RANDOM HOUSE eBOOKS

A Colossal Failure of Common Sense

Larry McDonald

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About the Book

When Lehman Brothers bank went under, the world gasped. One of the world's biggest and most successful banks, its downfall was the event that sparked the slide of the world economy toward a Great Depression II.

This is the gripping inside story of the dark characters who ruled Lehman, who refused to heed warnings that the company was headed for an iceberg; the world-class, mid-level people who valiantly fought to get Lehman off its disastrous course; the crash that didn't have to happen. A news-breaking explanation that answers the question everyone still asks: "why did it happen?"

Larry McDonald, a former vice-president at Lehman Brothers in charge of distressed debt trading and convertible securities, was right at the centre of the meltdown of the company and gives an intimate look at the madhouse that Lehman became. This book shows beyond a doubt that Richard Fuld, the long-time CEO of Lehman, and his top executives, were totally out to lunch, allowing Lehman's risk profile to reach gargantuan proportions.

While the traders, like Larry McDonald, clearly predicted more than two years in advance that the market for packaged subprime mortgages and credit default swaps would evaporate, the high-flying Lehman bosses pushed hard on the gas pedal until the very end.

About the Author

Lawrence G. McDonald was, until 2008, Vice President of convertible securities and distressed debt trading at Lehman Brothers; his prior career included convertible securities research and sales at Morgan Stanley and the co-founding of Convertbond.com, named by Forbes Magazine as “Best of the Web.”

Patrick Robinson is the co-author of *Lone Survivor* and author of many tech-thrillers.

A COLOSSAL FAILURE OF COMMON SENSE

THE INCREDIBLE INSIDE
STORY OF THE COLLAPSE OF
LEHMAN BROTHERS

LARRY MCDONALD

WITH PATRICK ROBINSON

EBURY
PRESS

This book is respectfully dedicated to the many thousands of Lehman employees whose lives were thrown into turmoil when the firm collapsed, and among whom I was privileged to work for the four best years of my life.

Author’s Note

It’s been said that there are two distinct groups of people in America: “Wall Street” and “Main Street”—the former composed of people who keep the financial plumbing of the latter in good condition so that everyone will prosper. Wall Street has, however, become increasingly complex and opaque, and many on Main Street have only the most basic notion of what it does. In addition, Wall Street, particularly with the collapse and bankruptcy of Lehman Brothers in September 2008, was the epicenter of the worldwide financial crises that brought the global economy close to a complete collapse. My objective in writing *A Colossal Failure of Common Sense* was twofold. First, to provide Main Street with a close-up, inside view of how markets really work by someone who was on the trading floor in the years leading up to Lehman Brothers’ calamitous end. And, second, to give my colleagues on Wall Street as crystal clear an explanation as possible about the real reasons why the legendary Lehman Brothers met with such a swift ending. The lessons therein are important for beginning to understand how we can prevent such disasters in the future and ultimately do a better job of serving Main Street.

—Lawrence G. McDonald, July 2009

Cast of Characters

Lehman Brothers (31st Floor) / Members of the Executive Committee

Richard S. Fuld Jr.: chairman of the board and chief executive officer

Joseph Gregory: president and chief operating officer

David Goldfarb: former chief financial officer; former global head of principal investing; chief strategy officer

Christopher O'Meara: chief financial officer, 2005–07; chief risk officer

Erin Callan: managing director and head of hedge fund investment banking; chief financial officer, 2007–08

George Walker IV: managing director and global head of investment management

Ian Lowitt: chief administrative officer; chief financial officer, 2008

Lehman Brothers (Traders, Investment Bankers, Risktakers, Salespeople)

Michael Gelband: managing director and global head of fixed income; head of capital markets; member of the executive committee

Alex Kirk: managing director and global head of high-yield and leveraged-loan businesses; chief operating officer of fixed income; global head of principal investing

Herbert "Bart" McDade: managing director and global head of fixed income; global head of equities; president, 2008; member of the executive committee

Eric Felder: managing director and head of global credit products group; global head of fixed income

Dr. Madelyn Antoncic: managing director and chief risk officer; government liaison

Thomas Humphrey: managing director and global head of fixed-income sales

Hugh "Skip" McGee: managing director and global head of investment banking

Richard Gatward: managing director and global head of convertible trading and sales

