Financial Crises

Accounting & Finance

The recurring pattern behind very different crises.

The recurring sequence.

1. **Displacement**
   A genuine innovation or shift creates a new opportunity.
2. **Credit expansion**
   Cheap funding amplifies participation in it.
3. **Euphoria**
   Prices detach from fundamentals; new metrics justify them.
4. **Distress**
   Insiders sell; leverage starts working in reverse.
5. **Panic**
   Forced selling as margin calls and redemptions cascade.

Educational reference. Leverage is what turns a price correction into a solvency crisis. Without it, prices simply fall.