

The sky isn't falling

The recent "credit crisis" in the world financial markets has highlighted several areas where each of us can learn for our lives, our companies, and our families.

First, the "credit crisis" has largely been caused by firms granting financial credit where there was no rational way to repay it. This brings to mind one of Robert Ringer's "laws" in his book called "Winning Through Intimidation." Ringer said that if a developer could get financing for a project, he would build in the middle of the desert, far away from anything or anyone. Although some might suggest that explains Las Vegas, the point here is to explain the developer mentality -- "if you build it, they will come." Positive mental attitude notwithstanding, the people who lend money need to believe that money will be repaid. When they lent money to people and companies who could never afford it, with little documentation, or even forged documentation, it's inevitable that chaos would result.

The problem here is not lending money -- it's the fault of the people and companies on both sides to act in a rational way.

So -- what can I learn from this example? Mainly this: we should be above board in how we deal with others. We should allow our need for greed to overcome rational thought and fair play.

Second, the market has taken on a crisis mentality -- and even great investments are being trashed. Some years ago, an emergency in a public venue ended with people being trampled and killed, in a human stampede. The stampede was useless -- the level of danger was never as high as it must have seemed.

But when people get terrified, they run -- and that's what happened in the stock market. Usually, the stock markets are basically self-healing -- when one person or company sells into a crisis, others are buying their trades. That means the seller usually takes a loss, and the buyer usually gains a bargain. Seen after the crisis has passed -- and they always pass, sooner or later -- the seller realizes they usually lost a lot of money -- and the buyer realizes that in a crisis, there is profit.

How can we apply this lesson? We must fight the urge to act irrationally -- and realize that usually, stopping and taking a breath is a good thing to do. (I fully understand that in the world of finance, stopping and taking a breath may cost money -- but it also may make it).

In our lives, as well as in finance, stampeding here or there never seems to be the right thing to do -- and the impetus behind the stampede is rarely a rational one.

Third, we realize that it's easy to get caught up in a Chicken Little mentality. Sure, sometimes things happen, and economies go south. But most of the deep losses (even if they are just paper losses) in the last couple of weeks were lost on good companies. Although there were companies that were actually damaged by the credit crisis, there were a lot of great companies that were never on shaky ground -- but once you start thinking "the sky is falling," it becomes easy to see every little raindrop as a piece of the sky, and every dark rumor becomes a reason to expect the sun won't come up tomorrow.

In our lives, it's really easy to adopt a Chicken Little mentality. Just as in the credit crisis, we look at each slight movement as a major downturn -- and it soon becomes a self-fulfilling prophecy.

Fourth, we realize how important leadership is in a crisis like this. As I write this, no great leader has stepped up to say "What in the heck do you think you're going? Get a grip, Wall Street." Perhaps that's because we are currently a little shy on great leaders. But in our lives, leaders are the ones who step up, take a breath, and say to the troops, "This 'sky is falling' stuff is just a load of crap. Get your butt in gear, and let's put this all behind us'." Take a moment to look at some of the great leaders in your life and in history who made such a difference, and turned a situation around -- the dynamics of the situation itself may not have changed, but the way it was viewed changed 180 degrees.

The "credit crisis" became a crisis because it got out of hand. It could of (and should of) been dealt with months ago, and when it rose to the present level, calmer heads could have prevailed. Perhaps by the time you read this, calmer heads might have prevailed; I hope so.

Wall Street has always been somewhat manic-depressive. Part of that is the herd mentality, but quite a bit of it is the culture -- people and companies with greater guts and deeper pockets are quite happy to take advantage of the Chicken Littles out there. I've been looking and listening, and so far, I haven't heard Warren Buffett or Bill Gates proclaim that the sky is falling.

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