‘The Big Short’ Writer Finds Dark Humor in Financial Meltdown

By Jane Wollman Rusoff Contributing Editor Research Magazine

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Screenwriter Charles Randolph talks to ThinkAdvisor about the making of the Oscar-nominated, A-list star-studded film

"The Big Short" director Adam McKay, left, and screenwriter Charles Randolph.

“The Big Short,” the hit black comedy about colorful Wall Street outsiders who bet against the housing market when they detect it is propped up on rotten subprime loans, was yesterday nominated for five Academy Awards: Best Picture, Best Director, Best Adapted Screenplay, Best Supporting Actor and Best Film Editing.

“We all got up at 4:45 a.m. to go to [writer-director] Adam McKay’s house to watch the announcements together. It was very exciting. I’m hoarse from yelling,” screenwriter Charles Randolph told ThinkAdvisor in an interview. McKay (“Anchorman,” “Saturday Night Live”) came to the project after Randolph (“Love and Other Drugs”; “The Interpreter”) had already written the script. McKay imbued it with his unique comic sensibility.

Based on Michael Lewis’ nonfiction book, “The Big Short: Inside the Doomsday Machine,” the film accuses Wall Street of “criminality”; labels the ratings agencies “whores” and calls the mortgage market “fraudulent.” It brands ex-Federal Reserve Chairman Alan Greenspan “one of the architects” of the financial crisis and implies that the Securities and Exchange Commission gets cozy – literally — with firms it regulates.

The movie had earlier chalked up a Directors Guild nod for McKay and a Writers Guild nomination for Randolph and McKay, seven Critics Choice award nods, a Screen Actors Guild award nomination and four Golden Globe nods, though it was shut out in that contest.

In "The Big Short," A-list actors play versions of real-life figures in financial services who saw the housing debacle looming and used credit default swaps to short mortgage-based bonds: Christian Bale's character is based on hedge fund manager Dr. Michael Burry (that Best Supporting Actor nod went to Bale); Steve Carell (hedge funder Steve Eisman); Ryan Gosling (trader Greg Lippmann); and Brad Pitt (retired banker Ben Hockett). Pitt's character helps two young money managers secure an ISDA (International Swaps and Derivatives Association) Master Agreement, permitting them to deal directly with the big banks rather than go through brokers.

The New York Times calls "The Big Short" "the strongest film explanation of the global financial crisis." But much of the jargon it spouts has flummoxed some film critics and, safe to say, most of the general audience. Indeed, in trying to make complex financial terminology intelligible to the layperson, "The Big Short" often comes up short.

Randolph says elucidating financial terminology wasn't one of the chief objectives: "Our goal with this material from the beginning was always to be authentic to the [financial] world but that even if the audience got only 60% or 70% of it, in an emotional context they would feel what was happening more than enough to have a pleasurable journey and understand the story. Younger people, especially, are getting comfortable not knowing everything [in a movie]; having things fly past them is part of the fun of it."

It's not that filmmaker McKay didn't try to crack the jargon; and to be sure, he took an entertaining approach. There are, for example, beauties Margot Robbie and Selena Gomez, in cameo roles, talking straight to the camera and explaining subprime mortgages and synthetic collateralized debt obligations (CDOs), respectively.

Blonde actress Robbie, who played Jordan Belfort's wife in "The Wolf of Wall Street," gives her little tutorial sitting in a bubble bath and sipping champagne. Summing up, she says: "Whenever you hear 'subprime,' think s---."

"Adam created these moments, when the film stops and celebrities turn to the camera. They really opened it up and freed the rest of the story from having to carry the weight of explaining so much. Once we had those scenes, it made it a lot easier to let the other scenes exist without so much exposition in them," Randolph says.

McKay's reason for explaining such "esoterica" is "to show it really isn't that complicated," he told *Deadline Hollywood*.
"People need to know this stuff in order to follow the story. But when you hear 'collateralized debt obligation' or 'credit default swap,' they make you feel stupid and bored. Bankers do everything they can to make these transactions seem really complicated," McKay said, according to the film's press notes.

Nevertheless, working on the screenplay, McKay himself needed help demystifying the financial nitty-gritty. So he hired financial journalist Adam Davidson, a Peabody Award winner, to work with him. Davidson, credited as the film's "technical consultant," is co-founder and co-host of NPR's "Planet Money." He co-reported and co-produced the award-winning radio documentary about the housing crisis, "The Giant Pool of Money."

