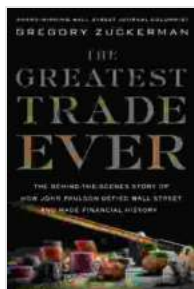


# The Behind-the-Scenes Story of How John Paulson Defied Wall Street and Made Billions Forecasting the Housing Market Collapse\*\*

In the annals of Wall Street history, John Paulson's name stands out as a testament to both brilliance and audacity. As the housing market soared to unprecedented heights in the mid-2000s, Paulson defied conventional wisdom and placed a massive bet against the subprime mortgage industry. His bold gamble paid off spectacularly, netting him billions of dollars and earning him the title of "The Greatest Trade Ever."

This is the behind-the-scenes story of how John Paulson, a relatively unknown hedge fund manager at the time, outsmarted the financial giants of Wall Street and made one of the most profitable trades in history.



## The Greatest Trade Ever: The Behind-the-Scenes Story of How John Paulson Defied Wall Street and Made Financial History by Gregory Zuckerman

★★★★☆ 4.6 out of 5

Language : English  
File size : 2163 KB  
Text-to-Speech : Enabled  
Enhanced typesetting : Enabled  
X-Ray : Enabled  
Word Wise : Enabled  
Print length : 322 pages  
Screen Reader : Supported

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## **Early Life and Career**

John Paulson was born in 1955 in Queens, New York. After graduating from New York University's Stern School of Business, he began his career as an investment banker at Bear Stearns. In 1994, he founded his own hedge fund, Paulson & Co.

Paulson's early investments were relatively modest, but he quickly gained a reputation for his sharp mind and analytical skills. He specialized in mergers and acquisitions, and his fund consistently outperformed the market.

## **The Subprime Mortgage Crisis**

In the early 2000s, the subprime mortgage market was booming. Lenders were issuing mortgages to borrowers with poor credit and little documentation. This risky lending fueled a surge in home prices and created a housing bubble.

Most financial analysts believed that the housing market would continue to rise indefinitely. However, Paulson sensed that the market was overheated and that a correction was inevitable.

## **The Big Short**

In 2006, Paulson began to bet against the subprime mortgage market. He purchased credit default swaps (CDSs), which were insurance contracts that would pay out if the underlying mortgages defaulted.

Paulson's strategy was simple yet audacious: he believed that the subprime mortgages would eventually fail, causing the value of the CDSs to skyrocket. The bigger the default rate, the more money he would make.

## **Wall Street Skepticism**

Paulson's bet was met with skepticism from Wall Street. Many analysts dismissed it as a reckless gamble. Some even accused him of being unpatriotic, as his bet would profit from a decline in the housing market.

Undeterred, Paulson continued to invest heavily in CDSs. He borrowed billions of dollars from banks and used it to buy more and more insurance contracts.

## **The Collapse**

In 2007, the housing market began to collapse. As subprime mortgages defaulted, the value of Paulson's CDSs soared. By the time the financial crisis hit in September 2008, Paulson's hedge fund had made billions of dollars.

## **The Aftermath**

Paulson's success was a major embarrassment for Wall Street. It showed that even the most sophisticated financial institutions could be blindsided by risk.

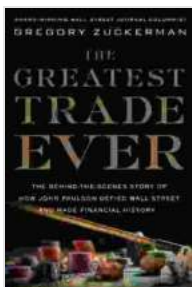
Paulson's trade also had a significant impact on the global economy. The collapse of the subprime mortgage market triggered the 2008 financial crisis, which led to a deep recession.

## Legacy

John Paulson's bet against the subprime mortgage market is considered one of the greatest trades in Wall Street history. It demonstrated the power of contrarian investing and the importance of being able to see through market hype.

Paulson's success has also made him a controversial figure. Some critics argue that he profited from the suffering of others. However, Paulson has defended his actions, saying that he was simply betting against a bubble that was destined to burst.

Regardless of one's opinion of Paulson, there is no doubt that he is a brilliant investor who made history by defying Wall Street. His trade against the subprime mortgage market is a cautionary tale about the dangers of excessive risk-taking and the importance of being prepared for the unexpected.



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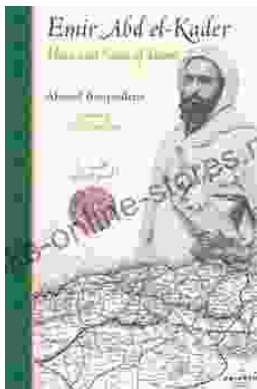
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