

HOW ALL FINANCIAL CRISES WORK

Why asset quality does not matter in a liquidity collapse

THE MECHANICS OF A CRISIS

Financial crises are often perceived as anomalies.
In reality, they follow the same repeating mechanism.

The triggers are always different.

The mechanics are always the same.

Every systemic financial crisis has emerged under the same set of conditions.

Without exception.

A UNIVERSAL FORMULA

A crisis becomes inevitable when the following conditions exist simultaneously:

- cheap and easily available credit,
- a prolonged market expansion,
- increasing use of leverage and debt,
- confidence in the permanence of growth,
- systemic risk being ignored,
- yield prioritized over liquidity.

THIS HAS HAPPENED BEFORE - ALWAYS IN THE SAME WAY

Factor	1929	2000	2008	Today
Cheap and abundant credit	Widespread margin lending	Cheap funding for the “new economy”	Excess liquidity and easy credit	2008–2022: ultra-low Fed rates Bank of Japan rates ≤0.5% since 1995 (global carry trade)
Prolonged market expansion	1921–1929	1991–2000	2002–2007	2009–2026
Rising leverage and debt	Active use of broker margin	Credit based on future earnings and valuations	Record systemic leverage in banks and funds	Global debt at historical highs Leverage well above 2008, but hidden (funds, derivatives, corporate debt)
Belief in endless growth	“New era”, end of old cycles	“New economy”, traditional valuations obsolete	“Financial innovation reduced risk”	AI as a new paradigm The Fed is in control
Systemic risk ignored	Risk viewed as local and manageable	Risk viewed as local and manageable	Risk dismissed as non-systemic	Risk premia near historical lows Risk widely ignored
Yield prioritized over liquidity	Yield optimization	Liquidity assumed	Yield optimization	Liquidity assumed Portfolios optimized for returns Liquidity excluded from risk models
Outcome	Forced liquidation of all liquid assets	Sharp liquidity contraction and collapse	Synchronous sell-off across asset classes	?

If this structure feels familiar, it is not intuition - it is repetition.

Before every crisis, markets appeared stable.

Before every crisis, the system was overloaded with debt and leverage.

A UNIVERSAL LEADING INDICATOR

When a system becomes overburdened with debt and leverage, the market always signals it.

Historically, that signal has been a **yield curve inversion**.

Since data has been available (1950s onward), **every major crisis** was preceded by an inversion.

Crises did not begin at the point of inversion, but after the curve normalized.

The yield curve exited inversion in September 2024.

Approximately **16 months have passed**.

Historically, **crises began 6–24 months after normalization**.

ASSET QUALITY DOES NOT MATTER

**In a crisis, assets are not sold because they are bad.
They are sold because liquidity is required.**

Selling is forced:

- margin calls are indifferent to asset quality,
- everything that can be sold quickly is sold,

**Price declines depend on one factor only:
how urgently cash is needed.**

THE ILLUSION OF RESCUE

There is a persistent **belief** that **regulators can prevent a crisis.**

History shows otherwise.

In 2008, markets also expected intervention.

Central banks did intervene - yet markets still collapsed first.

Liquidity helped **only after** critical debt was written off.

Money printing does not cancel a crisis.

It only mitigates the aftermath - once the system has already reset.

TEMPORAL ASYMMETRY

Protection works only before the event.

- Before a crisis, risk is ignored.
- After a crisis begins, protection becomes expensive or unavailable.

This window exists only until stress becomes visible.

WHEN THE MECHANICS ARE ALREADY IN PLACE

All previous crises followed the same mechanics.

All key conditions are now in place.

We do not know the exact date.

But we do know the cycle phase.

Independent methods of cycle analysis (long-term economic cycles and wave-based models) also point to a late-stage cycle, without precise timing but with strong phase alignment.

History does not repeat literally.

It repeats mechanically.

WHAT THIS MATERIAL DOES AND DOES NOT ANSWER

This material explains how financial crises work.

It does not answer the main practical question:

Which instruments actually worked in past crises - and which failed - when liquidity collapsed and asset quality ceased to matter.

That requires a separate, focused historical analysis of instruments and their behavior during past crises.

If this logic resonates, additional written material is available upon request.

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