Whenever McKay made the note on a script page: "Financial gobbledygook goes here," Davidson filled in the blanks, the journalist recounted on a Slate Money podcast. He also worked with the set designer and prop department, as well as clued in the costume designer on suit styles favored by various sectors within the industry.

Further, Davidson served up an "understanding of how each of the characters were making slightly different bets that had different moral and emotional dimensions," the journalist said.

"Adam was on set a lot and really helped with both the authenticity of the environment and the dialogue. He helped shade some of the actors' [improvised] moments to make sure what they were saying was right," Randolph points out.

In one of the cameos, helping pop singer-actress Selena Gomez shed light on synthetic collateralized debt obligations, Richard Thaler, behavioral economist at the University of Chicago, offers a blackjack analogy. The two held forth in a Las Vegas casino.

Gomez was, um, surprised when McKay offered her the part.

“I read the script and didn’t understand most of it, which scared the hell out of me because it’s important to learn about our economic system,” she said, in the press notes. “My generation is the next generation up. It’s important for us to understand what happened.”

Teaming with Gomez, Thaler talks “extrapolation bias”: that is, the tendency to assume that something happening now will continue to happen. “People thought that the real estate market would just keep going up and up and up,” he said.

Sultry Gomez is seated at the blackjack table with a huge stack of chips in front of her. Onlookers make side bets that she’ll keep winning.

“My odds are good,” she said. “I’m on a winning streak. How can I fail?” She lost big time.

“It was investors making those kinds of side bets on mortgage-backed securities through CDOs that drove the whole world economy to where it was poised to crash,” McKay said. “The film explores how an entire culture can get caught up in the mania of a corrupt system.”

Chef and TV host Anthony Bourdain does an “explainer” about CDOs with an analogy of Friday’s fish morphing into Sunday’s seafood stew. Comparing triple-B rated bonds to tired fish, he said, seafood stew isn’t “old fish.” “It’s a whole new thing. That’s a CDO.”

To McKay’s way of thinking, that dish was “the perfect metaphor for a collateralized debt obligation, where the banks bundle a bunch of bad mortgages and sell it as a triple A-rated financial product,” he said.

As part of his early research, Randolph met with a handful of traders, salesmen, mortgage brokers and hedge funders.

“They had hugely differing understandings of what had happened and what they were selling. There were people who did quite well who didn’t even have a relatively rudimentary understanding of how mortgage bonds functioned in terms of what the tranches actually represented,” Randolph says.
In the movie, Gosling’s character takes a visual approach to make his case by using a tower of stacked Jenga blocks representing subprime home-loan tranches.

“Nobody knows what’s in them because they’re filled with subprime [stuff]”; but the ratings agencies gave them triple-A ratings, he scolded.

To illustrate that, one scene shows a Standard & Poor’s manager (Melissa Leo) wearing dark glasses after visiting the eye doctor and telling Carell’s character and associate that competition among the ratings agencies forced them to grant false ratings.

“That character is literally blind. It’s a very overt metaphor – and I’m to blame for it,” Randolph half-jokes. “But finding ways to differentiate various people from a character perspective was probably one of the [top] challenges” in writing the script. “In a world like finance, there are a lot of similar types.”

Nevertheless, much of “The Big Short’s” industry lingo and transactions inevitably float over the audience’s head.

“The movie did a good job of making people think they understood what was going on in real time. But if you really think [it] explains things, you’re wrong,” said Felix Salmon, hosting the Slate podcast. “Twenty-four hours later, you remember Margo Robbie in a bathtub – but not a word of what she was saying.”

McKay’s hope is that after seeing the film, “people get really mad and upset, walk out of the theater and ask their congressman how he’s been voting on banking reform, and tell him ‘If you’re not for breaking up the big banks – I don’t care if you’re right wing or left wing – you don’t get my vote’,” he said.

Randolph is adamant that as a culture, “we shouldn’t have to choose between incompetence and corruption. We should be able to successfully navigate past both of them and not get stuck. So if [this movie] is part of the process of finding ways to identify problems in the culture and move toward correcting them, nothing would make me happier. If we can get more people talking about what happened, that’s terrific.”

