Rooted in the financial instability framework developed by economist Hyman Minsky and popularized by Charles Kindleberger in *Manias, Panics, and Crashes*, market cycles driven by speculative behavior follow a consistent psychological and structural progression.

Core Summary: The Anatomy of a Crisis

- **The Displacement (Catalyst):** An external shock—such as a transformative technology, monetary easing, or deregulation—changes the profit outlook for a sector or asset class.
- **The Mania (Euphoria):**
    - Prices detach from underlying cash flows and traditional valuation metrics.
    - Speculative buying replaces fundamental investing, fueled by cheap leverage and retail fear of missing out (FOMO).
    - Narratives emerge declaring that "the old rules no longer apply" or "this time is different."
- **The Transition (Distress):** Early insiders and institutional players begin quietly taking profits. Financing costs rise or liquidity tightens, exposing overextended balance sheets.
- **The Panic (Liquidity Rush):**
    - An unexpected default, regulatory shift, or earnings miss acts as a catalyst.
    - Margin calls and forced liquidations trigger a cascade of selling where market participants race to convert illiquid assets into cash.
- **The Crash & Revulsion:** Prices plunge below fair value, sentiment turns to total cynicism, and recovery only begins after market clearance or intervention by a lender of last resort.

Modern Investor Examples

- **The Dot-Com Bubble (1998–2002)**
    - **Mania:** The arrival of the commercial internet triggered speculative buying into loss-making tech companies evaluated on "eyeballs" and page views rather than earnings.
    - **Panic & Crash:** The Nasdaq fell roughly 78% after capital dried up, hundreds of early internet startups went bankrupt, and quality companies like Amazon dropped over 90% before stabilizing.
- **The Global Financial Crisis (2007–2008)**
    - **Mania:** Widespread subprime mortgage securitization, credit default swaps, and excessive leverage held by global investment banks.
    - **Panic & Crash:** Falling housing prices cascaded into systemic banking insolvency, the collapse of Lehman Brothers, and a global credit freeze that required unprecedented central bank bailouts.
- **The "Everything Rally" & Speculative Peak (2020–2021)**
    - **Mania:** Unprecedented zero-rate policy and stimulus fueled extreme speculation across SPACs, unprofitable tech, meme stocks (e.g., GameStop), and digital assets.

    - **Panic & Crash:** Aggressive central bank rate hikes in 2022 drained liquidity, causing speculative tech and crypto assets to drop 60–80%, accompanied by collapses of high-profile, leveraged entities (e.g., FTX, Terra/Luna).
- **The Silicon Valley Bank Run (March 2023)**
    - **Mania:** Outsized deposit inflows from tech startups during the boom years were invested in long-duration fixed-income bonds without interest rate hedges.
    - **Panic & Crash:** Rapid, modern digital banking allowed $42 billion in deposits to be withdrawn in a single day via smartphones, causing insolvency within 48 hours and triggering emergency FDIC backstops.

Practical Rules for Modern Investors

- **Leverage determines survival:** Valuation resets alone do not wipe out investors; forced liquidation from debt and margin calls does.
- **Liquidity is illusory in a rout:** The bid for high-flying assets evaporates precisely when everyone needs to sell simultaneously.
- **Watch the narrative arc:** When an asset's primary investment thesis shifts from cash-flow generation to purely selling to a "greater fool," the cycle is nearing the distress phase