Lawrence E. McCarthy: managing director and global head of distressed-debt trading

Joseph Beggans: senior vice president, distressed-debt trading

Peter Schellbach: managing director, distressed-loan trading

Terence Tucker: senior vice president, convertible securities sales

David Gross: senior vice president, convertible securities sales

Jeremiah Stafford: senior vice president, high-yield credit products trading

Lawrence G. McDonald: vice president, distressed-debt and convertible securities trading

Mohammed "Mo" Grimeh: managing director and global head of emerging markets trading

Steven Berkenfeld: managing director and chairman, investment banking commitments committee

Lehman Brothers (Research and Analysis)

Christine Daley: managing director and head of distressed-debt research

Jane Castle: managing director, distressed-debt research

Peter Hammack: vice president, credit derivatives research

Ashish Shah: managing director and head of credit strategies, derivatives, and research

Karim Babay: associate, convertible securities research

Shrinivas Modukuri: managing director, mortgage-backed securities research

Lehman Brothers (Mortgage and Real Estate)

David N. Sherr: managing director and global head of securitized products

Mark Walsh: managing director and global head of commercial real estate group

Lehman Brothers Family and Former Lehman Brothers Partners

Robert "Bobbie" Lehman: chairman, 1925–69, and the last of the brothers to head the firm

Christopher Pettit: president and chief operating officer, 1994–96 *John Cecil:* chief administrative officer, chief financial officer, 1994–2000

Bradley Jack: president and chief operating officer, 2002–04

Peter G. Peterson: former chief executive officer; former U.S. secretary of commerce; founding partner of the Blackstone Group

Steve Schwarzman: former investment banker; founding partner of the Blackstone Group

Senior Government Officials and Banking/Investment Industry VIPs

Henry M. Paulson Jr.: former CEO of Goldman Sachs; former secretary of the U.S. Treasury

Ben Bernanke: chairman, U.S. Federal Reserve

Timothy F. Geithner: former president, Federal Reserve Bank of New York; secretary of the U.S. Treasury

Jamie Dimon: chief executive officer, JPMorganChase

David Einhorn: founder, Greenlight Capital

John Devaney: chairman and chief executive officer, United Capital Management

Corporate Financial Personnel

Anand Iyer: managing director and global head of convertible securities research, Morgan Stanley

Tony Bosco: managing director, convertible securities trading, Morgan Stanley, acquisitions

Gary Begnaud: Philadelphia branch manager, Merrill Lynch

Family and Friends

Lawrence G. McDonald Sr.: father, investor, golfer

Debbie Towle McDonald O'Brien: mother, fashion model

Ed O'Brien: stepfather and lawyer

Bob Cousy: family friend; point guard, Boston Celtics

Steve Seefeld: best friend at Falmouth High and Wharton; partner, ConvertBond.com

Kate Bohner: longtime friend and television financial journalist

Jack Corbett: longtime friend and successful retail stockbroker

Fallen Angels

Jeff Skilling: president and chief executive officer, Enron

Angelo R. Mozilo: chairman and chief executive officer, Countrywide Financial

A house divided against itself cannot stand.

Abraham Lincoln,
June 16, 1858

Prologue

I STILL LIVE just a few city blocks away from the old Lehman Brothers headquarters at 745 Seventh Avenue—six blocks, and about ten thousand years. I still walk past it two or three times a week, and each time I try to look forward, south toward Wall Street. And I always resolve to keep walking, glancing neither left nor right, locking out the memories. But I always stop.

And I see again the light blue livery of Barclays Capital, which represents—for me, at least—the flag of an impostor, a pale substitute for the swashbuckling banner that for 158 years was slashed above the entrance to the greatest merchant bank Wall Street ever knew: Lehman Brothers.

It was only the fourth largest. But its traditions were those of a banking warrior—the brilliant finance house that had backed, encouraged, and made possible the retail giants Gimbel Brothers, F. W. Woolworth, and Macy's, and the airlines American, National, TWA, and Pan American. They raised the capital for Campbell Soup Company, the Jewel Tea Company, B. F. Goodrich. And they backed the birth of television at RCA, plus the Hollywood studios RKO, Paramount, and 20th Century Fox. They found the money for the TransCanada oil pipeline.

