



## **The truth behind the credit crunch**

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We are about six months into a credit crunch that started in the residential subprime markets. It began in a time of low rates and easy credit when smart people made some very bad decisions. Who would lend money to a friend with both limited means and a poor history of repayment? The easy answer is no one. What makes the subprime lending trouble even more remarkable, is that large institutions were lending money to the very people you and I would not have - people who historically don't pay their bills, have questionable work histories or have limited incomes.

So why do intelligent people make foolish decisions?

Smart people have bigger IQs, but high IQ's do not necessarily translate into effective decision making. All people are affected by human frailty, biases and influences such as greed, fear, past experiences and the herd mentality.

Further, the decisions smart people make are granted greater reverence by others and often go unquestioned, making smart people more likely to make epic mistakes. When they fail, they fail mightily, as evidenced by the credit crunch that hobbled the global economy and now threatens to land us in a recession.

I once had a reverent feeling for smart people. Now I realize that the well-educated, intuitive and successful can not be relied upon to always make the right decisions. Unfortunately, they are precisely the people we will now turn to in order to get us out of this mess.

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