe no other hedge fund on the planet has this sort of investment, nowhere near to this degree, relative to the size of the portfolio,” he wrote to one of his investors, who had caught wind that his hedge-fund manager had some newfangled strategy. Now he couldn't help but wonder who exactly was on the other side of his trades—what madman would be selling him so much insurance on bonds he had handpicked to explode? The credit-default swap was a zero-sum game. If Mike Burry made $100 million when the subprime-mortgage bonds he had handpicked defaulted, someone else must have lost $100 million. Goldman Sachs made it clear that the ultimate seller wasn't Goldman Sachs. Goldman Sachs was simply standing between insurance buyer and insurance seller and taking a cut.

The willingness of whoever this person was to sell him such vast amounts of cheap insurance gave Mike Burry another idea: to start a fund that did nothing but buy insurance on subprime-mortgage bonds. In a $600 million fund that was meant to be picking stocks, his bet was already gargantuan, but if he could raise the money explicitly for this new purpose, he could do many billions more. In August he wrote a proposal for a fund he called Milton's Opus and sent it out to his investors. ("The first question was always 'What's Milton's Opus?'" He'd say, "*Paradise Lost,*" but that usually just raised another question.) Most of them still had no idea that their champion stock picker had become so diverted by these esoteric insurance contracts called credit-default swaps. Many wanted nothing to do with it; a few wondered if this meant that he was already doing this sort of thing with their money.

Instead of raising more money to buy credit-default swaps on subprime-mortgage bonds, he wound up making it more difficult to keep the ones he already owned. His investors were happy to let him pick stocks on their behalf, but they almost universally doubted his ability to foresee big macro-economic trends. And they certainly didn't see why he should have any special insight into the multi-trillion-dollar subprime-mortgage-bond market. Milton's Opus died a quick death.

In October 2005, in his letter to investors, Burry finally came completely clean and let them know that they owned at least a billion dollars in credit-default swaps on subprime-mortgage bonds. "Sometimes markets err big time," he wrote. "Markets erred when they gave America Online the currency to buy Time Warner. They erred when they bet against George Soros and for the British pound. And they are erring right now by continuing to float along as if the most significant credit bubble history has ever seen does not exist. Opportunities are rare, and large opportunities on which one can put nearly unlimited capital to work at tremendous potential returns are even more rare. Selectively shorting the most problematic mortgage-backed securities in history today amounts to just such an opportunity."

In the second quarter of 2005, credit-card delinquencies hit an all-time high—even though house prices had boomed. That is, even with this asset to borrow against, Americans were struggling more than ever to meet their obligations. The Federal Reserve had raised interest rates, but mortgage rates were still effectively falling—because Wall Street was finding ever more clever ways to enable people to borrow money. Burry now had more than a billion-dollar bet on the table and couldn't grow it much more unless he attracted a lot more money. So he just laid it out for his investors: the U.S. mortgage-bond market was huge, bigger than the market for U.S. Treasury notes and bonds. The entire economy was premised on its stability, and its stability in turn depended on house prices continuing to rise. "It is ludicrous to believe that asset bubbles can only be recognized in hindsight," he wrote. "There are specific identifiers that are entirely recognizable during the bubble's inflation. One hallmark of mania is the rapid rise in the incidence and complexity of fraud.... The FBI reports mortgage-related fraud is up fivefold since 2000." Bad behavior was no longer on the fringes of an otherwise sound economy; it was its central feature. "The salient point about the modern vintage of housing-related fraud is its integral place within our nation's institutions," he added.

When his investors learned that their money manager had actually put their money directly where his mouth had long been, they were not exactly pleased. As one investor put it, "Mike's the best stock picker anyone knows. And he's doing ... what?" Some were upset that a guy they had hired to pick stocks had gone off to pick rotten mortgage bonds instead; some wondered, if credit-default swaps were such a great deal, why Goldman Sachs would be selling them; some questioned the wisdom of trying to call the top of a 70-year housing cycle; some didn't really understand exactly what a credit-default swap was, or how it worked. "It has been my experience that apocalyptic forecasts on the U.S. financial markets are rarely realized within limited horizons," one investor wrote to Burry. "There have been legitimate apocalyptic cases to be made on U.S. financial markets during most of my career. They usually have not been realized." Burry replied that while it was true that he foresaw Armageddon, he wasn't betting on it. That was the beauty of credit-default swaps: they enabled him to make a fortune if just a tiny fraction of these dubious pools of mortgages went bad.