I suppose, in a sense, I had seen only its demise, the four-year death rattle of twenty-first-century finance, which ended on September 15, 2008. Yet in my mind, I remember the great days. And as I come to a halt outside the building, I know too that in the next few moments I will be engulfed by sadness. But I always stop.

And I always stare up at the third floor, where once I worked as a trader on one of the toughest trading floors on earth. And then I find myself counting all the way up to thirty-one, the floor where it all went so catastrophically wrong, the floor that housed the royal court of King Richard. That's Richard S. Fuld, chairman and CEO.

Swamped by nostalgia, edged as we all are by a lingering anger, and still plagued by unanswerable questions, I stand and stare upward, sorrowful beyond reason, and trapped by the twin words of those possessed of flawless hindsight: *if only*.

Sometimes I lie awake at night trying to place all the if-onlys in some kind of order. Sometimes the order changes, and sometimes there is a new leader, one single aspect of the Lehman collapse that stands out above all others. But it's never clear. Except when I stand right here and look up at the great glass fortress which once housed Lehman, and focus on that thirty-first floor. Then it's clear. Boy, is it ever clear. And the phrase *if only* slams into my brain.

If only they had listened—Dick Fuld and his president, Joe Gregory. Three times they were hit with the irredeemable logic of three of the cleverest financial brains on Wall Street—those of Mike Gelband, our global head of fixed income, Alex Kirk, global head of distressed trading research and sales, and Larry McCarthy, head of distressed-bond trading.

Each and every one of them laid it out, from way back in 2005, that the real estate market was living on borrowed time and that Lehman Brothers was headed directly for the biggest subprime iceberg ever seen, and with the wrong men on the bridge. Dick and Joe turned their backs all three times. It was probably the worst triple since St. Peter denied Christ.

Beyond that, there were six more if-onlys, each one as cringe-makingly awful as the last.

If only Chairman Fuld had kept his ear close to the ground on the inner workings of his firm—both its triumphs and its mistakes. If he had listened to his generals, met people who formed the heart and soul of Lehman Brothers, the catastrophe might have been avoided. But instead of this, he secluded himself in his palatial offices up there on the thirty-first floor, remote from the action, dreaming only of accelerating growth, nursing ambitions far removed from reality.

If only the secret coup against Fuld and Gregory had taken place months before that clandestine meeting in June 2008. If the eleven managing directors who sat in ostensibly treasonous but ultimately loyal comradeship that night had acted sooner and removed the Lehman leaders, they might have steadied the ship, changing its course.

If only the reign of terror that drove out the most brilliant of Lehman's traders and risk takers had been halted earlier, perhaps in the name of common sense. The top managers might have marshaled their forces immediately when they saw giants such as Mike Gelband being ignored.

If only Dick Fuld had kept his anger and resentment under control. Especially at that private dinner in the spring of 2008 with Hank Paulson, secretary of the United States Treasury. That was when Fuld's years of smoldering envy of Goldman Sachs came cascading to the surface. Could that perhaps have been the moment Hank decided he could not bring himself to bail out the bank controlled by Richard S. Fuld?

If only President George W. Bush had taken the final, desperate call from Fuld's office, a call made by his own cousin, George Walker IV, in the night hours before the bank filed for Chapter 11 bankruptcy. It might have made a difference.

If only … if only. Those two words haunt my dreams. I go back to the fall of Lehman, and what might have made things different. For most people, victims or not of this worldwide collapse of the financial markets, it will be, in time, just water over the dam. But it will never be that for me, and my long background as a trader and researcher has prompted me many times to burrow down further to the bedrock, the cause of the crash of 2008. I refer to the repeal of the Glass-Steagall Act in 1999.

If only President Clinton had never signed the bill repealing Glass-Steagall. Personally, I never thought he much wanted to sign it, but to understand the ramifications it is necessary to delve deeper, and before I begin my story, I will present you with some critical background information, without which your grasp might be incomplete. It's a ten-minute meadow of wisdom and hindsight, the sort of thing I tend to specialize in.

THE STORY BEGINS in the heady, formative years of the Clinton presidency on a rose-colored quest to change the world, to help the poor, and ended in the poisonous heartland of world financial disaster.

