

Book Review by Greg Newton (1956-2009), former Editor of *MarHedge*

[Dear Mr. Buffett: What an Investor Learns 1,269 Miles from Wall Street](#)

by Janet Tavakoli

Wiley 2009 \$24.95 (list) Hardcover

Chicago derivatives consultant Janet Tavakoli is a rare jewel in the financial markets. Arguably best known for weighty textbooks with such alluring titles as ‘Structured Finance & Collateralized Debt Obligations,’ she has a nice sideline in delivering uniquely pungent commentary on credit-related conundra in venues including her own website, US Securities and Exchange Commission comment filings, and on-the-record in the allegedly grown-up media where “people familiar with the matter” usually lurk.

Most remarkably, she deserves as much acclaim as anybody, and much more than most claimants, for calling both the cliff-edge and the depth of the ravine into which global capital markets have tumbled.

But another Buffett hagiography? Is anything left to be said about Avuncular of Omaha, the genial great white with a penchant for apparently ignoring his own epithets (especially that one about “financial weapons of mass destruction”)? Just in the last few months we’ve had ‘The Snowball,’ Alice Schroeder’s near 1000-page authorized doorstop; Roger Lowenstein’s ‘Buffett: The Making of an American Capitalist;’ and ‘Pilgrimage to Warren Buffett’s Omaha,’ Jeff Matthews’ dispatches from the Berkshire Hathaway ([BRK.A](#)) annual meeting. Among plenty of others.

But this book is much more than mere make-weight for Barnes & Noble’s Buffettophilia section. It is just as much the first of what will doubtless be dozens of books telling the story behind the global dodgy asset securitization scam, which Tavakoli, noting the first breathless Madoff Meltdown headlines, recently characterized as the real “largest Ponzi scheme in the history of the capital markets.”

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It’s great to have an open mind,
but don’t leave it so
open that your brains fall out.

”

A long-time Buffett fan and Berkshire Hathaway shareholder, Tavakoli builds her plot around a fitful correspondence that turned into an afternoon in Omaha where her low expectations — “If Warren had simply avoided overt rudeness, it would have been an upgrade from most finance professionals” she had dealt with — were dashed on the

rocks of mutual respect and a shared thesis, in the dog days of late summer 2005, that the world had strapped itself into a handbasket headed straight to financial hell.

The narrative lives up to the book's title as Tavakoli holds her personal portfolio decisions to Buffett's standards, contrasting his philosophy and behavior with those of a long roll-call of Icaruses on such topics as transparency, complexity (or relative lack thereof), risk comprehension (and tolerance), leverage (in both its overt and covert forms) and that little something that mostly comes across as, for want of a better word, honesty.

She even indulges a little Buffett-like do-as-I-say, not-as-I-do: "I run a hedge fund. My strategy? It's proprietary...but you are not entitled to that much information," setting up familiar arguments about the impact of fees, liquidity, the fragility of genius and various other demerits of the 'asset class' now well down the road toward a well-deserved bout with humility.

So far, so Buffett. But the book's real strength is the sub-plot that emerges as Tavakoli tugs vigorously at the seemingly disparate threads of the current financial crisis, naming names, citing cases and leaving no schmuck — whether investment bank, credit rating agency, monoline insurer, mortgage brokers, regulators and their ilk — unspared. Based on more than 20 years in the derivatives arena, and having served time at Salomon Bros, Bear Stearns and Goldman Sachs, she knows that of what and whom she speaks.

'Dear Mr Buffett' is, like its author, strongly, often harshly, and, more than rarely, tartly, opinionated. The attitude is, however, well-supported by the facts; should anyone ever display the slightest interest in criminalizing the criminals who led us down this path, a prosecutor could do worse than ordering up copies for the grand jury.

One thing the world is not going to run out of any time soon is books on subprime credit-turned-global financial meltdown. But it's doubtful that many, or any, will so closely match the ripping yarn of financial upset with concepts that any — and perhaps every — investor can apply to their own financial security. This book was already at the printer when the Madoff Maelstrom broke, but it's highly doubtful that anybody who absorbs the message of 'Dear Mr Buffett' will ever need confront that kind of mayhem.

Related:

[Comments on SEC Proposed Rules and Oversight of NRSROs](#) by Janet Tavakoli Feb. 13 2007

[Meanwhile, back in April 2005](#) (.wmv video ~9 mins) Tavakoli addressed an International Monetary Fund meeting on a range of topics, including credit derivatives and the ratings issues confronting asset-backed securitizations.