Inadvertently, he'd opened up a debate with his own investors, which he counted among his least favorite activities. "I hated discussing ideas with investors," he said, "because I then become a Defender of the Idea, and that influences your thought process." Once you became an idea's defender, you had a harder time changing your mind about it. He had no choice: among the people who gave him money there was pretty obviously a built-in skepticism of so-called macro thinking. "I have heard that White Mountain would rather I stick to my knitting," he wrote, testily, to his original backer, "though it is not clear to me that White Mountain has historically understood what my knitting really is." No one seemed able to see what was so plain to him: these credit-default swaps were all part of his global search for value. "I don't take breaks in my search for value," he wrote to White Mountain. "There is no golf or other hobby to distract me. Seeing value is what I do."

When he'd started Scion, he told potential investors that, because he was in the business of making unfashionable bets, they should evaluate him over the long term—say, five years. Now he was being evaluated moment to moment. “Early on, people invested in me because of my letters,” he said. “And then, somehow, after they invested, they stopped reading them.” His fantastic success attracted lots of new investors, but they were less interested in the spirit of his enterprise than in how much money he could make them quickly. Every quarter, he told them how much he’d made or lost from his stock picks. Now he had to explain that they had to subtract from that number these & subprime-mortgage-bond insurance premiums. One of his New York investors called and said ominously, “You know, a lot of people are talking about withdrawing funds from you.” As their funds were contractually stuck inside Scion Capital for some time, the investors’ only recourse was to send him disturbed-sounding e-mails asking him to justify his new strategy. “People get hung up on the difference between +5% and -5% for a couple of years,” Burry replied to one investor who had protested the new strategy. “When the real issue is: over 10 years who does 10% or better annually? And I firmly believe that to achieve that advantage on an annual basis, I have to be able to look out past the next couple of years.... I have to be steadfast in the face of popular discontent if that’s what the fundamentals tell me.” In the five years since he had started, the S&P 500, against which he was measured, was down 6.84 percent. In the same period, he reminded his investors, Scion Capital was up 242 percent. He assumed he’d earned the rope to hang himself. He assumed wrong. “I’m building breathtaking sand castles,” he wrote, “but nothing stops the tide from coming and coming and coming.”

Oddly, as Mike Burry’s investors grew restive, his Wall Street counterparties took a new and envious interest in what he was up to. In late October 2005, a subprime trader at Goldman Sachs called to ask him why he was buying credit-default swaps on such very specific tranches of subprime-mortgage bonds. The trader let it slip that a number of hedge funds had been calling Goldman to ask “how to do the short housing trade that Scion is doing.” Among those asking about it were people Burry had solicited for Milton’s Opus—people who had initially expressed great interest. “These people by and large did not know anything about how to do the trade and expected Goldman to help them replicate it,” Burry wrote in an e-mail to his C.F.O. “My suspicion is Goldman helped them, though they deny it.” If nothing else, he now understood why he couldn’t raise money for Milton’s Opus. “If I describe it enough it sounds compelling, and people think they can do it for themselves,” he wrote to an e-mail confidant. “If I don’t describe it enough, it sounds scary and binary and I can’t raise the capital.” He had no talent for selling.

Now the subprime-mortgage-bond market appeared to be unraveling. Out of the blue, on November 4, Burry had an e-mail from the head subprime guy at Deutsche Bank, a fellow named Greg Lippmann. As it happened, Deutsche Bank had broken off relations with Mike Burry back in June, after Burry had been, in Deutsche Bank’s view, overly aggressive in his demands for collateral. Now this guy calls and says he’d like to buy back the original six credit-default swaps

Scion had bought in May. As the $60 million represented a tiny slice of Burry's portfolio, and as he didn't want any more to do with Deutsche Bank than Deutsche Bank wanted to do with him, he sold them back, at a profit. Greg Lippmann wrote back hastily and ungrammatically, "Would you like to give us some other bonds that we can tell you what we will pay you."