Roberta Achtenberg, the daughter of a Russian-born owner of a Los Angeles neighborhood grocery store, was plucked by President Clinton from relative obscurity in 1993 and elevated to the position of assistant secretary of the Department of Housing and Urban Development. Roberta and Bill were united in their desire to increase home ownership in poor and minority communities.

And despite a barrage of objections led by Senator Jesse Helms, who referred to Achtenberg as that "damn lesbian," the lady took up her appointment in the new administration, citing innate racism as one of the main reasons why banks were reluctant to lend to those without funds.

In the ensuing couple of years, Roberta Achtenberg harnessed all of the formidable energy on the massed ranks of United States bankers, sometimes threatening, sometimes berating, sometimes bullying—anything to persuade the banks to provide mortgages to people who might not have been up to the challenge of coping with up-front down payments and regular monthly payments.

Between 1993 and 1999, more than two million such clients became new homeowners. In her two-year tenure as assistant secretary, she set up a national grid of offices staffed by attorneys and investigators. Their principal aim was to enforce the laws against the banks, the laws that dealt with discrimination. Some of the fines leveled at banks ran into the millions, to drive home Achtenberg's avowed intent to utilize the law to change the ethos of providing mortgage money in the United States of America.

Banks were compelled to jump into line, and soon they were making thousands of loans without any cash-down deposits whatsoever, an unprecedented situation. Mortgage officers inside the banks were forced to bend or break internal rules in order to achieve a good Community Reinvestment Act rating, which would please the administration by demonstrating generosity to underprivileged borrowers even if they might default. Easy mortgages were the invention of Bill Clinton's Democrats.

However, there was, in the mid-to late 1990s, one enormous advantage: amid general prosperity, the housing market was strong and prices were rising steadily. At that point in time, mortgage defaults were relatively few in number and the securitization of mortgages, which had such disastrous consequences during the financial crisis that began in 2007, barely existed.

Nonetheless, there were many beady-eyed financiers who looked askance at this new morality and privately yearned for the days when bank policies were strictly conservative, when credit was flatly denied to anyone without the proven ability to repay.

And at the center of this seething disquiet, somewhere between the persuasive silken-tongued members of the banking lobby and the missionary zeal of Roberta

Achtenberg, stood William J. Clinton, whose heart, not for the first time, may have been ruling his head.

He understood full well the goodwill he had engendered in the new home-owning black and Hispanic communities. But he could not fail to heed the very senior voices of warning that whispered, *There may be trouble ahead*.

President Clinton wanted to stay focused with the concerns of the bankers, many of whom were seriously upset by Achtenberg's pressure to provide shaky mortgages. And right before the president's eyes there was a related situation, one that had the deepest possible roots in the American financial community.

This was the fabled Glass-Steagall Act of 1933, the post–Wall Street crash legislation that prevented commercial banks from merging with investment banks, thus eliminating the opportunity for the high-rolling investment guys to get their hands on limitless supplies of depositors' money. Glass-Steagall was nothing short of a barrier, and it stayed in place for more than sixty years, but the major U.S. banks wanted it abolished. They'd tried but failed in 1988. It would take another four years for this Depression-era legislation to come once more under attack.

President Clinton understood the ramifications, and he was wary of the reform, wary of seeming to be allied with the power brokers of the biggest banks in the country. He understood the complexities of the Glass-Steagall Act, its origins, and its purposes—principally to prevent some diabolical investment house from plunging in big on a corporation like Enron and going down with a zillion dollars of small depositors' cash. No part of that did President Bill need.

On one hand was the belief of the main U.S. clearing banks that such mergers would strengthen the whole financial industry by increasing opportunities for hefty profits. But there were many people running small banks who were fearful that a repeal of Glass-Steagall would ultimately lead to large conglomerates crushing the life out of the minnows.

President Clinton always kept a weather eye on history, and he was aware the commercial banks, with their overenthusiastic investments in the stock market, had essentially taken the rap for the crash of 1929. They were accused of crossing a forbidden line, of buying stock in corporations for resale to the public. It had been too risky, and the pursuit of huge profits had clouded their judgment.

