

Black Friday: Shocking Brexit Vote Result Causes the 9th Largest Stock Market Crash in U.S. History

Has the next Lehman Brothers moment arrived?

Late Thursday night we learned that the British people had voted to leave the European Union, and this could be the “trigger event” that unleashes great financial panic all over the planet. Of course stocks have already been crashing all over the globe over the past year, but up until now we had not seen the kind of stark fear that the crash of 2008 created following the collapse of Lehman Brothers.

The British people are certainly to be congratulated for choosing to leave the tyrannical EU, and if I could have voted I would have voted to leave as well. But just as I warned 10 days ago, choosing to leave will “throw the entire continent into a state of economic and financial chaos.” And “Black Friday” was just the beginning—the pain from this event is going to continue to be felt for months to come.

The shocking outcome of the Brexit vote caught financial markets completely off guard, and the carnage that we witnessed on Friday was absolutely staggering:

- The Dow Jones Industrial Average plunged 610 points, and this represented the 9th largest one day stock market crash in the history of the Dow.
- The Nasdaq was hit even harder than the Dow. It declined percent which was the biggest one day decline since 2011.
- Overall, Black Friday erased approximately 800 billion dollars of stock market wealth in the United States.

- Thursday was **the worst day ever** for the British pound, and investors were stunned to see it collapse to a 31 year low.
- Friday was **the worst day ever** for European banking stocks.
- Friday was the worst day for Italian stocks since 1997.
- Friday was the worst day for Spanish stocks since 1987.
- Japan experienced tremendous chaos as well. The Nikkei fell an astounding 1,286 points, and this was the biggest drop that we have seen in more than 16 years.
- Banking stocks all over the planet got absolutely pummeled on Black Friday. The following comes from USA Today:

Stocks of some British-based banks suffered double-digit losses in heavy U.S. trading. Barclays (BCS) shares plunged % to close at \$. HSBC (HSBC) shares closed down % at \$. And shares of Royal Bank of Scotland (RBS) plummeted 27.5% to a \$ close.

Top U.S. banks also suffered from the Brexit fallout, although not as badly as their British counterparts.

Shares of JPMorgan Chase (JPM) closed down % at \$. Bank of America (BAC) shares fell % to a \$13 close. Citigroup (C) shares dropped % to close at \$. And Wells Fargo (WFC) closed % lower at \$.

- Friday was the best day for gold since the collapse of Lehman Brothers.
- George Soros made a killing on Black Friday because he had already positioned his company to greatly benefit from the Brexit vote ahead of time.

But please don't think that "Black Friday" was just a one day thing. As I warned before, the Brexit vote "could be the trigger that changes everything." And if you don't believe me on this, perhaps you will listen to former Federal Reserve

Chairman Alan Greenspan. This is what he told CNBC on Friday:

"This is the worst period I recall since I've been in public service," Greenspan said on "Squawk on the Street."

*"There's nothing like it, including the crisis—remember October 19th, 1987, when the Dow went down by a record amount 23 percent? That I thought was the bottom of all potential problems. **This has a corrosive effect that will not go away.**"*

I completely agree with Greenspan on this point. This "corrosive effect" on global markets is not going to go away any time soon. Sure there will be days when the markets are green just like there were after the collapse of Lehman Brothers, but overall the trend will be down.

Now that the United Kingdom has decided to leave the EU, financial markets have been gripped by fear and uncertainty, and there is a great deal of concern that this Brexit "could harm the economies of everyone involved:"

Important British trading partners—including India and China—indicated they were worried that an exit would create regulatory and political volatility that could harm the economies of everyone involved.

The U.K.'s Treasury itself reported that its analysis showed the nation "would be permanently poorer" if it left the EU and adopted any of a number of likely alternatives. "Productivity and GDP per person would be lower in all these alternative scenarios, as the costs would substantially outweigh any potential benefit of leaving the EU," a summary of the report said.

This threat even extends to the United States. CNN just published an article that lists four ways the U.S. could be significantly affected by all of this:

1. Fears that the EU may be falling apart
2. Volatile markets slow down the engine of U.S. growth
3. Brexit triggers a strong dollar, which hurts U.S. trade
4. Brexit forces the Fed to rewrite its rate hike playbook

Fortunately we are now heading into the weekend, and that might have a calming effect on the markets.

Or it might just cause financial tension to build up to an extremely high level which will subsequently be released on Monday morning.

We shall see.

RCB's Charlie McElligott is warning that Black Friday was just the beginning and that "today is the appetizer for Monday."

And UBS derivatives strategist Rebecca Cheong says that we could see more than a hundred billion dollars of selling over the next two to three trading days...

Strategies designed to mitigate risk will actually add to downward pressure in the S&P 500 over the next week as computerized selling ramps up to keep pace with falling prices. It reminds Cheong of the rapid stock selling that roiled markets in August, when the S&P 500 fell 11 percent to a 10-month low while facing similar behavior from algorithmic traders.

"The bigger the down move today, the more they have to sell, which would basically create a vicious cycle," Cheong, head of Americas equity derivatives strategy at UBS, said in a phone interview. "We'll see front-loaded selling in the range of \$100 billion to \$150 billion over the next two to three days. It could be very similar to August in terms of model-based selling."

Personally, I am hoping for calm when the markets open on Monday. But without a doubt, something has now shifted as a

result of this Brexit vote, and things have suddenly become a whole lot more serious.

So what do you believe we will see happen next week?