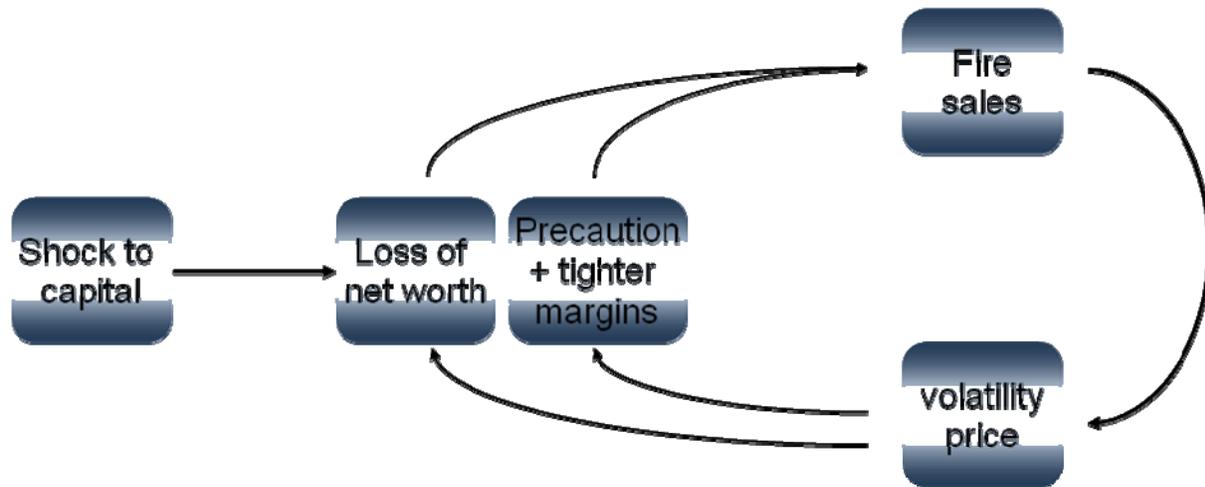


Figure 1: The two liquidity spirals: loss spiral and margin spiral.



Note: Funding problems force leveraged investors to unwind their positions causing 1) more losses and 2) higher volatility leading to precautionary hoarding, higher margins and haircuts, which in turn exacerbates the funding problems and so on.