Brad Pitt, whose production company, Plan B Entertainment, produced “The Big Short,” reportedly had this to say right after a screening in New York:

“It’s a story that needs to be told because nothing has changed.”

The Oscar ceremonies are scheduled for Feb. 28.

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‘Antichrist’ at SEC, Dimon, Bush Among Villains of Financial Crisis: Tavakoli

Dervivatives expert Janet Tavakoli, who strafes a number of people, has a job for Prince Harry at Goldman Sachs

By Gil Weinreich Former Editor-in-Chief Research Magazine

To Wall Street scourge Janet Tavakoli, the list of financial-crisis villains still evading responsibility is not short and includes, to name a few, Jamie Dimon, Jon Corzine, Tim Geithner, Mary Schapiro, George W. Bush, President Obama and the financial media.

The list is hardly exhaustive, but provides some balance to a satirical piece she wrote in Wednesday’s Huffington Post titled “Prince Harry Offered Partner Position at Goldman Sachs.” Reading like a memo written by Goldman Sachs to the unflatteringly photographed scion of the British royal family, a reader might have gotten the impression it is Goldman Sachs she is unhappy with:
“You've [Prince Harry] been overexposed. We completely understand that feeling! We felt the same way when we bought credit default protection from AIG on rotten CDOs, some of which we manufactured ourselves for ourselves and for foreign banks. We nearly sunk AIG, but U.S. taxpayers were forced to bail it out.”

The article by Tavakoli, a credit derivatives expert and author most recently of "The New Robber Barons," reads like a criminal fraud indictment of Goldman Sachs, but in an interview with AdvisorOne, the Chicago-based consultant said, “You could say the same thing for Merrill Lynch. You could say a similar thing for the fact that [JPMorgan Chase CEO] Jamie Dimon has not yet been held accountable” for the nearly $6 billion in derivatives trading losses at a JPMorgan unit that reported to him and for which he gave signed risk-control assurances under Sarbanes-Oxley rules.

Tavakoli says all the major former investment banks and large bank holding companies participated in fraud during the subprime mortgage crisis, but the public—and even the financial community itself—remains uninformed about their role.

“There’s been a lot of lying, and the lying has been so good that many people in the business aren’t fully aware of the big picture of what happened,” Tavakoli says.

What the lies of which Tavakoli speaks are attempting to obscure is “widespread massive fraud for which people have not been indicted,” and an additional barrier to justice has been Wall Street’s “shills in the financial media. It’s as if they’re taking dictation,” Tavakoli says.

As an example of what she calls this “campaign against the truth,” Tavakoli cites a recent Columbia School of Journalism expose of CNBC financial reporter Maria Bartiromo and contributor Bethany McClean on a report about Goldman Sachs avoiding a Justice Department indictment.

Former regulator Bill Black, also on the taped CNBC segment, attempted a vigorous case against Goldman, but “he has been marginalized; these ladies were laughing at him.”
Yet “despite this reprehensible behavior [securities fraud], they are a bank as of 2008, they can now borrow from the Fed,” Tavakoli says.

Besides Wall Street and the media, Tavakoli, who was on the cover of *Research* magazine in May, is no less critical of Washington’s role in covering up financial fraud.

“The Treasury and the Fed have manipulated the narrative by, for instance, saying we need money [for] TARP; we need money [for] AIG. Any reasonable liquidator would have clawed back that money” [on collateral calls made to Goldman, SocGen and others], she says.

Tavakoli wants to see too-big-to-fail banks broken up, but says even that is insufficient.

“We have to look into the practices. We do have too many regulators, but they’re failed regulators. We could rid ourselves of two-thirds of the people in the system. We have the wrong kind of regulators. In fact we have anti-regulators— incompetent and venal people unable to do their jobs.”

Tavakoli cites MF Global and its disgraced CEO, former Gov. Jon Corzine of New Jersey, as a case in point. “I and many other financial professionals don’t understand why he has not been indicted.

“It appears there are sufficient grounds for an indictment,” she continues. “If you look at Sarbanes-Oxley [rules], they had bond issuance [last] August and material misstatements were made in August. The representations were that they had adequate risk controls.

“And that’s above and beyond the looting of customer accounts,” she says.

