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House of Cards: A Tale of Hubris and Wretched Excess on Wall Street

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House of Cards: A Tale of Hubris and Wretched Excess on Wall Street

Posted on May 1, 2009 by Editor

House of Cards: A Tale of Hubris and Wretched Excess on Wall Street, is the first draft of the history of the collapse of Bear Sterns, the first of the major Wall Street firms to be destroyed by its reliance upon complex financial instruments ultimately based in the mortgage markets. The collapse was to have reverberations which are still continuing in both the American and world economies. House of Cards is clearly written and based in the best sources currently available. While the work will challenge those largely unfamiliar with Wall Street firms and financial practices, it should be read by those wishing to understand the end of the American financial system as it had existed, and its potential futures.

The author, William D. Cohan, is, in a sense, overly qualified to write House of Cards, the story of the Bear Steams corporation's collapse and the relationship between these events and the meltdown of the international economy last year. Cohan has been both an investigative reporter and worked on Wall Street for seventeen years, including six years at Lazard Freres and as a managing director at JP Morgan Chase. [1] From his time at Lazard Freres he wrote The Last Tycoons. The Secret History of Lazard Freres & Co.

The term “overly qualified” requires some explanation. While Cohan’s insider status made this book possible, protecting such status also becomes in itself an obstacle to full coverage. For example, Cohan has had access to an astonishing range of insider documents and exchanges, such as this e-mail between two participants:

Jeff Mayer, since August 2007 a member of the firm’s powerful executive committee and the co-head of the fixed-income division, e-mailed at two in the morning to urge Friedman to call him at home in New Jersey when “you know the outcome.” Friedman replied he would but added, “We’re a long way from getting anything done.” [2]

Cohan also has a plethora of human-interest references so that we know where and what the participants ate, their personal habits, we even meet their wives and families. By the end of this huge work, we feel as though we were present at critical meetings, have read important emails
and other documents, and in general, that, like the author, we were eyewitnesses to history.

But at times these references can become an obstacle to understanding. For example, a key analyst in explaining the unraveling of Bear Stearns was:

*Meredith Whitney, a well-respected thirty-eight-year-old research analyst at Oppenheimer who covered a number of Wall Street brokerages and banks... On Saturday, March 8, Whitney was getting her hair colored at the fashionable Pierre Michel Salon on East 57th Street when she received a phone call telling her that Marcel Ospel, of UBS, was in New York trying to sell PaineWebber for around $9 billion to JPMorgan as a way to raise badly needed capital... When she finished speaking with JPMorgan, Whitney headed from her office on 42nd and Madison to have sushi for lunch at Nobu 57, on West 57th.* [3]

At this point, the reader, while admiring Whitney’s investigative acumen, cannot help but be relieved to have been spared the details of which colors were put into her hair and which sushi she ordered.

In addition, we often feel that such details are very carefully chosen ones. While the author sometimes reveals the participants’ personal foibles such as bad tempers, lapses of judgment, and curious unconcern for the future of their firms, none of them seem to have neglected (or spoiled) their children, kept mistresses, or indulged in other assumedly common practices of the highly competitive wealthy.

In short, we think that the author has to be highly selective with his human-interest details in order to protect his career as an investigative insider in the financial industry. Like a Three-card Monte shuffler in his beloved New York, he shows us the cards he wants us to see, while protecting his hole card—access.

However, Cohan is easily forgiven for the occasional sleight of hand because he has been so successful. At times the reader simply cannot believe that participants were so revelatory:

*At a few minutes before four, Friedman e-mailed his wife. “It’s almost 4:00 A.M. and we’re still here,” he wrote. “There is an outside chance that JPMorgan Chase will bail us out. They have about 3 more hours to decide and I make it less than 50/50 that they will. If they do, we get to announce to the world that they’ve agreed to backstop us and we live to the weekend, at which point we probably give the firm away to them. Followed by their firing 10,000 people or so. If they say no, we’re declaring bankruptcy and I really can’t believe we came to this. And that will be worse. But, as you said, we’ll be fine. Life will certainly be different but we’ll be fine.” At 4:24, Friedman sent a note to Jeff Mayer: “It’s 4:00 A.M. and no decision. The JP folks took off an hour or so ago and we’re sitting here waiting to see. Absolute torture.” A few minutes later, Marc Feuer, in Bear’s treasury department, wrote Friedman: “Oh, to be back in kindergarten.” Friedman replied, “Don’t I know it.” [4]*
However, this openness is, we think, another potential weakness of the book as an objective
history of the financial collapse. Virtually all participants knew that they were seeing history unfold,
and some clearly were writing for posterity. Anyone who has been through the discovery phase
of a law suit—surely all the principles of these firms—is aware of the extent to which one’s e-
mails seem to take on alternative explanations when exposed to the scrutiny of hostile attorneys.

This leads, after the first such occasion, to the awareness that a hostile audience is potentially
perched on one’s shoulder waiting to add their own spin to one’s electronic messages. This
properly provokes a rigid self-censorship.

There is one more element of this book that must be discussed at some length because it is
closely tied to our major task at the Berglund Center for Internet Studies, to understand the
impact of the Internet. This book could not have been written before the development of the
World Wide Web. Much of the evidence is taken from digital records such as the e-mails cited
above, and from web sites such as blogs and Bulletin Boards. Also, the electronic version of
key sources such as The Wall Street Journal enabled the author to data mine his evidence at a
remarkable rate.

