Financial Origami: How the Wall Street Model Broke (Bloomberg)

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Please read our Privacy Policy. Print this page Share. Description An in-depth look at the failure of Wall Street's "proven" financial models Origami is the Japanese art of folding paper into intricate and aesthetically attractive shapes. Reveals how Wall Street's financial engineering business model morphed into something destructive Highlights how the origami model worked well in the comparatively stable years of the early s, when there was less risk to transfer Discusses how Wall Street began manufacturing risk by creating products that multiplied risk exposures and encouraged subprime lending With the collapse of Lehman Brother the Wall Street business model effectively broke.

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My Wishlist

Government Sanctioned Credit Rating Agencies. What's Right with Wall Street? Author Information Brendan Moynihan is an editor-at-large for Bloomberg News, where he manages the popular column "Chart of the Day" and writes about the economy and Wall Street.

See a Problem?

Table of Contents Author's Note. With the collapse of Lehman Brothers the model effectively died. Chapter 4 Fold Tip to Point. They've been told that difficult-to-understand financial instruments and complicated strategies lay at the heart of the financial crisis. Goodreads is the world's largest site for readers with over 50 million reviews. End of an Era.

Press Release April 11, Connect with Wiley Publicity. Financial Origami also touches on additional instances such as: Industry refolding in the form of firms, once specializing in specific tasks within the risk-transfer business, now seeking to offer one-stop shopping for all financial services Firms refolding their business charters from private partnerships to publicly traded, shareholder owned corporations Altering the mortgage lending process by unfolding the mortgage market: The Little Book of Sideways Markets: The variations on these products aren't as complex as they sound or look.

The firms simply fold and refold the attributes of these three core pieces of paper into intricate designs, sometimes to skirt regulations, sometimes to meet investor needs, always to make as much money as possible. For example, the all-or-none proposition of owning a stock or a bond doesn't sit equally well with every investor. So Wall Street developed hybrid securities such as convertible bonds and convertible preferred stock, which mix attributes of the hierarchy of claims on a company's earnings and assets.

Today's derivatives are variations on three vehicles with even older roots: All three are insurance-like contracts binding participants to perform specific transactions in the future if a specified event happens. Investors can invest, trade, speculate, bet or gamble with these instruments, but the vehicles themselves are just pieces of paper, some with prettier shapes or more clever designs than others.

Wall Street's financial origami hasn't been limited to the products in which it traffics. In , the largest firms began to refold themselves into public companies from private partnerships after the New York Stock Exchange dropped a rule prohibiting its members from using that corporate structure. The trend accelerated in the s and Wall Street migrated from being agents of risk transfer to principals of it, willing to take the other side of the trade in order to facilitate customers' orders.

It used other people's money raised in the public offerings to finance the operation, but retained the compensation structure calculated off revenue. Wall Street also began to refold the industry. Where once firms specialized, now they sought to offer one-stop shopping for all services.

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This vertical structure left the Street vulnerable to all manner of conflicts of interest to which it has periodically succumbed over the years, most prominently in the late s during the Internet boom when Wall Street bankers and analysts used research to promote stocks of companies in order to get investment banking business from clients. Wall Street also applied financial origami to the mortgage-lending process, unfolding the origination, funding and servicing components so they could be carried out by separate companies.

For decades, banks and savings and loans had performed all three functions and kept the mortgages until they were paid off. This financial origami created conflicts of interest and incentives to grant loans bankers previously might never have made. The Total Money Makeover: Classic Edition Dave Ramsey. Trade Like a Stock Market Wizard: Fooled by Randomness Nassim Nicholas Taleb. Mastering Elliott Wave Glenn Neely. Swing for the Fences Jason Bond. How to Make Money in Stocks: Uncommon Sense Michael Kemp. The Flaw of Averages Sam L. Millennial Money Patrick O'Shaughnessy.

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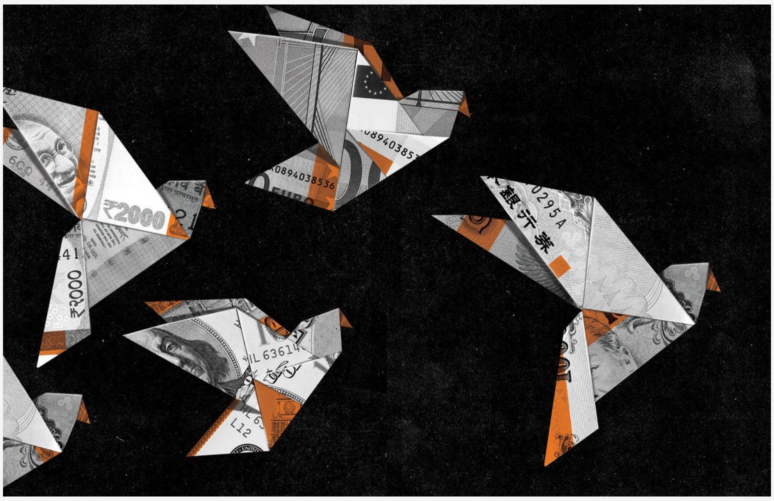

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Financial Origami: How the Wall Street Model Broke

Sweat Equity Jason Kelly. Flap copy The simplicity of Wall Street's business model is often maskedby the supposed complexity of its innovations. While the"financially engineered" products that Wall Street peddles toinvestors may seem different, in reality, they are nothing morethan financial origami--where the attributes of stocks, bonds, and derivatives are folded and refolded to form something thatseems new.

This is the perfect metaphor for how Wall Street works, and ultimately proved to be the underlying cause of the recentfinancial crisis. Now, in Financial Origami, Brendan Moynihan--editor-at-largefor Bloomberg News and a twenty-year market veteran--describeshow the Wall Street business model has evolved from a method totransfer risk into a method for manufacturing risk. Page by page, he skillfully dissects financial engineering and addresses howfinancial origami, along with its inherent conflicts of interest, have allowed individuals as well as institutions to skirtregulations or taxes, sometimes meet investor needs, and alwaysboost their profits.

But folding existing products into "new" ones is not the onlyfinancial origami performed in the world of finance. Otherinstances touched upon throughout the book include: Industry refolding in the form of firms, once specializing inspecific tasks within the risk-transfer business, now seeking tooffer one-stop shopping for all financial services Firms refolding their business charters from privatepartnerships to publicly traded, shareholder owned corporations Altering the mortgage lending process by unfolding the mortgagemarket: It alsoexplores the evolution of Wall Street, shows the logical sequenceof events that brought us to this point, and offers insights on howto fix some of the problems we face.

The Wall Street business model effectively broke. But there aremany lessons to be learned from what has transpired, and this bookwill show you what they are--helping you avoid getting caughtup in financial origami and the extreme of taking good ideas andrunning them into the ground. Moynihan explains how the recent model of financial origami essentially became a process of taking the attributes of a few, basic pieces of paper, such as stocks, bonds and insurance contracts, and folding and refolding them to form something that seems new.

The broken model of folding existing products into "new" ones is not the only financial engineering performed in the world of finance. Financial Origami also touches on additional instances such as:. While the credit crisis put a spotlight on financial innovation, the rapid growth of the over-the-counter derivatives market and engineered products has been a simmering controversy since the s. Moynihan explains the events that have shaped financial markets, firms, and products over the past forty years, and has hurt Wall Street over the past three.

My Shopping Bag

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