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On Wednesday, August 8, not long after the markets closed, 200 of the smartest people on Wall Street gathered in a conference room at Four World Financial Center, the 34-story headquarters of Merrill Lynch. August is usually a slow month, but the rows of chairs were full, and highly paid financial engineers were standing by the windows at the back, which looked out over black Town Cars below and the Hudson River beyond. They didn't look like Masters of the Universe; they looked like members of a chess club. They were "quants," and they had a lot to talk about, for their work was at the heart of the most worrisome summer market in decades.