Greg Lippmann of Deutsche Bank wanted to buy his billion dollars in credit-default swaps! "Thank you for the look Greg," Burry replied. "We're good for now." He signed off, thinking, How strange. I haven't dealt with Deutsche Bank in five months. How does Greg Lippmann even know I own this giant pile of credit-default swaps?

Three days later he heard from Goldman Sachs. His saleswoman, Veronica Grinstein, called him on her cell phone instead of from the office phone. (Wall Street firms now recorded all calls made from their trading desks.) "I'd like a special favor," she asked. She, too, wanted to buy some of his credit-default swaps. "Management is concerned," she said. They thought the traders had sold all this insurance without having any place they could go to buy it back. Could Mike Burry sell them $25 million of the stuff, at really generous prices, on the subprime-mortgage bonds of his choosing? Just to placate Goldman management, you understand. Hanging up, he pinged Bank of America, on a hunch, to see if they would sell him more. They wouldn't. They, too, were looking to buy. Next came Morgan Stanley—again out of the blue. He hadn't done much business with Morgan Stanley, but evidently Morgan Stanley, too, wanted to buy whatever he had. He didn't know exactly why all these banks were suddenly so keen to buy insurance on subprime-mortgage bonds, but there was one obvious reason: the loans suddenly were going bad at an alarming rate. Back in May, Mike Burry was betting on his theory of human behavior: the loans were structured to go bad. Now, in November, they were actually going bad.

The next morning, Burry opened *The Wall Street Journal* to find an article explaining how alarming numbers of adjustable-rate mortgage holders were falling behind on their payments, in their first nine months, at rates never before seen. Lower-middle-class America was tapped out. There was even a little chart to show readers who didn't have time to read the article. He thought, The cat's out of the bag. The world's about to change. Lenders will raise their standards; rating agencies will take a closer look; and no dealers in their right mind will sell insurance on subprime-mortgage bonds at anything like the prices they've been selling it. "I'm thinking the lightbulb is going to pop on and some smart credit officer is going to say, 'Get out of these trades,'" he said. Most Wall Street traders were about to lose a lot of money—with perhaps one exception. Mike Burry had just received another e-mail, from one of his own investors, that suggested that Deutsche Bank might have been influenced by his one-eyed view of the financial markets: "Greg Lippmann, the head [subprime-mortgage] trader at Deutsche Bank[,] was in here the other day," it read. "He told us that he was short 1 billion dollars of this stuff and was going to make 'oceans' of money (or something to that effect.) His exuberance was a little scary."

By February 2007, subprime loans were defaulting in record numbers, financial institutions were less steady every day, and no one but Mike Burry seemed to recall what he'd said and done. He had told his investors that they might need to be patient—that the bet might not pay off until the mortgages issued in 2005 reached the end of their teaser-rate period. They had not been patient. Many of his investors mistrusted him, and he in turn felt betrayed by them. At the beginning he had imagined the end, but none of the parts in between. "I guess I wanted to just go to sleep and wake up in 2007," he said. To keep his bets against subprime-mortgage bonds, he'd been forced to fire half his small staff, and dump billions of dollars' worth of bets he had made against the companies most closely associated with the subprime-mortgage market. He was now more isolated than he'd ever been. The only thing that had changed was his explanation for it.

Not long before, his wife had dragged him to the office of a Stanford psychologist. A pre-school teacher had noted certain worrying behaviors in their four-year-old son, Nicholas, and suggested he needed testing. Nicholas didn't sleep when the other kids slept. He drifted off when the teacher talked at any length. His mind seemed "very active." Michael Burry had to resist his urge to take offense. He was, after all, a doctor, and he suspected that the teacher was trying to tell them that he had failed to diagnose attention-deficit disorder in his own son. "I had worked in an A.D.H.D. clinic during my residency and had strong feelings that this was overdiagnosed," he said. "That it was a 'savior' diagnosis for too many kids whose parents wanted a medical reason to drug their children, or to explain their kids' bad behavior." He suspected his son was a bit different from the other kids, but different in a good way. "He asked a ton of questions," said Burry. "I had encouraged that, because I always had a ton of questions as a kid, and I was frustrated when I was told to be quiet." Now he watched his son more carefully and noted that the little boy, while smart, had problems with other people. "When he did try to interact, even though he didn't do anything mean to the other kids, he'd somehow tick them off." He came home and told his wife, "Don't worry about it! He's fine!"