The man who had stood firmly in the path of the gathering storm of the 1930s was Virginia senator Carter Glass, a former treasury secretary and the founder of the U.S. Federal Reserve System. The somewhat stern Democratic newspaper proprietor was determined that the commercial banks and the investment banks should be kept forever apart.

He was supported by the chairman of the House Banking and Currency Committee, Alabama congressman Henry Bascom Steagall, and it was their rigid legal barricade that did much to solve Wall Street's greatest-ever crisis. The biggest banks were thenceforth prevented from speculating heavily in the stock markets. But even then, a lot of people thought it was a harsh and restrictive law.

With President Clinton in office for only three years, the major banks once more marshaled their forces to try for a third time to repeal Glass-Steagall, and once more it all came to nothing, with the nation's small banks fighting tooth and nail to hold back a system they thought might engulf them. But in 1996 they failed once more.

In the early spring of 1998, however, a Wall Street detonator exploded, sending a sharp signal that the market was willing to go it alone despite the politicians. On April 6 Citicorp announced a merger with Travelers Insurance, a large corporation that owned and controlled the investment bank Smith Barney. The merger would create a vast conglomerate involved with banking, insurance, and securities, plainly in defiance of Glass-Steagall.

The House scrambled to put a reform bill together, but the issue died in the Senate after it became clear that President Clinton had many concerns and was almost certain to veto it. The $70 billion merger between Citicorp and Travelers went right ahead regardless. The result was a banking giant, the largest financial conglomerate in the world, and it was empowered to sell securities, take deposits, make loans, underwrite stocks, sell insurance, and operate an enormous variety of financial activities, all under one name: Citigroup.

The deal was obviously illegal, but Citigroup had five years to get the law changed, and they had very deep pockets. Senators harrumphed, and the president, concerned for the nation's smaller banks, worried.

However, the most powerful banking lobbies in the country wanted Glass-Steagall repealed, and they bombarded politicians with millions of dollars' worth of contributions. They cajoled and pressured Congress to end this old-fashioned Depression-era law. Inevitably they won. In November 1999, the necessary bills were passed 54–44 in the Senate and 343–86 in the House of Representatives. In the ensuing days the final bipartisan bill sailed through the Senate, 90–8 with one abstention, and the House, 362–57 with fifteen abstentions. Those margins made it vetoproof. I remember the day well. All my life my dad had been telling me that history inevitably repeats itself. And here I was listening to a group of guys telling me it was all different now, that everything was so much more sophisticated, "doorstep of the twenty-first century" and all that, so much more advanced than 1933.

Oh, yeah? Well, I never bought it. It's never different. I knew that Glass-Steagall had been put in place very deliberately to protect customer bank deposits and prevent any crises from becoming interconnected and forming a house of cards or a row of dominoes. Carter Glass’s bill had successfully kept the dominoes apart for more than half a century after his death.

And now that was all about to end. They were moving the pieces, pressing one against the other. I remember my concern as I watched the television news on November 12, 1999. The action on the screen was flying in the face of everything my dad had told me. I was watching President Clinton step up, possibly against his better judgment, and sign into law the brand-new Financial Services Modernization Act (also known as Gramm-Leach-Bliley), repealing Glass-Steagall. In less than a decade, this act would be directly responsible for bringing the entire world to the brink of financial ruin. Especially mine.

1

A Rocky Road to Wall Street

Right here, in a haze of tobacco smoke and cheap hamburger fumes, I was on the skid row of finance … places like this specialize in the walking dead of failing corporations.

AT THE AGE of ten, I resided in some kind of a marital no-man’s-land, a beautiful but loveless gabled house in the leafy little township of Bolton, Massachusetts, some twenty miles west of downtown Boston. My father, Lawrence G. McDonald, had accepted the end of his marriage and had left my stunning fashion-model mother to bring up their five children all on her own. I was the oldest.

The general drift of the breakup was rooted in my dad’s hard-driving business career. Owner and chief executive of a chemical engineering company, he might have stepped straight out of a suburban cocktail party staged on the set of *The Graduate:* “Plastics, son. That’s the future.”

And I guess in a way it was the future. At least it was his future, because plastics made him a stack of money, enough to start his own brokerage firm, and it only took him about twenty-nine hours a day, seven days a week, to do it. He was obsessed with business.

