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MARKET MAYHEM · RESEARCH SHEET · EPISODE 18

When JPEGs Were Worth Millions

The Crypto Bubble and the Collapse of FTX

Global / Crypto · 2022 · v1.0 · July 2026

In November 2021, bitcoin touched nearly $69,000 and cartoon-ape JPEGs sold for millions. A year later the mania was in ruins: a $40 billion stablecoin gone in days, and FTX, the exchange run by crypto's supposed white knight, collapsed into bankruptcy with roughly $8 billion of customer money missing.

Key Facts

Event	The 2022 crypto collapse and the fall of the FTX exchange
Location	Global cryptocurrency markets
The Peak	November 2021 — bitcoin near $69,000; NFTs and tokens at euphoric highs
The First Domino	May 2022 — the Terra/Luna algorithmic stablecoin collapses
The Main Event	November 2022 — FTX, run by Sam Bankman-Fried, files for bankruptcy
The Verdict	Sam Bankman-Fried was convicted of fraud in November 2023

By the Numbers

Bitcoin fell from roughly $69,000 (Nov 2021) to around $16,000 in 2022

The Terra/Luna collapse erased about $40 billion in a matter of days

FTX went bankrupt with roughly $8 billion of customer funds missing

FTX had been valued at around $32 billion shortly before it failed

An Exchange With No Reserves

FTX looked like the responsible face of crypto: a telegenic founder, Super Bowl ads, stadium naming rights, politicians on speed-dial. Behind the image, customer deposits had been quietly funnelled to its affiliated trading firm, Alameda Research, and much of FTX's own "capital" was its self-issued FTT token, an asset it largely controlled. When confidence cracked and customers asked for their money back, it was not there. The trusted exchange was a house built on its own paper.

> ***" In an unregulated market, "your" money is only a promise, and a promise is only as good as the person who made it. "***

How It Happened

The 2020–21 boom, fuelled by cheap money and genuine enthusiasm for blockchain, sent crypto prices and NFTs to euphoric highs and made exchanges like FTX enormously valuable.

Much of the structure was circular and leveraged. FTX and its sister trading firm Alameda were deeply entangled; a large part of the value backing them was FTX's own FTT token, an asset FTX effectively created.

Customer funds on FTX were, it later emerged, commingled and lent to Alameda to fund risky bets. As long as prices rose and no one demanded their money at once, the illusion of solvency held.

The Collapse

The unwind began in May 2022 when the Terra/Luna algorithmic stablecoin collapsed, erasing about $40 billion and triggering a cascade of failures across leveraged crypto lenders and funds.

In November, a report revealing how much of Alameda's balance sheet was FTX's own FTT token shattered confidence. A rival cast doubt publicly, customers rushed to withdraw, and FTX could not meet the demand because the money had been spent.

Within days FTX filed for bankruptcy with roughly $8 billion of customer funds missing. Its founder, Sam Bankman-Fried, was arrested and, in November 2023, convicted of fraud. Bitcoin bottomed near $16,000.

Timeline

2020–21	Cheap money fuels a crypto and NFT boom to euphoric highs
Nov 2021	Bitcoin peaks near $69,000
May 2022	The Terra/Luna stablecoin collapses, wiping out ~$40 billion in days
Nov 2022	A report on Alameda's FTT holdings sparks a run on FTX
11 Nov 2022	FTX files for bankruptcy; ~$8 billion of customer funds missing
Nov 2023	Sam Bankman-Fried is convicted of fraud

Mind · Method · Money — What This Means for You

MONEY · Leverage layered on illiquid, self-issued collateral is a mirage
FTX and Alameda were propped up by FTT, a token they largely controlled, and by borrowed customer money. Value that rests on an asset you can print, pledged and re-pledged, is not real capital. Ask what actually backs a balance sheet before you trust it.

METHOD · Without genuine reserves and custody, an exchange is a promise
Customers believed their coins were safely held; they had been lent out and lost. In an unregulated venue with no proof of reserves and no segregation of client funds, “your” assets are only a claim. Verify custody; do not assume it.

MIND · Charisma and hype are not diligence
A likeable founder, celebrity endorsements and stadium deals persuaded sophisticated investors to skip basic checks. The more a story leans on personality and momentum, the more it deserves scrutiny. Trust structures and proof, never image.

Modern Parallels

FTX is the Souk Al-Manakh of the digital age: an opaque, unregulated market with no real clearing or custody, running on interlocking promises and a trusted name, until one bounced assumption brings the whole chain down. The technology is new; the failure, counterparty risk hidden behind confidence, is the oldest one in this series.

Read & Listen

Read the full write-up and listen to the episode: The Crypto Bubble & FTX Collapse (EP18)

Related Research

Previous episode: EP17 · The LME Nickel Squeeze (2022)

The original of this pattern: EP07 · Souk Al-Manakh (1982)

The next one forming: The Next Market Crash — 5 Scenarios

Sources & Further Reading

Michael Lewis, Going Infinite: The Rise and Fall of a New Tycoon (2023)

Zeke Faux, Number Go Up: Inside Crypto's Wild Rise and Staggering Fall (2023)

Market Mayhem: When Greed Meets Gravity, The Complete Trader's Edge

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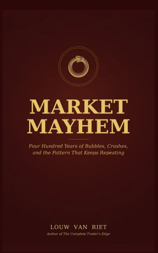

FROM THE BOOK

This crash is dissected in full in **Market Mayhem: When Greed Meets Gravity** — 22 chapters, four centuries of bubbles, one repeating blueprint.

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