His wife stared at him and asked, "How would you know?"

To which Dr. Michael Burry replied, "Because he's just like me! That's how I was."

Their son's application to several kindergartens met with quick rejections, unaccompanied by explanations. Pressed, one of the schools told Burry that his son suffered from inadequate gross and fine motor skills. "He had apparently scored very low on tests involving art and scissor use," said Burry. "Big deal, I thought. I still draw like a four-year-old, and I hate art." To silence his wife, however, he agreed to have their son tested. "It would just prove he's a smart kid, an 'absentminded genius.'"

Instead, the tests administered by a child psychologist proved that their child had Asperger's syndrome. A classic case, she said, and recommended that he be pulled from the mainstream and sent to a special school. And Dr. Michael Burry was dumbstruck: he recalled Asperger's from med school, but vaguely. His wife now handed him the stack of books she had accumulated on autism and related disorders. On top were *The Complete Guide to Asperger's Syndrome,* by a clinical psychologist named Tony Attwood, and Attwood's *Asperger's Syndrome: A Guide for Parents and Professionals.*

"Marked impairment in the use of multiple non-verbal behaviors such as eye-to-eye gaze ... " Check. "Failure to develop peer relationships ... " Check. "A lack of spontaneous seeking to share enjoyment, interests, or achievements with other people ... " Check. "Difficulty reading the social/emotional messages in someone's eyes ... " Check. "A faulty emotion regulation or control mechanism for expressing anger ... " Check. "One of the reasons why computers are so appealing is not only that you do not have to talk or socialize with them, but that they are logical, consistent and not prone to moods. Thus they are an ideal interest for the person with Asperger's Syndrome ... " Check. "Many people have a hobby.... The difference between the normal range and the eccentricity observed in Asperger's Syndrome is that these pursuits are often solitary, idiosyncratic and dominate the person's time and conversation." Check ... Check ...Check.

After a few pages, Michael Burry realized that he was no longer reading about his son but about himself. "How many people can pick up a book and find an instruction manual for their life?" he said. "I hated reading a book telling me who I was. I thought I was different, but this was saying I was the same as other people. My wife and I were a typical Asperger's couple, and we had an Asperger's son." His glass eye no longer explained anything; the wonder is that it ever had. How did a glass eye explain, in a competitive swimmer, a pathological fear of deep water—the terror of not knowing what lurked beneath him? How did it explain a childhood passion for washing money? He'd take dollar bills and wash them, dry them off with a towel, press them between the pages of books, and then stack books on top of those books—all so he might have money that looked "new." "All of a sudden I've become this caricature," said Burry. "I've always been able to study up on something and ace something really fast. I thought it was all something special about me. Now it's like 'Oh, a lot of Asperger's people can do that.' Now I was explained by a disorder."

He resisted the news. He had a gift for finding and analyzing information on the subjects that interested him intensely. He always had been intensely interested in himself. Now, at the age of 35, he'd been handed this new piece of information about himself—and his first reaction to it was to wish he hadn't been given it. "My first thought was that a lot of people must have this and don't know it," he said. "And I wondered, Is this really a good thing for me to know at this point? Why is it good for me to know this about myself?"