So far as my mom was concerned, that was the upside. The downside was his devotion to the game of golf, which took care of his entire quota of spare time. For all of my formative years he played to scratch or better. As the club champion of Woods Hole Golf Club, down on the shores of

Nantucket Sound, he had a swing that was pure poetry, relaxed, precise, and elegant, the clubhead describing a perfect arc through the soft sea air as it approached the ball. Also, he could hit the son of a bitch a country mile.

Mom never really saw him, since she never landed a job as a greenskeeper. And he saw her principally in magazines and on giant billboards around Boston, where dozens of images showed her modeling various high-fashion accessories.

When I referred to the marital home being loveless, I was not quite accurate. There was a burgeoning love in that house, but it did not involve Dad. He'd moved out, and many months later, a new suitor for my mother appeared on the horizon. Years later they were married, but even at my young age I realized he must have been some kind of latter-day saint, taking on this very beautiful lady with the staggering encumbrance of five kids and a kind of rogue husband prowling around the outskirts of her life, keeping an iron grasp on every nickel of her finances.

The name of the new man, who would one day become my stepfather, was Ed O'Brien. He was an extremely eminent lawyer and a grandson of a former governor of New Hampshire. Ed was a very classy guy, and he adored Mom and helped her in every way. He was not so big and tough as Dad, who had a touch of John Wayne about him, a kind of western swagger and a suggestion of unmistakable attitude, which often goes with entirely self-made men.

Anyway, right now I want to get to the point. Remember, Dad did not live with us anymore, and Ed occasionally stayed the night. Well, on this particular morning I was standing in the living room staring out of the window at Ed's brand-new Mercedes-Benz convertible, a $100,000 car even way back then in the late seventies. Suddenly I saw a car pull up outside the front gates.

Into the expansive front yard strode Lawrence G. McDonald, wielding what looked to me like a seven-iron.

He came striding up to Ed’s automobile and took an easy backswing, left arm straight, and completely obliterated the windshield in a shower of splintered glass. The clubhead struck right above the wipers, a little low. I thought Dad might have raised his head just a tad on impact.

Never breaking stride, he walked resolutely to the front of the car, took aim, and smashed the right-side headlight. Moving left, he ripped the club back fast. I thought I detected a slightly tighter swing, hands a little farther down the club. Anyhow, he did precisely the same to the headlight on the left.

By this time there was glass all over the place, and still I just stood there, gaping, wide-eyed. I watched Dad stride around to the back of the car, and for a moment I thought he was planning to survey his handiwork. You know, like standing back after you’ve dropped a ten-footer.

I was wrong. Once more he took his stance, swung the club back, and fired it straight into the taillight on the left side, shooting red glass all over the lot. Then he moved two paces right and with precisely the same shot, slightly wristy with a lot of backspin, punched out the other one. If either taillight had been a golf ball, it would have flown high and dug in on landing, probably pin high. There was a lot of precision about Dad’s play that morning.

I mention this because the incident is branded into my memory. It took me ten years to ask him about it, and he replied as only he, or perhaps John Wayne, could—real slow. “It wasn’t a seven-iron, son. Didn’t need any more than a pitching wedge.”

It would be another thirty years before I would witness at very close quarters another such act of wanton, willful destruction. And that took place on the trading floor of a Wall Street investment bank.

I BEGIN MY story with that brief insight into the character of my father because he had, even after the divorce, a profound influence on me. By nature he was a bear. That’s not a straightforward grizzly, seeing world disaster in every downward swing of the Dow. Dad was a perma-bear, seeing potential catastrophe every hour from the opening bell to the close of business.

For some investors the floor of the New York Stock Exchange is the last refuge of the Prince of Darkness, a place where demons of ill fortune lurked behind every flickering screen. Dad was not that bad, because he was an instinctively shrewd investor, often a wizard at stock selection, spotting the corporation that was about to tank. But his attitude almost caused him to miss the two greatest bull market rallies in history, because to Dad, cash was king, and he might need to prepare for the end of the world. He was the ultimate value investor. In outlook he was a cautious, somewhat skeptical pessimist. In personality he made Howard Hughes look like an extrovert.