It is, we think, a new sort of history, a digital history, which, while it may not raise any new
problems for historians, certainly brings familiar ones into a new relief as we try to utilize digital
documents as evidence.

But for all these caveats, a great deal is to be learned from this work. The information Cohan has
laid out in House of Cards: A Tale of Hubris and Wretched Excess on Wall Street amounts to a
major indictment of Wall Street practices and personalities. Indeed, language fails to measure out
the culpability of such men, or the tragic worldwide consequences of their behaviors.

In America, children in middle class homes are going without school lunches because their
parents have both lost their jobs, and are in the process of losing their homes. In China, the
government is in the process of reversing many recent reforms out of concern for national
stability, given the millions of laborers who are suddenly jobless. Heads of state meet serially to
discuss redesigning the entire world economy, once based on assumptions about the stability of
the American economy and its financial instruments, including the dollar itself.

A very small number of men were able, in the pursuit of yet more wealth when already wealthy
on the order of history’s richest men, to drive the entire American economy into the ground. This
event then reverberated through the international economic system to the point where the event
constitutes a major turning point in the free market system. And if the lessons of these events
are not fully learned, then America, at least, may never again enjoy the level of prosperity it has
generally had since 1945.

One of the messages which repeatedly comes through this work is a rather frightening one. This
is that those in charge of financial policy (and largely still in charge of that policy) did not
understand the nature of the problem until much too late, and meanwhile continually assured the
rest of us that things were fine despite their awareness that things certainly were not fine. To begin to achieve a highly detailed insider’s perspective on these events, begin with Cohan’s *House of Cards: A Tale of Hubris and Wretched Excess on Wall Street*.

**Endnotes:**


[2] Highlight Loc. 1290-92. This curious note style is a result of reading this work on a Kindle, Amazon.com’s electronic text reader. See the review of the Amazon Kindle in this issue of Interface at: http://bcis.pacificu.edu/journal/2009/04/article.php?id=68


[6] See for example: Highlight Loc. 489-95 …”commented “DK” on The Wall Street Journal’s “Real Time Economics” blog. “It will temporarily allow these banks to use crappy [mortgage-backed securities] as temporary collateral, but eventually these will have to be written down. I think this is just an attempt to cause markets to go down gradually, versus a huge crash.” And then “Clear Skys Ahead” wrote with an acid pen, “Now that the Fed is lending to primary dealers and accepting unimpeachable items, such as mortgage debt, as collateral things can get back to normal. Now what exactly do we do when the collateral turns out to be worth less than the loan? Thank goodness everyone woke up and realized that unless the taxpayers were the ones ultimately stuck with the bill, Wall Street couldn’t rally! Let the party resume at least until sanity takes hold.” Such insider opinion has simply not been available to historians in the past, or if it was, it required massive amounts of time and energy to find and digest.

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10 THOUGHTS ON “HOUSE OF CARDS: A TALE OF HUBRIS AND WRETCHED EXCESS ON WALL STREET”

*nigeria*

on January 30, 2014 at 11:35 AM said:

After check a few of the blog articles on your web site now, and I incredibly like your ways of blogging. I bookmarked it to my bookmark internet site list and might be checking back soon. Pls try my site too and let me know what you think.
nigeria

on January 30, 2014 at 1:56 PM said:

Hey, thank you for your feedback! I would suggest that saying “God died on a cross” isn’t particular ample theological terminology to accurately describe what happened there. Vague terminology like that can result in deviant thinking within the trinity. Of course I don’t believe it is the cardinal sin to use vague phrases, but I believe it can reveal our confusion with regards to the trinity.

Dessie

on January 31, 2014 at 6:26 PM said:

Hi mates, how is all, and what you want to say about this post, in my view its in fact awesome designed for me.

Cichopek

on February 1, 2014 at 3:38 AM said:

This is my very first time pay a visit at here and i am genuinely impressed to read everthing at alone place.

Christiane

on February 2, 2014 at 9:54 AM said:

Saved as a favorite, I really like your web site!
Behavioral: Does the company control or have the right to control what the worker does and how the worker does his or her job. Once you have your short list of companies you should visit their office and see how they run their own office. How to Plan for life as a Government Contractor in A War Zone – Damaged Tank, photo by Charles Buchanan – Things you’ll need to have prior to deploying:
Â· Passport and several photo copies of the identification page.

9ja

on February 3, 2014 at 1:48 AM said:

It commonly takes about Three many years to total that with.

lose weight

on February 3, 2014 at 6:11 AM said:

I think this is among the most significant information for me. And i am glad reading your article. But want to remark on few general things, The website style is wonderful, the articles is really excellent : D. Good job, cheers

Nigeria social network

on February 5, 2014 at 12:18 AM said:

I did finally watch A Mighty Wind! Good stuff!

Judysbook.Com

on February 6, 2014 at 10:37 AM said:
This insurance makes these loans less risky for lenders,
and they are more likely to offer low interest rates on them.
While these three programs differ slightly in make up, one thing
that they all require is a minimum credit score of 650, and no late payments or collection
accounts within the last 24 months of submitting the mortgage application.
As opposed to credit cards, personal loans provide inexpensive sources of funds.