He went and found his own psychologist to help him sort out the effect of his syndrome on his wife and children. His work life, however, remained uninformed by the new information. He didn't alter the way he made investment decisions, for instance, or the way he communicated with his investors. He didn't let his investors know of his disorder. "I didn't feel it was a material fact that had to be disclosed," he said. "It wasn't a change. I wasn't diagnosed with something new. It's something I'd always had." On the other hand, it explained an awful lot about what he did for a living, and how he did it: his obsessive acquisition of hard facts, his insistence on logic, his ability to plow quickly through reams of tedious financial statements. People with Asperger's couldn't control what they were interested in. It was a stroke of luck that his special interest was financial markets and not, say, collecting lawn-mower catalogues. When he thought of it that way, he realized that complex modern financial markets were as good as designed to reward a person with Asperger's who took an interest in them. "Only someone who has Asperger's would read a subprime-mortgage-bond prospectus," he said.

I the spring of 2007, something changed—though at first it was hard to see what it was. On June 14, the pair of subprime-mortgage-bond hedge funds effectively owned by Bear Stearns were in freefall. In the ensuing two weeks, the publicly traded index of triple-B-rated subprime-mortgage bonds fell by nearly 20 percent. Just then Goldman Sachs appeared to Burry to be experiencing a nervous breakdown. His biggest positions were with Goldman, and Goldman was newly unable, or unwilling, to determine the value of those positions, and so could not say how much collateral should be shifted back and forth. On Friday, June 15, Burry's Goldman Sachs saleswoman, Veronica Grinstein, vanished. He called and e-mailed her, but she didn't respond until late the following Monday—to tell him that she was "out for the day."

"This is a recurrent theme whenever the market moves our way," wrote Burry. "People get sick, people are off for unspecified reasons."

On June 20, Grinstein finally returned to tell him that Goldman Sachs had experienced "systems failure."

That was funny, Burry replied, because Morgan Stanley had said more or less the same thing. And his salesman at Bank of America claimed they'd had a "power outage."

"I viewed these 'systems problems' as excuses for buying time to sort out a mess behind the scenes," he said. The Goldman saleswoman made a weak effort to claim that, even as the index of subprime-mortgage bonds collapsed, the market for insuring them hadn't budged. But she did it from her cell phone, rather than the office line. (Grinstein didn't respond to e-mail and phone requests for comment.)

They were caving. All of them. At the end of every month, for nearly two years, Burry had watched Wall Street traders mark his positions against him. That is, at the end of every month his bets against subprime bonds were mysteriously less valuable. The end of every month also happened to be when Wall Street traders sent their profit-and-loss statements to their managers and risk managers. On June 29, Burry received a note from his Morgan Stanley salesman, Art Ringness, saying that Morgan Stanley now wanted to make sure that “the marks are fair.” The next day, Goldman followed suit. It was the first time in two years that Goldman Sachs had not moved the trade against him at the end of the month. “That was the first time they moved our marks accurately,” he notes, “because they were getting in on the trade themselves.” The market was finally accepting the diagnosis of its own disorder.

It was precisely the moment he had told his investors, back in the summer of 2005, that they only needed to wait for. Crappy mortgages worth nearly $400 billion were resetting from their teaser rates to new, higher rates. By the end of July his marks were moving rapidly in his favor—and he was reading about the genius of people like John Paulson, who had come to the trade a year after he had. The Bloomberg News service ran an article about the few people who appeared to have seen the catastrophe coming. Only one worked as a bond trader inside a big Wall Street firm: a formerly obscure asset-backed-bond trader at Deutsche Bank named Greg Lippmann. The investor most conspicuously absent from the Bloomberg News article—one who had made $100 million for himself and $725 million for his investors—sat alone in his office, in Cupertino, California. By June 30, 2008, any investor who had stuck with Scion Capital from its beginning, on November 1, 2000, had a gain, after fees and expenses, of 489.34 percent. (The gross gain of the fund had been 726 percent.) Over the same period the S&P 500 returned just a bit more than 2 percent.

Michael Burry clipped the Bloomberg article and e-mailed it around the office with a note: “Lippmann is the guy that essentially took my idea and ran with it. To his credit.” His own investors, whose money he was doubling and more, said little. There came no apologies, and no gratitude. “Nobody came back and said, ‘Yeah, you were right,’” he said. “It was very quiet. It was extremely quiet.”

Keywords
WALL STREET, **BUSINESS**, **EXCERPT**, **MICHAEL LEWIS**