In his own business Dad was extremely successful. He earned his bachelor of science degree in chemical engineering at Notre Dame, where he was number one on the golf team. Then he went to work as a salesman at General Electric’s plastics division, the Google and Microsoft of its day. He ended up a multimillionaire, owning his own plastics manufacturing plant in Massachusetts.

When he told me to beware, that history, without fail, repeats itself, he was not thinking of the sunlit uplands of triumph and achievement. He had in mind events like the eruption of Krakatoa, World War II, the fall of the Roman Empire, the collapse of the Soviet Union, and above all the crash of 1929. Always the crash.

With a worldview like his, it was scarcely surprising that the peace and quiet of the golf course was his principal escape. And he was one hell of a player. He held the course record of 65 at Woods Hole for more than twenty years, and on one near-legendary occasion he nailed the three par-fives in birdie, eagle, and double eagle. He played the great golf courses in serious competition, once losing on the last green at Winged Foot Country Club to one of the best Massachusetts amateurs of all time, Joe Keller—and even Joe had to sink a forty-footer to beat him.

Dad had already set me on the road to becoming a scratch golfer when my world caved in. He and Mom split, leaving Mom with us kids in the big house without the means to support either it or us. Ed had a law practice in Worcester, and to that tough Massachusetts city we upped and transplanted ourselves, mostly because Mom needed a friend, just someone to be there, in the absence of Dad and his weighty bank balance.

Bolton, where we had always lived, was a little gem of a town, an upper-middle-class haven set in green rolling country with the families of well-to-do business guys in residence. From there, my mom, now in desperate financial straits, my three brothers and one sister, and I ended up in a housing project in the worst part of a distinctly suspect city—the absurdly named Lincoln Village Apartments, gateway to nowhere. I was too young to go into culture shock, but hell, even I realized that somehow the roof had fallen in on my life.

With five children to care for, my mom, the hugely admired Debbie Towle, could not possibly go back to work. She was still, by all accounts, spectacularly beautiful, and would once again have been in demand as a fashion model, but that was impossible. We were not so much hard-up as bereft.

The apartment was in a nightmarish neighborhood, run-down and dirty, with a slightly sinister atmosphere, as if at any moment some shocking crime might be committed. Mom was always in tears. I could tell she hated the place, hated living at the wrong end of this urban version of Death Valley.

As you can imagine, the people were an absolute treat, many of them shifty-eyed, leering, unkempt, and full of resentment: some really shaky kids, white trash, drug dealers. There were also gangs of trainee criminals staging shoplifting raids and nighttime burglaries all over the city. They kept trying to recruit me, but I knew enough to stay well out of it. I refused to join them, and one night their leader came to the door of our apartment, dragged me out onto the front steps, and punched me right in the face.

Mom nearly had a heart attack, and Ed O'Brien came to the rescue, trying to help with money. Dad? He pretty much disappeared. In my first eighteen months in Worcester I went to three different schools, each one a bigger disaster than the last. This was life as I had never imagined it. Academically I was slipping behind; mostly I was afraid to go outside the door because of the sheer danger of the place. It's hard to explain every vestige of the change in our lives. But the difference was total. There were no more trips to the Cape, no more golf, no more elegant dinners at our home. We were prisoners of the cells of Lincoln Village.

My dad did pull one masterstroke on my behalf. He arranged for me to report to tranquil, green Worcester Golf Club, where I spent time caddying. I was too young to understand I was hauling a huge bag around for one of the immortals—Bob Cousy, the six-foot-one point guard for the great Celtics teams of the fifties and sixties, and an excellent golfer. The sweet-swinging point guard called me "kid"; I called him "Mr. Bob."

But those trips around the course were only a tiny respite from my real world. I earned $100 caddying, all of which I gave to my mom. As a family, we were sinking into depression. I remember it all so well—no laughter, no joy, and the unmistakable feeling that we never should have been anywhere near Lincoln Village. Finally, the entire family got together, both Mom's people and Dad's, and decided, "We have to get those kids the hell out of there."

So one bright morning in the spring of 1979 we all moved to Cape Cod, where Dad had always had a home. We went back into the sunlight, back to life as we had once known it in Bolton, away from the glum recesses of Worcester.

