

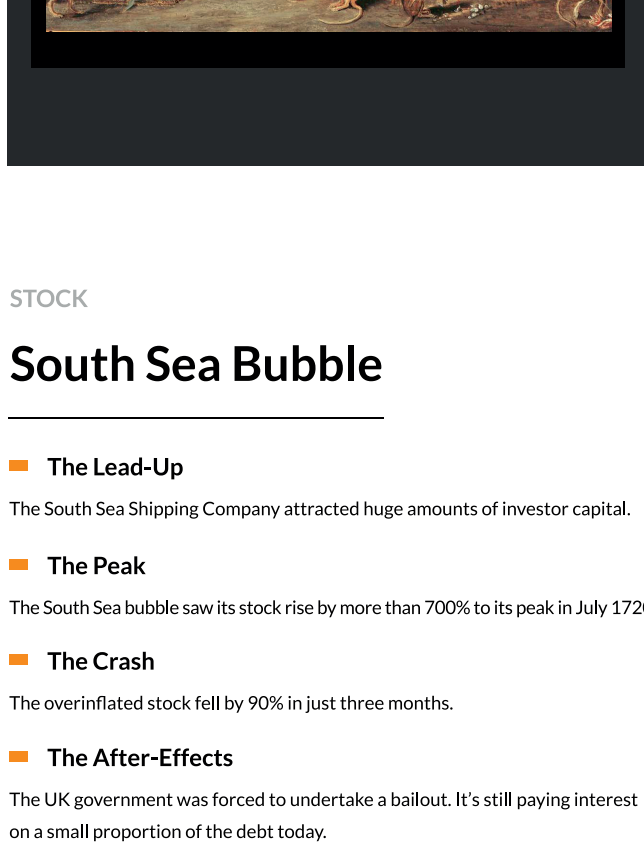
Financial Bubbles, Crises and Flash Crashes

TIMELINE

As a budding trader, it pays to be aware of the history of financial bubbles and the crises that have come before. While flash-crashes are a more recent phenomenon due to the reliance on technology and algorithmic trading, financial bubbles and crises are as old as the major commodities and stock index markets themselves.

This financial timeline traces those economic events from the early 17th-century through to the present day, providing details about the causes and after-effects of each.

1637

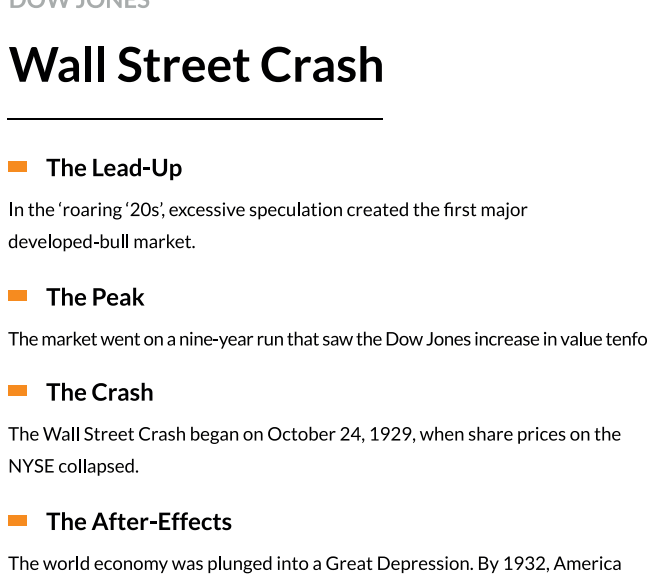


TULIP BULBS

Dutch Tulip Mania

- The Lead-Up**
Dutch Tulip Mania was caused when speculation drove the price of tulips to extremes.
- The Peak**
At its peak, the price of single tulip bulbs rose to 10 times the annual income of a skilled craftworker.
- The Crash**
Tulip prices were unsustainable and the market collapsed, causing serious debts for many speculators.
- The After-Effects**
By 1638, Tulip prices had returned to their normal levels.