Tavakoli believes that Dimon is equally indictable under Sarbanes-Oxley rules. She criticizes President Obama for appearing “on [the TV program] *The View* and saying Jamie Dimon is a great bank manager when, embarrassingly enough, it turns out the losses were many times more [than originally thought] and people in that unit may face criminal indictment.”

She suspects fundraising has something to do with all this.

“We’re looking at both sides of the aisle getting massive contributions from Wall Street and they’d like to continue that; Corzine is one of Obama’s top campaign bundlers," she said. "Under the Bush administration, a lot of these problems were allowed to fester and thrive. And the Democrats promised change and instead gave us more of the same."

“Obama appointed people from the Bush Administration who are failed regulators,” she continued, citing SEC Chairwoman Mary Schapiro as a prime example. “She’s the antichrist of investor advocacy,” Tavakoli says, pointing to her record as head of FINRA in the Bush administration. “The record is along the lines of I-banks 100, investors zero,” she adds.

“The fish rots from the head. Based on her track record at FINRA, she shouldn’t be in the regulatory system at all.”

Asked about Schapiro’s recent push to regulate money-market funds, Tavakoli answered: “How did that turn out?” implying there may have been more of an appearance of effort than determination to achieve results. Tavakoli concludes that we need to crack down on criminal fraud in order to restore our financial system.

“You don’t build confidence in the financial system by covering up the problems. You build confidence by addressing problems swiftly and effectively and by rooting out fraud,” she says.

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Finding the Culprits of the Crisis

Derivatives expert Janet Tavakoli takes a hard look at what — and who — caused the financial crisis.

By Jane Wollman Rusoff Contributing Editor Research Magazine

Janet Tavakoli calls it as she sees it — and what she often perceives isn’t a pretty picture. But for any advisor, or other investment professional, to ignore this industry veteran’s razor-sharp insights would be folly.

A gutsy critic of both Wall Street and the federal government, the Chicago-based consultant, specializing in derivatives and structured products, pulls no punches. Through her independent research into the global financial crisis, Tavakoli uncovered what she calls massive, widespread fraud committed by a network of mortgage originators, securitizers, and rating and regulatory agencies, among others.

Earlier, the founder of Tavakoli Structured Finance, 58, predicted the thrift industry blow-up and the demise of Enron. Then she foresaw that excessive leverage and structured products’ misratings would lead to a global financial crisis.

In her just-published e-book, *The New Robber Barons*, Tavakoli charges that the relationship between failed mortgage lenders and investment banks that securitized and sold risky loans was "the largest Ponzi scheme in the history of our capital markets … a financial Pearl Harbor," where "investment bankers piloted many of the planes."

Now Tavakoli sees another huge financial crisis looming.

The University of Chicago MBA has traded, structured and sold derivatives at firms including Merrill Lynch, PaineWebber and Westdeutsche Landesbank; and she had earlier stints at Bear Stearns and Goldman Sachs. *Research* recently talked with her about red flags and preventive solutions.

You write that, in the past three years nothing has been fixed but that we must hold Wall Street responsible for the fraud that resulted in the financial crisis. What should be done?

We need to have investigations. But with the pushback and all the lobbying, what they've been counting on is that the statute of limitations for some of these frauds is expiring. So if you don't file complaints, you may not be able to.

Members of Congress are enabling the lack of punishment and covering up great misdeeds in our financial system — and they're doing it with no fear of consequences — i.e., being voted out of office, in which case they could find themselves the subject of investigation.

What do you mean: "covering up"?

Many people are covering up for cronies who have a lot of money sloshing around. We threw money into the financial system with no accountability and thus made the problem worse. Our system has been completely infiltrated and bought off. Things aren't changing because Big Money doesn't want it to change.

What other indications are there of a cover-up?

The MF Global dog-and-pony show. The attitude toward bundlers like Jon Corzine [the firm's ex-CEO], who is a big bundler for the Obama campaign, is that the guy can do no wrong. This was before he even testified. People who are raising big money for campaigns get off with no real investigation.

In the Sarbanes-Oxley age, for MF Global to say they were unaware of what they were doing beggars belief. And yet there has been no indictment.

Is President Obama part of the cover-up?

