Talking to Strangers: Lessons for Lenders
by Charles Wendel

Malcolm Gladwell, best selling author of *Blink*, *The Tipping Point,* and other books, has just published *Talking to Strangers.* Every banker should read it. The question Gladwell asks is why are we so bad at reading other people, even if, and perhaps especially if, we meet them eye-to-eye? He asserts we think we are good are reading others, but we are not and that self-confidence can be dangerous.

Gladwell provides some significant examples of the mistakes made in reading others, including:

- Chamberlain met Hitler face-to-face three times. Based upon those meetings, he thought he could trust Hitler and that Hitler did not want war. Churchill, who never met Hitler, got it right.
- Experienced law enforcement officers were able to identify "sincere acting liars" (e.g., people like Bernie Madoff) only 14% of the time.
- In the 1980s the CIA learned that virtually ***all*** the spies it had in Cuba were double agents working for the Cubans and feeding the US false information.

Why are we so bad at reading others? Gladwell cites three factors:

- Default to trust
- The transparency deception
- Behaviors are tied to coupling

I will review each of these factors, but you should check out his very readable book to fully appreciate his viewpoint.

Default to truth. We (most of us) usually tell the truth, and we assume that other people are telling us the truth: "Over the course of evolution, human beings never developed sophisticated and accurate skills to detect deceptions as they were happening because there is no advantage to spending your time scrutinizing the words and behaviors of those around you. The advantage to human beings lies in assuming that strangers are truthful." Basically, most of us believe what others tell us. When someone lies to our face, we tend to believe him or her. (Note: I have learned that teenage boys are particularly good at this. As they go beyond the teenage years, they even admit it.)

The transparency deception. "Transparency is the idea that people's behavior and demeanor – the way they represent themselves on the outside – provides an authentic and reliable window into the way they feel on the inside." We think we can read other people, know what they are thinking, and understand their world view. We think they are like us and that causes us to misinterpret their words and actions. We don't realize what scoundrels some people can be.

Coupling. "Coupling is the idea that behaviors are linked to very specific circumstances and conditions," in short, a context. In one sad example, he discusses Sylvia Plath, the poet who committed suicide while in London by putting her head in a gas oven. The next year changes were made to the gas mixture that basically eliminated using those ovens for suicide by gas poisoning. Did people just switch to other methods? Many did not; remarkably, the suicide rate went down. Similarly, suicides in San Francisco dropped when nets were placed on the Golden Gate Bridge. These suicides happened, in part, because the means existed to do so. Once the circumstances changed, so too did the outcomes.

At a minimum reading this book will cause you to rethink some basic assumptions concerning how we read other people and evaluate situations we find ourselves in.

We fool ourselves. We think we are good judges of character, but are we? The worse investment I ever made (so far) occurred in part because I looked another person in the eye and believed what he was saying. He spoke forcefully and looked me in the eye (default to truth). He looked right and used the appropriate phrases, ones I could interpret as being positive to an investment opportunity. He was also a "sincere liar" who believed most of what he was saying, making his pitch more convincing (transparency deception). As for coupling, I was interested in the type of investment he was proposing.

In short, I found the hook, baited it, and then put it in my mouth.

If you are a Dodgers fan, you are still upset about their recent unexpected loss to the Nationals. An ESPN article summarizes the disaster: "A future Hall of Fame pitcher whose postseason shortcomings had come to define him lived down to his reputation. A manager who had shepherded the team to 106 wins forgot how to manage. A year replete with success, swollen with promise, conflagrated in spectacular fashion. The Dodgers, the best team in the National League, the organization that does so much right, failed at the most inopportune time."

An LA Times writer comments, "Roberts[Dodger manager] saw Kershaw with his heart and not with his eyes…Roberts is a terrible playoff manager, where every mistake is magnified and every win is precious." He may have fallen subject to defaulting to his justified view of Kershaw being a great pitcher and not consider the coupling factor, Kershaw has a problem in post-season. Kershaw had similar poor performances in the past. Roberts saw what he wanted to see and ignored the coupling impact. So, maybe next year.

When I was a banker, the best loan I did not make was to a leasing company, OPM Leasing. In that case, the CFO, who had been an ex-Lehman Brothers banker, struck me as too slick. There was just something about him I did not like. While the stated numbers, were OK, I passed on the deal. The company turned out to be a fraud.

On the other hand, we approved a loan in which we were a participant with many big name banks, the top banks in America, the cream of the crop. My boss, my bosses' boss and I all were sure *they* knew what they were doing even though none of us really understood the deal. And we wanted the assets. Those bankers were subject to the same issues Malcolm Gladwell cites. It was only when I was running workouts, my last job as a banker that I broke from some of the cultural circumstances that guided me to believe others and made me think they shared a similar view of the world.

I remember consulting with original Wachovia Bank 25 years ago, a great bank with a strong credit culture. Credit management did not want their underwriters to speak with the company; they wanted them to look at the numbers and evaluate industry analysis. One senior banker in this pre-PC world said they did not want credit people to "go native" and get too close to potential borrowers.

I do not think that the right solution, but, particularly in an economic environment in which credit quality worries are increasing, a greater dose of skepticism and rigor are appropriate.

Maybe we are not as smart and able to read others as we think we are????