1720

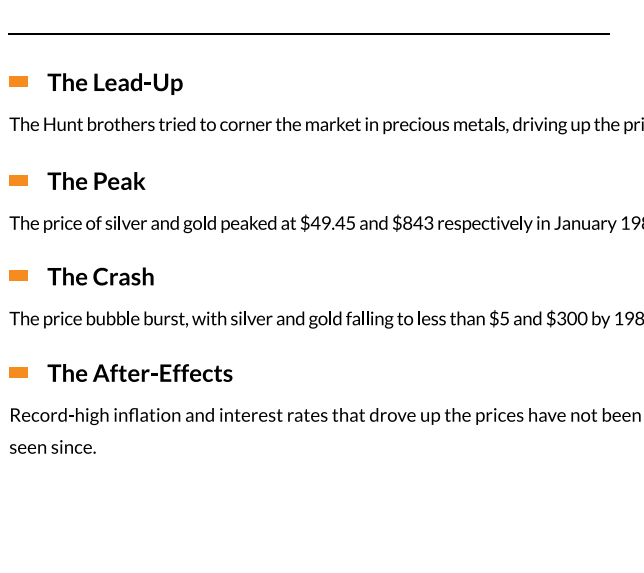


STOCK

South Sea Bubble

- The Lead-Up**
The South Sea Shipping Company attracted huge amounts of investor capital.
- The Peak**
The South Sea bubble saw its stock rise by more than 700% to its peak in July 1720.
- The Crash**
The overinflated stock fell by 90% in just three months.
- The After-Effects**
The UK government was forced to undertake a bailout. It's still paying interest on a small proportion of the debt today.

1929



DOW JONES

Wall Street Crash

- The Lead-Up**
In the 'roaring '20s, excessive speculation created the first major developed-bull market.
- The Peak**
The market went on a nine-year run that saw the Dow Jones increase in value tenfold.
- The Crash**
The Wall Street Crash began on October 24, 1929, when share prices on the NYSE collapsed.
- The After-Effects**
The world economy was plunged into a Great Depression. By 1932, America was in the greatest economic depression in its history.

1980

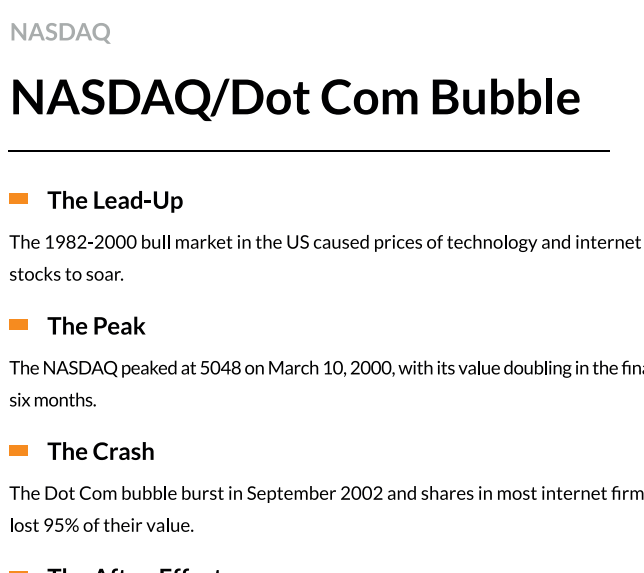


PRECIOUS METALS

Silver and Gold Price Bubble

- The Lead-Up**
The Hunt brothers tried to corner the market in precious metals, driving up the price.
- The Peak**
The price of silver and gold peaked at \$49.45 and \$843 respectively in January 1980.
- The Crash**
The price bubble burst, with silver and gold falling to less than \$5 and \$300 by 1982.
- The After-Effects**
Record-high inflation and interest rates that drove up the prices have not been seen since.