Yes, in that he's enabled it. He's left people in place who crashed the global financial system in the first place: [Treasury Secretary] Tim Geithner and [Federal Reserve chair] Ben Bernanke. Obama had told us: "You can't keep doing things the same way and expect different results." So he's been quite a hypocrite.

Who else is in the cover-up?

Mary Schapiro was appointed [by President Obama] to head the SEC. She was formerly head of FINRA, the antichrist of investor advocacy! Yet she was chosen SEC [chair] because the regulators are captive by and serve the people they're supposed to be regulating. They do not serve investors.

In a way, Obama has been the anti-regulator because he didn't put people in the regulatory agencies, the Fed or the Treasury who would investigate and fix things that are wrong in our global financial system.

If he's re-elected, then presumably, things will continue in this same way?

Yes.

What if a Republican is elected President?

Who else is not in the pocket of Big Money interests!

So, no matter who's President, these crimes — if you want to call them crimes — will be perpetuated?

Yes. And we do want to call them crimes! They are crimes.

What should Obama do now to help Americans?

He has a lot of resources at his disposal, one main one being moral suasion — he's got the pulpit. When there was a crisis, Reagan, Carter, Bush went on television and explained what needed to be done. We haven't seen that kind of leadership from President Obama. If anything, the American people have been told things to make them think [conditions] aren't really as bad as they are: inflation isn't as bad as you think because an iPad is cheaper now — nonsense like that.

So the public is being poorly informed?

Yes. Therefore, financial advisors need to be doing fundamental analysis of investments and not [only] be reading the *Wall Street Journal* or, God forbid, watching CNBC.

In other words, FAs should do their own research and figure things out for themselves.

Yes. Sadly, you're on your own. That's part of how we got into this mess: We lost the art of rolling up our sleeves and looking for opportunities.

On Internet TV, you stated that we're "absolutely vulnerable to a repeat [crisis] because the fraud went unpunished and we printed money like crazy to bail us out of the last one." That's scary.

But the fact is we've bailed people out and had no consequences for them. So it emboldened them to turn around and behave in the same way. Look at banks like JP Morgan: Shortly after the crisis, they thumbed their nose at the idea of trying to separate speculation from the rest of the bank. So if you don't have restraints on behavior, you'll see it repeated. And now we've made it worse. It's like handing a drunk driver who got into a crash the keys to a bigger, faster car together with a bottle of vodka.

In every area of finance where we bailed people out, you see the same wrongdoers volunteering to help fix the situation. That's pretty funny: They weren't trustworthy before, and they're not trustworthy now.

But what about the investigations that already have been held?

They're all for show, and people end up with a slap on the wrist for minor issues. Investigators should be looking instead at the interconnected fraud that infected the mortgage lending market. And there is still a lot today, especially fraud on borrowers. If you go to the root of the problem and choke off the money supply, you stop the fraud in its tracks.

But the banks say they lost money.

The fact that a bank lost money isn't an indication that they were a victim as opposed to being a perpetrator. A classic problem with control fraud is that the parasites destroy the host — in this case, the host being the bank and the parasites being the bank employees. If you were the victim of a control fraud by the people who worked in your own bank but meanwhile, you were collecting huge bonuses, you overlooked the control fraud within your own institution.

Why haven't the apparently guilty been punished?

We haven't seen the felony indictments that these people richly deserve because our regulators and investigators are captive — and Congress, more than ever, has been lobbied, courted and bought off by Wall Street. More than any time in the past, you've seen these big-money interests protected by Congress.

Is there an alternative to bailouts, such as those of the financial crisis?

Yes. Troubled financial entities should be restructured, old shareholders should be wiped out and we should return Glass-Steagall.

What should have been done in the case of, say, AIG?

Bankruptcy declared, and then [the government] says: "We'll back-stop your contracts for now, but we're going to investigate all those fraudulent credit derivative contracts and 'claw' money 'back' from your counterparties — like Goldman Sachs and Credit Suisse — if need be." So there's a controlled demolition. You're not just handing money out with no consequences.

And that is indeed what you maintain we did?

Yes. Today the Fed is saying taxpayers made money on the assets that it bought on those CDOs. That's a lie. Taxpayers are owed tens of billions of dollars that went out the door of AIG before the bankruptcy. So with sleight-of-hand and half-truths and innuendo, the Fed is lying to the American people. It's part of the cover-up.