When I began at my high school in Falmouth, I was at a huge disadvantage, way behind in my work in all subjects. I fought an academic war to become a C student, struggling to catch up. During my junior and senior years, when it was time to make a decision about college, I most definitely was not regarded as a candidate for a top university. So you can imagine my surprise one day when Dad showed up and told me he was taking me out to his alma mater in South Bend, Indiana: Notre Dame, the hallowed campus of the Fighting Irish, which also houses one of the greatest libraries in North America under the watchful eye of the Touchdown Jesus, set in massive mosaic glory on the eastern wall of Memorial Library.

He took me to all the sacred places: the Grotto, the library, the Rockne Memorial, the Sacred Heart Church, the palatial South Dining Hall, and of course the stadium. I thought then, as I think now, it must be one of the most fabulous university campuses on earth.

Plaintively, I asked my dad, “But why now? Why bring me here so late? I obviously could never make it, not after the years in Worcester. If you wanted me to come here, I should have stayed at my school in Bolton.”

He was a man of few words at the best of times, and he greeted my comments with even fewer words than usual. There was no explanation of his intentions. And we traveled home to the Cape with hardly any further discussion about my lack of academic future. I think Dad knew I was doing everything I could to regain lost ground at school, but there was no possibility whatsoever that I could ever aspire to a place like Notre Dame.

When we reached the house, Dad took me by the shoulders, turned me around to face him, and said in that rich baritone voice of his, “Son, remember this—it’s not where you start, it’s where you finish.” Spoken, I have often thought, like a true hard-driving son of a mailman—and for that matter, a bit like John Wayne. A student’s gotta do what a student’s gotta do.

What I had to do was scramble my way into a university of some description. Any description. In the end I made it to the University of Massachusetts at Dartmouth, a small seaside town that sits in the southernmost corner of the state, where the Atlantic washes through the trailing headland of Cuttyhunk, the last of the Elizabeth Islands.

Before I reported to UMass for my economics courses, I spent a summer working in Falmouth pumping gas. I swiftly developed a deadly rivalry with the gas station next door, which was manned by one of my local buddies, Larry McCarthy.

He was a whip-smart kid, built like a jockey, 120 pounds wet through, and about five foot five. He got a pretty hard time at school partly because he was so small and partly because he was frequently seen reading the *Wall Street Journal* when he was in seventh grade. But he was a feisty little devil, and he fought like a tiger, ever ready to swing a roundhouse right at any perceived slight. Just how feisty he was would be demonstrated to me in Technicolor when we both had our backs to the wall at Lehman Brothers twenty years later.

His dad was a bank president, and he sent his son to the expensive Sacred Heart School. Right from the get-go Larry was being groomed for a Wall Street career. He sailed into Providence College to study economics and business administration.

Even as a teenager, I should have known he’d go far, because he was hell as a business rival. One week things were a little quiet, so I cut a cent off the gas price at my station, guessing the notoriously parsimonious New Englanders would go for that with enthusiasm. I was right, and for a couple of days I was doing real well. Then it all went south and I was back in the doldrums.

It did not take me long to find out why. Across the street Larry had slashed his price by more than two cents and mopped up almost all of the town's regular business at the pumps. The summer drew to a close leaving us still best friends, but with the business pecking order established.

As a freshman, I lived in Falmouth with my dad and made the hour journey to school each day. That had the advantage of being free except for gas, and the disadvantage of my being watched beadily by a very advanced financier as I toiled my way through the demanding curriculum. Dad was making a big effort, seeming to want to make amends for things in the past, and we got closer. I guess I started to like him more, as I have done ever since.

By the time I moved into junior year, I had become a top student, straight A's, while majoring in economics, with probably the best grades in my class. Dad regarded all this with a watchful gunslinger's gaze. Never said anything. Probably figured there wasn't any need. But I bet he secretly knew I could have made Notre Dame if I'd had a shot.

When we talked, it was usually about business. Sometimes about our other shared interest, golf, but mostly Dad let his short irons do the talking. Although I do remember he once told me he'd dropped a sixty-footer on the fifth green of the exclusive International Club out in Bolton. This was reputed to be the largest green in the game, a 120-yard-wide upside-down apple pie generally regarded as impossible from all angles. Dad, who was the best player in the entire membership, recounted that putt with a paucity of words. But he told it like it was, straight