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## **THE CRASH OF 2008 AND WHAT IT MEANS: THE NEW PARADIGM FOR FINANCIAL MARKETS GEORGE SOROS MELBOURNE: SCRIBE, 2009**

The bankruptcy of Lehman Brothers on Monday September 15 2008 was a major event. It was (so far anyway) the closest the entire international financial system has come to a total meltdown.

The US financial system, according to Soros, had been in trouble since August 2007. Irresponsible bank lending practices had resulted in some financial failures, But for most people life continued as normal.

When Lehman Brothers began to show signs of trouble, the then US Treasury Secretary decided to let the bank fail – to let the market take its course. He was opposed to government intervention in the crisis because he was a true market fundamentalist.

Unfortunately, although the market had had some time to reflect on what should be done in case yet another major bank went down, the market lacked a Plan B when Lehman Brothers failed. So did Paulson. He just sat back and let it collapse.

Then in the next few hectic days it looked like the entire financial system would go under. The Bush Administration was forced into some drastic panic measures. These have been continued by the new Obama Administration. It remains to be seen just how successful all these measures will be.

George Soros – one of the world's most successful financiers - has been a lonely voice in the financial wilderness. He had been warning for years about the need for major reforms. This book tracks his arguments over the years.

The book is also partly autobiographical. It goes from his near death at the hands of the Germans in World War II and then the communists, and to his escape to Britain and the United States. It is a remarkable tale of survival and success.



A third theme is an exploration of his theoretical innovations. He wants to be taken seriously by the academic community not just for his stunning financial wizardry but also for the way he has achieved it.

Soros is a critic of the Efficient Market Hypothesis (EMH) – the theory that eventually all investors will get similar results because all information is shared between all players. But – like Warren Buffet, another critic of the EMH – Soros has shown that it is possible to outperform the market. Buffet has done well with his investments, while Soros has done well with his financial speculations.

Soros has little time for the academic economists and their assumption that economics is just a form of science. He argues that life is much more complicated than that. His theory of reflexivity is based on the assumption that market players affect the direction of the market. He has some sympathy for the emerging fields of behavioural economics and evolutionary systems theory.

Given Soros's success in the real world, it is time that the academics paid more attention to his ideas. He has earned the right to be given more respect.

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