"Unless we change direction," you write, "we'll have another crisis by 2015. Congress made all the wrong moves to guarantee it." Please elaborate.

Congress has been keeping interest rates very low, basically to subsidize the banking industry. We've never seen domination over Washington in the way we're seeing it now nor the Fed willing to keep interest rates low so long to subsidize the banks.

People aren't earning enough on investments of low risk to keep pace with inflation, which is being underreported because the [Consumer Price Index] doesn't include many things we use on a daily basis that are increasing in price. Inflation is the great destroyer of wealth. We're getting sleight-of-hand on the part of people who know better.

How would you characterize the overall state of the economy?

I see "strangulation." Even though we have some new household formations, the number of foreclosures and big inventory overhang show that the bad past practices have not yet been resolved. And even though there has been some improvement in the jobs figures, many people have not gotten back to the stable income level they had before the crisis.

What about new regulation? Will the Dodd-Frank Act accomplish anything?

No. It will accomplish as much as [the] Sarbanes-Oxley [Act] did, which appears to be nothing. The bank lobbying groups were all over Congress to water down regulation, and they succeeded. The game is to act as if even a weak regulation is a big deal to get through. And if Congress does manage to get it through, the banks effectively swoon. It's just theater. What should be done, as I said, is return [the] Glass-Steagall [Act]. But we are so far from that.

What does all this signal to financial advisors?

When MF Global can go in front of Congress and say, "We had controls in place, but I don't know where the [approximately $1 billion in customer money] went," nobody should be leaving extra cash in trading accounts with any of the major brokerage firms, such as Goldman Sachs or Merrill Lynch.

Really! That seems extreme.

After we've gone through a major financial crisis and everyone is claiming that nobody is to blame, advisors have to be more clever and say, "I'm not leaving money in any account in which I don't completely understand the finances of the entities where the money is." They have to safeguard assets. That is part of their responsibility today.

The financial crisis resulted largely from the use of credit derivatives. How?

We saw them hide risk and create a lot of leverage in the global financial system in securities and securitization, where one bad mortgage could be levered up to be in numerous different deals. That kind of malicious leverage had a big impact. A lot of fraudulent securitization provided funding for corrupt lending. Had we not done that, our housing crisis — and the situation we still have today — wouldn't have been nearly as bad. Derivatives helped supply the leverage to inflate the bubble.

Are they still dangerous?

Today we see a credit derivatives market that is poorly understood by regulators and even by many of the banks who are participating in the market. And there just doesn't seem to be a will to clean it up.

What should be done about sovereign credit default swaps?

When they were [first] sold, the hype was that they were useful hedging tools. The result is that they have been a game for speculators more than a hedge for hedgers. Speculators can go in and depress sovereign debt just when a sovereign needs to roll over debt — and of course the price of the credit default swap will shoot up. These games create temporary dislocations in the market. Given that we haven't driven speculators out of the market, it's a good idea to ban credit default swaps altogether.

What else can be done now to try to prevent another financial crisis?

In terms of money flow in the U.S., we have to write down debt and maybe have some sort of debt forgiveness. That's a radical thought, but some people will never be able to get out from under their debt in their lifetime. Going forward, we have to make responsible loans.

But you don't see Wall Street changing its behavior until there's punishment for the last crisis.

Right. In fact, those who pulled it off have a feeling of invulnerability. They've been richly rewarded for it. When your benchmark is money and you continue to be richly rewarded by the wrong behavior, you're not going to get the message.

What can financial advisors do to protect clients?

In the past few years, advisors have let themselves and their clients down badly by not paying attention to the bigger picture. Many companies have global businesses, so advisors should look at their overall picture. They need to look at currencies and what's happening in the global banking system because some money market funds invest in it. And they should pay attention to the safety of cash flows.

To sum up, your big-picture advice to FAs?

Unless there's a general awakening in the U.S., things may not change. Therefore, advisors might have to start with the assumption that things may not change and that they will get even worse. They need to look at that landscape and say, "How do I protect the wealth of my clients?"

So careful, smart investing is still the key?

One cannot control the craziness in Washington or distortions in the global economy, but one can invest to protect oneself from deflating assets and the inflationary effects of money printing on health care, food and energy — the "inconsequential" items excluded from the CPI that we all need to survive.