Lessons Learned: Five Ways To Avoid The Next Recession

"*Those who cannot remember the past are condemned to repeat it."—George Santayana*

In business, particularly in an entrepreneurial business, taking risks is all in a day's work. Certainly, a smart businessperson will do what he or she can to mitigate risks—a practice widely referred to as 'risk management'—but entrepreneurs understand that risk and reward are two sides of the same coin.

In business, as in many aspects of life, you rarely encounter one without the other. However, smart businesspeople also know better than to repeat the mistakes of the past. That's one reason why you never saw a second edition of such legendary corporate mistakes such as the Ford Edsel, or Coca-Cola's disastrous "New Coke." You will also note that, despite those legendary business errors, both Ford and Coke remain iconic brands that are dominant forces in their respective industries.

Unfortunately, not all businesses—or governments—take heed of Santayana's wise advice, and learn from the mistakes of their past. As the Great Recession fades into memory from years long past, there is a growing concern that some of the same errors that helped to trigger that economic disaster could be repeated.

Our company, SNH Capital Partners, has subsidiaries that have a national footprint in multiple business sectors that were either directly—or indirectly--impacted by some of the misguided policies that exacerbated the Great Recession. Specifically, our company's SettlementOne subsidiary works closely with the financial services sector, and is a national provider of credit and data information; in addition, our National Credit Center subsidiary services more than 4,000 automotive dealerships nationwide with credit information and software solutions.

Therefore, as you might imagine, economic and political decisions that directly impact the financial services and automotive sectors are of great interest and concern to our company.

And so, with the passage of time and the fading of the recession's legacy, I think it would be beneficial to take a moment and review five of what I consider to be the most important business lessons to be learned from the 2008 Great Recession:

5) *The Size Of A Mortgage Should Reflect An Individual's Fiscal Reality*:

Prior to the collapse of the housing sector in 2007/2008, there was a generally accepted notion among some Americans and politicians—including some with enough experience/knowledge to know better—that housing was a universally 'safe' investment that would continue to gain in value, in perpetuity, and no matter the location; there was also the active promotion of some mortgages that required very little, or even no, down payment. Both of these misguided ideas were substantial contributors to the eventual collapse of the housing sector.

Common sense—remember that useful business tool?—and Best Practices dictate that consumers, just like businesses, should not financially overextend themselves. Someone earning $40,000 a year should not be purchasing a home valued at 15 or 20 times his annual income—often with little or no down payment--especially when one at half the price meets his needs. And while home equity can, over time, contribute to a family's net worth, a family home should not be viewed as simply another gambling chip, with everincreasing value. This, I believe, is a critical lesson worth remembering from the massive foreclosures that devastated the lives of millions of Americans in the last recession.

4) *Politics Should Not Trump Reality:* In a recent post, I examined the question about the future prospects for universal home ownership as an integral part of the American Dream. As a corollary to that question, and in keeping with the previous suggestion, it's imperative that government policy encourages home ownership (and the subsequent financial obligation) that is in line with Americans' financial capabilities. To do otherwise, is to risk a replay of the foreclosure debacle of the last recession.

3) *Business Growth Should Also Reflect Reality:* As CEO of a rapidly expanding, entrepreneurial company, few if any businesspeople understand or support the notion of corporate growth more than I do. However, just as we should expect consumers not to overextend themselves, so too should businesses ensure that their growth—and related financial liability—reflects their fiscal reality. In business, as in life, just because you *can* do something, doesn't mean you necessarily should—or at least not until it makes fiscal sense to do so.

2) *Be wary of 'bubbles':* In the 1990s, it was the infamous 'tech bubble'—the hyper-inflated growth of new tech companies, far too many of whom had little or no long-term business plans or chance for prosperity (Pet.com anyone?)

In the next decade, as discussed, there was the housing 'bubble', and the inevitable explosion of a housing market that was largely built on a weak financial foundation. As a general rule of thumb, when pondering a potential business 'bubble' opportunity, it's best to simply remember what your mom probably told you growing up: "if something seems too good to be true, it likely is."

Put another way, the Laws of Nature dictate that almost inevitably, ‘bubbles’--of any kind--eventually burst; best to avoid them whenever possible.

1. *Don’t Be Blinded By Greed:* In the movie Wall Street, fictional tycoon Gordon Gekko delivered a famous speech about the business virtues of ‘greed’. While ambition and drive—along with hard work—are, indeed, fundamental requirements in order to succeed, they differ greatly from greed, which Webster’s defines as “a selfish and excessive desire for more of something (as in money) than is needed”. I would only add that the road to ruin is littered by businesses and people who allowed greed to cloud their judgment and perspicacity. For businesses and individuals alike, sound financial decisions require a clear mind, and greed often manifests itself into one of the aforementioned business ‘bubbles’ that ultimately burst, and leave millions to suffer in its wake.

So, as we (thankfully) move forward and leave the Great Recession to the history books, let’s also try and keep Santayana’s wise advice in mind.

For while we should not live in the past, we should also not forget the--sometimes painful--business lessons it has taught us.