

## The Big Short – What is Familiar?

By Raymond M. Mullaney, CEO – November 8, 2024

In “The Big Short” in the opening screenshot, they flash a quote:

**“It ain’t what you know that gets you into trouble.  
It’s what you know for sure that just ain’t so.”  
Mark Twain**

A few minutes later, the narrator says: “A few outsiders and weirdos saw what no one else could.”

Then they discuss the history of how boring and safe bonds got packaged into CMO’s and Mortgage-Backed Securities that were nearly worthless. And how Wall Street made tens of billions selling them to the unsuspecting the public, pensions and municipalities, all while knowing they would fail.

“These outsiders saw the giant lie at the heart of the economy, and they saw it by doing something the rest of the suckers never thought to do. They looked.” Michael Burry examined the assets that were actually inside the CMO’s. It was very clear, these mortgage bonds had loans on homes bought at grossly inflated prices, to speculators with on experience in evaluating investment risks, very often with no income verification and “home inspections”. Many of these mortgages would simply fail because the significant price increases in homes were not based on demand of homeowners, but on investors speculating on rising prices. The speculators drove the prices up. When the prices of “real” or nature demand came into play, the prices for homes declined dramatically! The speculators and the banks that gave them loans all collapsed. Over \$3 trillion was lost, US taxpayers suffered while Wall Street made billions.

Narrator: “Wall Street loves to use confusing terms to make you think only they can do what they do.”

Michael is interviewing a possible employee. Michael hires him.

The new employee asks Michael: “What can I do?”

Michael says, “I want you to get me the top 20 selling mortgage-backed securities.”

The new guy says, “You want to know what the 20 selling mortgage bonds are?”

Michael: “No, no, no. I want to know what mortgages are in each one.”

New employee: “Aren’t those bonds made up of thousands and thousands of mortgages?”

Michael: “Yeah.”

New employee: “Right away Dr. Burry.”

11 minutes into the movie, Mark Baum (played by Steve Carell), one of the good guys in the movie, says to his boss,

“This guy’s whole business (banks) is built on ripping people off ...how long can that last?”

15 minutes in, Dr. Burry tells the big-shot Wall Street executive, who brings the people with money (the investors) to Dr Burry’s fund, “I want to short the housing market”. “The housing market is propped up on these bad loans.”

The big-shot Wall Street money source says, “The housing market is fine, even Greenspan says so.”

Michael says, “Greenspan’s wrong.”

19 minutes into the movie, Dr Burry meets with Goldman to ask them to structure a default swap: a bond that would pay Dr. Burry when the bonds default. They laugh. They say to his face, “It seems like a foolish investment.” Dr. Burry is sure of his analysis. They mock him, but he stays focused on getting what he wants.

**“People...want an authority to tell them how to value things,  
but they chose this authority (Goldman Sachs & Morgan Stanley)  
not based on facts or... Results  
they chose who to trust because they seemed authoritative... Or familiar!  
And... I’m not, and never have been... familiar.”  
–Michael J. Burry, MD**

The single most successful investor in the world is NOT Warren Buffet.  
That title belongs to James Simon of Renaissance Technology Funds.

His tools are not familiar to you. Because you have no idea how he achieves such fantastic success, you ignore him and his methods. His methods can and will dramatically transform your business from a “me too” Index Funds peddler to a high-performing investment company.

The reign of GM, AT&T, IBM and thousands of other once-giant companies was long, but they were all crushed by innovation. Commit to making a better product. Sponsor a new creative and innovative corporate culture! Join the technology revolution. Launch a revolutionary business. Take it one step at a time. Test often. Do what creates the most profits!

Dr. Ignaz Semmelweis was one of the greatest innovators in modern medicine. His name is well-known in medicine, but little-known in society. But some businessmen know of the “Semmelweis Reflex”, a metaphor for the reflex-like tendency of experts to reject new knowledge, even when backed by overwhelming evidence, because it contradicts or conflicts with established norms and processes of their business conduct.

Equity Risk Sciences uses data science to identify, measure, calculate and rate the statistical probability, magnitude and timing of future stock price changes. Big data analysis may not be familiar to you today, but ERS will help you incorporate big-data analytics into your practice gradually and profitably.