1989

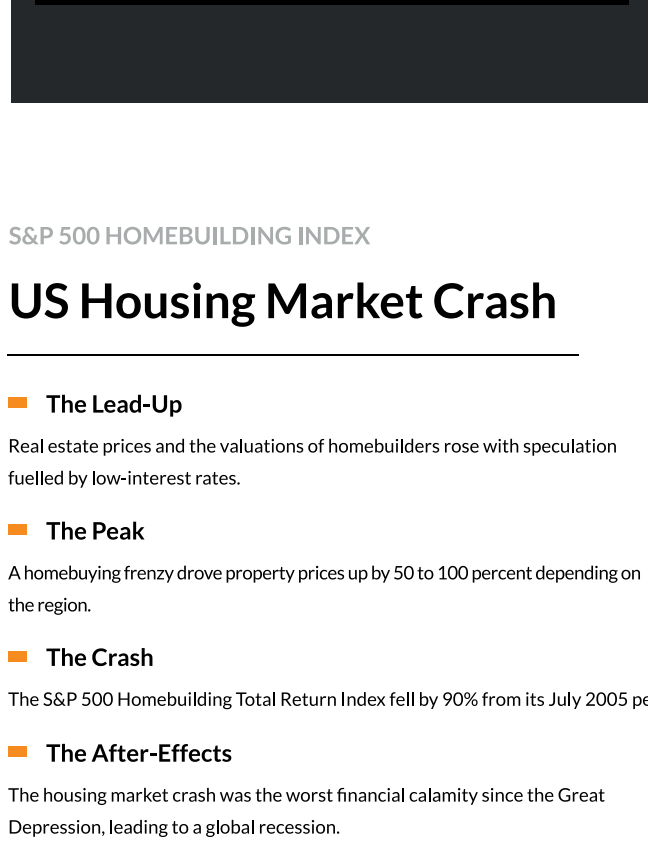


NIKKEI

Nikkei Stock Market Crash

- The Lead-Up**
Japan experienced a three-decade-long economic boom that created a real estate and stock market bubble.
- The Peak**
The Nikkei index peaked on December 29, 1989, having tripled to 39,000.
- The Crash**
The Nikkei lost 63% of its value by August 1992.
- The After-Effects**
Japan's economy suffered several recessions, real estate prices plummeted and the Nikkei has never been so high.

2000

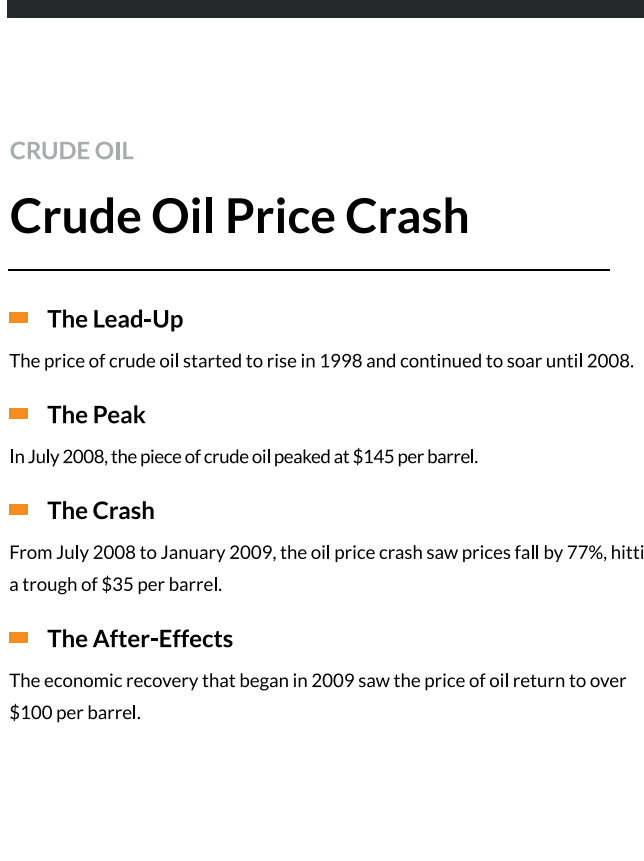


NASDAQ

NASDAQ/Dot Com Bubble

- The Lead-Up**
The 1982-2000 bull market in the US caused prices of technology and internet stocks to soar.
- The Peak**
The NASDAQ peaked at 5048 on March 10, 2000, with its value doubling in the final six months.
- The Crash**
The Dot Com bubble burst in September 2002 and shares in most internet firms lost 95% of their value.
- The After-Effects**
The S&P 500 was cut nearly in half, internet businesses went bust and the economy fell into recession.

2007

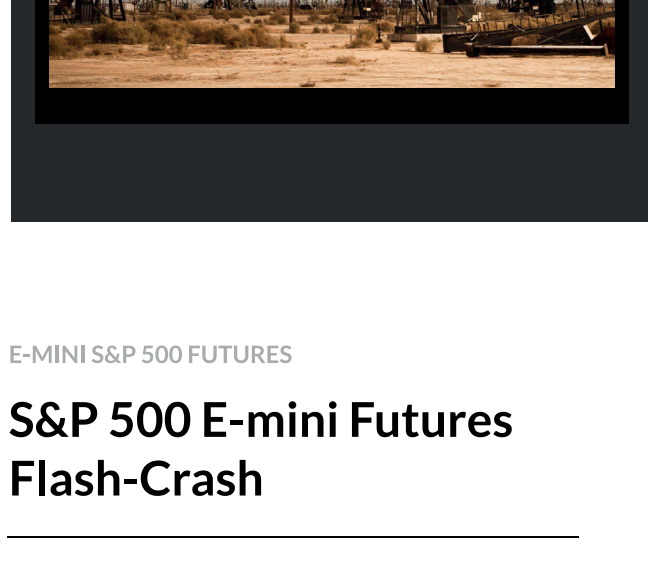


S&P 500 HOMEBUILDING INDEX

US Housing Market Crash

- The Lead-Up**
Real estate prices and the valuations of homebuilders rose with speculation fuelled by low-interest rates.
- The Peak**
A homebuying frenzy drove property prices up by 50 to 100 percent depending on the region.
- The Crash**
The S&P 500 Homebuilding Total Return Index fell by 90% from its July 2005 peak.
- The After-Effects**
The housing market crash was the worst financial calamity since the Great Depression, leading to a global recession.

