

Panic Grips Financial Markets

By [Stephen Lendman](#)

Theme: [Global Economy](#)

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Monday trading showed Dow stocks plunging 1,089 points in minutes at the opening before rebounding sharply, then closing down 588 points – the single largest intraday point move in one of the most volatile trading days in stock market history, the most volatile ever for Nasdaq stocks.

The Dow fluctuated in a 7% trading range – an unprecedented 9% for Nasdaq stocks. Volatility was so extreme, the VIX S&P 500 index options volatility measure (the so-called fear index) couldn't open during the first 30 minutes. Values of options its based on couldn't be calculated.

For the first time ever, the index closed up over 40% two consecutive days. At its Monday peak, it was up an astonishing 90%.

Until August, stocks stayed in a narrow trading range. In recent days, things changed dramatically. Valuations are extremely overextended.

It was just a matter of time before turbulence ended calm. Is it a correction or end to the bull market dating from March 2009?

Overnight, China's Shanghai Composite lost another 7.6%. It's down over 40% year to date. Monday, the Stoxx Europe 600 plunged 5.3% – its largest single day decline since December 2008.

All bear markets have sharp reversal days. Most Asian bourses stabilized overnight. Perhaps US and European ones will be positive on Tuesday.

In early March, famed investor Jeremy Grantham warned of a “major decline” coming in 2016. Maybe it arrived sooner than he expected. He anticipates a “very different” kind of crash this time because of extremely high government debt levels.

Maybe central banks will able to print their way out of trouble again, he said. “(O)n the other hand,” greater money printing madness “might just break the system,” he warned.

He's worried about 10 threats able to “ruin the world,” he explained:

1. Pressure on GDP growth in the US and the balance of the developed world: count on 1.5% US growth, not the old 3%.
2. The age of plentiful, cheap resources is gone forever.
3. Oil.

4. Climate problems.
5. Global food shortages.
6. Extreme income inequality.
7. Trying to understand deficiencies in democracy and capitalism.
8. Deficiencies in the Fed.
9. Investment bubbles in a world that is, this time, interestingly different.
10. Limitations of homo sapiens

Grantham sees protracted slow global growth, much less than needed, poor economic and political governance, not enough food to keep pace with population growth, reduced amounts of easy to access oil and other resources, as well as a world controlled by a flawed homo sapiens. Not a positive outlook.

He explains history shows all market bubbles burst. They correct to their mean levels, usually overshooting downward before stabilizing - the same way they rise well above fair value going up.

International investor Marc Faber expects a greater market decline - 40% or more with protracted bear market conditions correcting years of extreme excess.

On July 30, he said "(w)e are on the cusp of a major global financial crisis." Global economies are slowing. "That's why the markets are selling off and emerging markets (have been declining) for a long time."

China's growth is "maximum 2% and maybe even negative" - not the 6 or 7% claimed. "The US was in lalaland to believe that their economy and their corporate earnings would not be affected." Crashing commodity prices are an important bear signal.

Market analyst Graham Summers asked if the "crisis of our lifetimes" began last week. Perhaps it's payback time for years of monetary excess - money printing madness assuring trouble.

According to Summers, "the REAL crisis hasn't even started yet." It remains to be seen if he's right.

The late Hyman Minsky's "financial instability hypothesis" showed how speculative bubbles grow from outsized greed. The term "Minsky Moment" refers to when euphoria turns to panic. Investors bail out and market meltdowns ensue.

His seven-stage framework explains as follows:

1. Displacement: Market disruptions change investor perceptions - perhaps in reaction to higher interest rates, weak or negative growth or other unsettling factors.
2. Rising prices: Following displacement, markets bottom, stabilize and rise as fundamentals improve. Investors create momentum on the upside.

3. Easy credit: Recovery and growth need plentiful, cheap credit to propel them. Animal spirits aim to capitalize on opportunities – fueling speculation as more investors jump in.
4. Overtrading: Cheap credit is the greatest speculative driver. Rising valuations generate easy profits.
5. Euphoria: Greed triumphs over caution.
6. Insider profit taking: Market professionals sell to greater fools. It's the beginning of the bull market's end, said Minsky.
7. Revulsion: When cheap credit ends, insider selling reaches peak levels, and/or bad news rattles markets, bull markets end. Euphoria can turn to panic quickly.

Downward momentum is far greater and faster than upswings. Recent days bear witness.

The question for investors today is whether we reached another Minsky Moment. Have inflated markets finally burst after an overextended bull run? Are they in normal correction mode or something greater? Hindsight will explain best of all.

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His new book as editor and contributor is titled "Flashpoint in Ukraine: US Drive for Hegemony Risks WW III."

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