

Eugene Xu — a mathematical genius in the American financial world

First appearance on Wall Street:

Eugene Xu became famous as a teenager by winning second place in the first Chinese national mathematics competition. At the time, the very talented President of Fudan University Su Buqing was drawn to the 78 student graduate program in the Department of Mathematics at Fudan University. This group of students were collectively known as the best class in history. Several world-renowned leaders in various industries rose from this class such as former Vice President Li Yuanchao, Dean of Harvard School of Arts and Sciences Meng Xiaoli, Shanghai Professor of Mathematics Li Jun, and more. In 1992, Eugene went to the prestigious Institute for Advanced Studies in Princeton as a postdoctoral fellow after obtaining a PhD in mathematics at UCLA. This institute is revered, having produced famous figures like Einstein, Oppenheimer, and Yang Zhenning.

In 1993, financial derivatives began their rise on Wall Street. Eugene, at the time, happened to be living as the guest of a classmate in college. With the encouragement of his friends, he entered the Wall Street scene with little hesitation. There were very few Chinese people working in Wall Street at the time, but Eugene quickly rose to prominence with his skill and professionalism. After his entrance to Wall Street, Eugene moved through several major investment banks like Credit Suisse and Deutsche Bank; he has been engaged in quantitative analysis of asset securitization. Not only are his business skills superb, but his exceptional communication skills have convinced numerous colleagues of his research results built upon complex models. In just four years, he rose from a low-level researcher to the executive level, becoming a managing director at Deutsche Bank.

Predicting the subprime mortgage:

In August 2005, when almost everyone was distracted by the optimistic housing market, and all financial institutions were indulging in subprime mortgages, Eugene Xu published an article pointing out that “through modeling, it was evident the real estate market was centered around fundamentals. If the annual growth rate drops below 5%, the subprime default rate will rise sharply.” In fact, that’s exactly what happened. The housing market peaked in 2006, but even before it peaked, the default rate had already climbed substantially. Eugene recalled, “I belonged the earlier ones to notice. Deutsche Bank’s trading department believed this forecast, so a lot of money was saved during the crisis.”

The mortgage-backed bond trading arm of Deutsche Bank, where Eugene worked, sold about \$5 billion in subprime bonds according to US congressional hearings reflecting on the financial crisis. Greg Lippmann, the inspiration of Jared Vennett in the film *The Big Short* and a trader in the structured product trading department of Deutsche Bank at the time, was convinced by Eugene’s analysis and began to short the market while transferring Eugene from the research department to the trading department.

This move turned out to be incredibly profitable for Deutsche Bank though the crisis itself was incredibly painful. At the time, no one believed the predictions about the crisis, and talking about it was a job-killer. However believing Eugene’s analysis, Lippmann’s trading desk had hoarded a huge number of credit default swaps (CDS). Although Eugene’s prediction was correct, it took over a year to reflect in the market. It was admirable that he had not given up his case.

Paulson enters

Another book about the subprime mortgage crisis, “The Greatest Trade Ever,” discusses John Paulson, a big winner of the subprime mortgage crisis, who sold short bonds backed by subprime mortgage bonds. Credit-secured debt obligations (CDOs) made a big hit during the financial crisis. Paulson had been persuaded by Eugene and his colleagues to use the purchase of CDS’s to sell CDOs cheaply and efficiently.

Establishing his own fund:

After the crisis in 2009, Eugene Xu and Greg Lippmann left Deutsche Bank to co-found LibreMax Capital, a hedge fund with \$6 billion under management.

In 2020, Eugene left LibreMax and established GardenStar Group with several other partners.



Eugene Xu in *The Big Short*

大空头

[美] 迈克尔·刘易斯 著

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