2008



CRUDE OIL

Crude Oil Price Crash

- The Lead-Up**
The price of crude oil started to rise in 1998 and continued to soar until 2008.
- The Peak**
In July 2008, the price of crude oil peaked at \$145 per barrel.
- The Crash**
From July 2008 to January 2009, the oil price crash saw prices fall by 77%, hitting a trough of \$35 per barrel.
- The After-Effects**
The economic recovery that began in 2009 saw the price of oil return to over \$100 per barrel.

2010

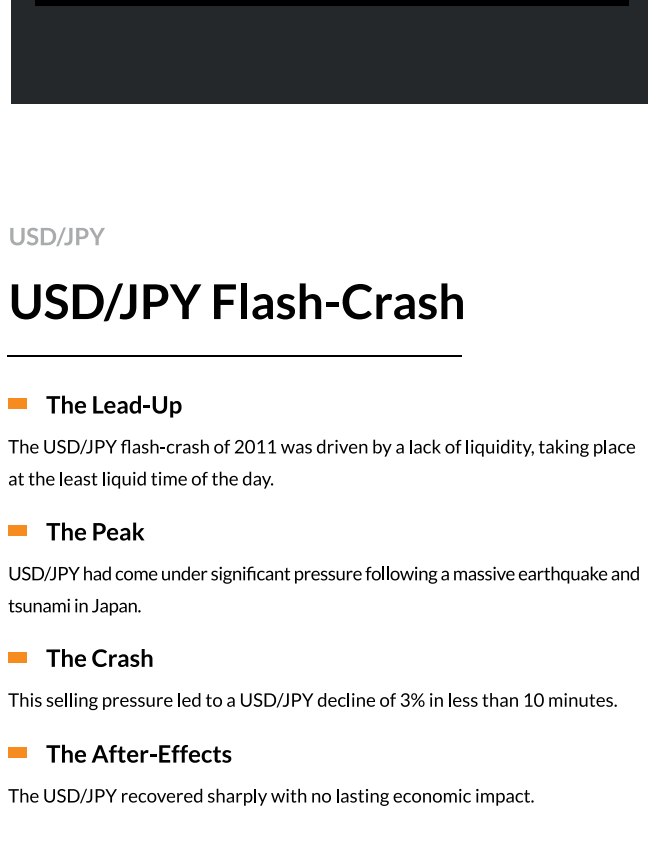


E-MINI S&P 500 FUTURES

S&P 500 E-mini Futures Flash-Crash

- The Lead-Up**
Navinder Singh Sarao began manipulating the market in 2009 using software that he modified.
- The Peak**
By rapidly placing and cancelling orders automatically, Sarao caused stock indices to rise and fall very quickly.
- The Crash**
In the flash-crash of May 6, 2010, the S&P 500 E-mini futures collapsed by over 6% in just seven minutes.
- The After-Effects**
The S&P 500 E-mini rebounded almost immediately and Sarao was jailed for market manipulation.

2011



PRECIOUS METALS

Silver and Gold Price Bubble

- The Lead-Up**
The second silver and gold price bubble resulted from a silver bull market that ran from 1999 to 2011.
- The Peak**
Silver peaked at \$43.25 and gold at \$1,896 per ounce.
- The Crash**
The bull market ended abruptly in April 2011 and prices of gold and silver fell by 35% and 56 % respectively.
- The After-Effects**
Both gold and silver have traded significantly lower since that period.

