FIASCO: The Inside Story of a Wall Street Trader
Frank Partnoy (1997)

Why Read It?

- This is an insider’s account of working as a derivatives salesman at Morgan Stanley in the 1990s.
- It was the first book to examine the derivatives trading industry in detail, and it warned of the dangers of buying and selling products so complex that many of the traders did not understand them.
- Tells the story behind many of the best-known derivatives fiascos, including Orange County, Barings, and Procter & Gamble, where collectively billions of dollars were lost.

Getting Started

FIASCO tells the story of the author’s time in the financial jungle of Wall Street and of his experience at Morgan Stanley as a young derivatives salesman. He was taught how to buy and sell billions of dollars worth of derivative securities, many of which were so complex that even the traders didn’t understand them properly. The book acts as an introduction to derivatives on a practical level, examines some of the most infamous fiascos and the largely unregulated market in derivatives products, and criticizes the whole field of financial investments.

Author

Frank Partnoy is professor of law at the University of San Diego. Prior to that, he worked as an investment banker at Credit Suisse First Boston and Morgan Stanley in New York, and as an attorney at Covington & Burling in Washington, DC.

Context

- Takes the reader through the author’s time on Wall Street, most of which was spent in Morgan Stanley’s high-profile derivatives group.
- Discusses the little-known world of structuring, marketing, and selling derivatives, and the macho attitudes and fierce competition within the investment banks.
- Exposes the contempt that the salesmen had for their clients, and the lack of ethics in an industry that was awash with money.
- Provides insights into the types of exotic products being structured by the investment banks, and the reasons for doing so, making them understandable for a nonspecialist reader.

Impact

- Provides an insider’s record of the financial world in New York and Tokyo during the 1990s, and analyzes the losses suffered as a result of misguided betting in the derivatives market.
- Tells the story through the characters he worked with, accompanied by vivid descriptions of the derivatives transactions his firm once thrived on.
- Discusses the trader mentality, working terminology, and aggressive approach to selling that was integral to how the salesmen operated and how the investment banks drive their performance.
- Provides real-life examples of biased and self-aggrandizing behavior in the major investment banks.
- Examines the thriving practice of “off-balance-sheet” derivative speculation.
Quotations

“What lessons did I draw from my experience selling derivatives? I believe derivatives are the most recent example in the history of finance: Wall Street bilks Main St.”

“Wall Street has made, and continues to make, a huge amount of money on derivatives by trickery or deceit.”

“Derivatives remain unseen, yet ubiquitous. Time bombs are ticking away, concealed in the underbelly of our investment portfolios.”

More Info

Books:


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Finance Library

- Liar’s Poker: Rising Through the Wreckage on Wall Street

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