2011

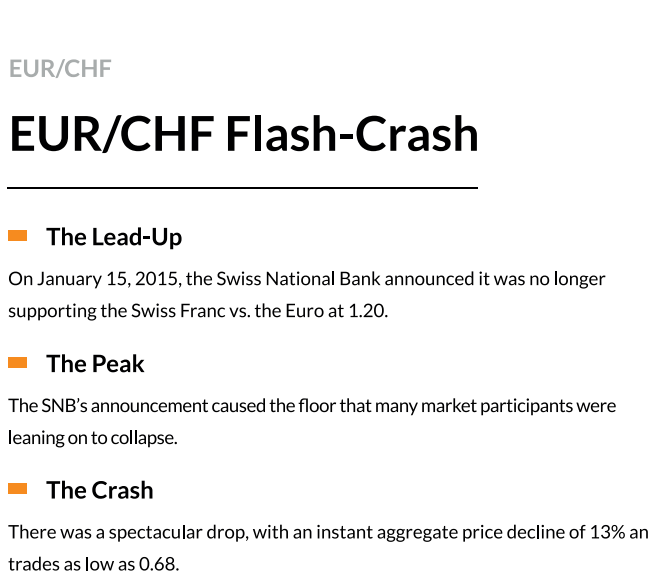


USD/JPY

USD/JPY Flash-Crash

- The Lead-Up**
The USD/JPY flash-crash of 2011 was driven by a lack of liquidity, taking place at the least liquid time of the day.
- The Peak**
USD/JPY had come under significant pressure following a massive earthquake and tsunami in Japan.
- The Crash**
This selling pressure led to a USD/JPY decline of 3% in less than 10 minutes.
- The After-Effects**
The USD/JPY recovered sharply with no lasting economic impact.

2014

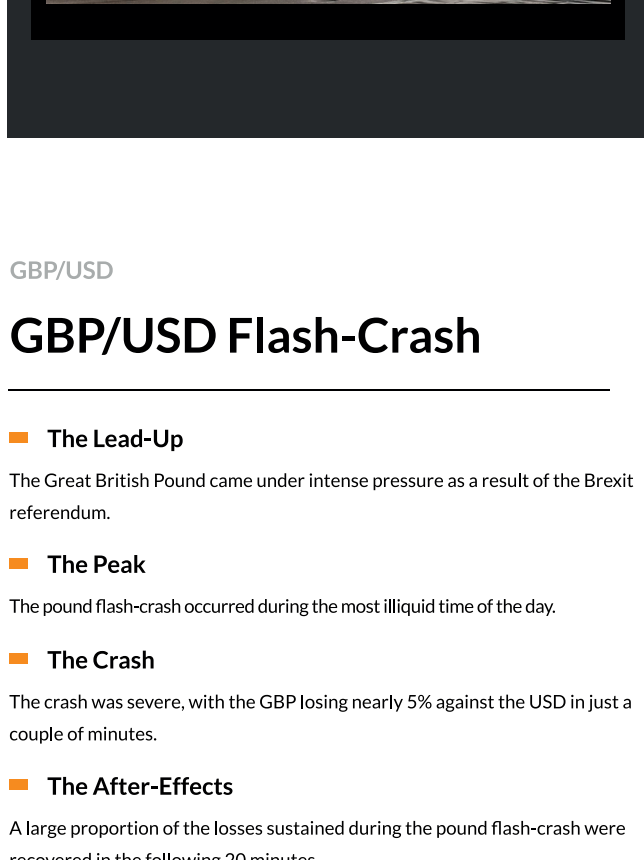


US TREASURY

US Treasury Bonds Flash-Crash

- The Lead-Up**
A month-long decline in yields preceded the treasury bond flash-crash on October 15.
- The Peak & Crash**
On October 15, 2014, the yield on the 10-year US Treasury bond dropped and recovered 1.6% in just 12 minutes.
- The After-Effects**
There is still no clear cause for the severe flash-crash, which is now notorious in Treasury bond rates' history.

2015



EUR/CHF

EUR/CHF Flash-Crash

- The Lead-Up**
On January 15, 2015, the Swiss National Bank announced it was no longer supporting the Swiss Franc vs. the Euro at 1.20.
- The Peak**
The SNB's announcement caused the floor that many market participants were leaning on to collapse.
- The Crash**
There was a spectacular drop, with an instant aggregate price decline of 13% and trades as low as 0.68.
- The After-Effects**
With fewer trades executed, the void left by the 2015 flash-crash took over three years to fill.

2016



BITCOIN

Bitcoin Bubble

- The Lead-Up**
The cryptocurrency craze created a Bitcoin bubble, with its value rising from \$0.06 to nearly \$20,000.
- The Peak**
Most of the gains came in less than a year, with Bitcoin peaking at \$19,600 in 2017.
- The Crash**
When the Bitcoin bubble burst in 2018, its value fell by 82% over a year.
- The After-Effects**
The value of Bitcoin has now stabilised. At the time of writing (September 2019), one Bitcoin is valued at \$9,638.

2017



DOW JONES

Dow Flash-Crash

- The Lead-Up**
Index futures became increasingly fragile, creating the perfect environment for the Dow flash-crash in 2018.
- The Peak**
On February 5, 2018, the Dow opened at over 25,500 points.
- The Crash**
There was a sudden 4% drop in Dow futures in just 10 minutes. By 3.12pm, the Dow was 1,597 points down.
- The After-Effects**
The Dow recovered fiercely, closing 1,175 points down. The Dow crash was the result of short-term stress and high-frequency trading.

2018

