

Conditions likened to Black Monday'



Traders worked frantically on the floor of the New York Stock Exchange on Oct. 19, 1987. In the 20 years since then, the markets have grown bigger, more complex and faster, and more information than ever is available about their movements.

(AP)

But the market is different from 1987 in key ways

By TIM PARADIS

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NEW YORK - "We who are about to die salute you."

A wary Art Cashin heard this phrase in its original Latin — morituri te salutamus — from a fellow trader and student of the classics early on a day 20 years ago that would earn the ignoble title Black Monday and serve as a lesson about the fragility of rising stock markets.

Cashin and his colleagues recall Wall Street's plunge of Oct. 19, 1987, when the Dow Jones industrial average fell 508 points, or nearly 23 percent, as one of the most frightening days ever in the stock market. There was a sense of foreboding on the trading floor, and that moved Cashin's colleague to utter the salute once used by Roman gladiators.

Decades later, the crash is still an important milestone for Wall Street — it helps put into perspective market drops seen more recently, including the 416-point, or 3.3 percent, skid in the Dow just this past February.

The 1987 drop occurred when Wall Street faced many of the same conditions it faces today. The late summer months of 1987 saw stocks charging to fresh highs as well as an anemic dollar, rising oil prices, a weak housing sector and credit market jitters — all conditions that exist today.

John Phelan, chairman of the New York Stock Exchange at the time, recalled, "The market was just too high and it was looking for some excuse to react."

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Indeed, the Dow had been up 18.5 percent for the year the day before the crash and at its late-August peak had risen a staggering 43.6 percent for the year. Some observers have made comparisons to this year, when the Dow crossed 13,000 for the first time and then in short order passed 14,000 as investors looked past growing concerns about tightening credit markets and a faltering housing sector.

But market watchers say there are important differences.

At the time the Federal Reserve was busy battling inflation, and interest rates were much higher, notes Liz Ann Sonders, now chief investment strategist at Charles Schwab Corp.

“In general, sentiment is not as frothy as it was going into the crash of ’87, but I think it’s something that needs to be watched. There are inflation fears right now but inflation was much higher,” she said, adding that the price of stocks relative to the earnings of companies — a widely followed market measure known as the price-to-earnings ratio — was also much higher 20 years ago. Interest rates were also rising at the time; now, they may be headed lower.

Still, Sonders said, “There’s no question there are a lot of similarities between then and now, many of which are eerie.”

She noted that in both cases the economy was slowing five years into a bull market run.

Economic fundamentals aside, the stock market is a dramatically different place today, due to the fact that 20 years of technology and an investment boom have had a huge impact on Wall Street. In 1987, order slips littered the floor of the exchange that is now largely computer-driven. And 401(k) retirement accounts and the explosive growth of the mutual fund industry had yet to draw millions of first-time investors into the market.

The Dow that stood at 2,246.74 before the crash and 1,738.74 after has swelled through the years by the public’s growing appetite for investments. It closed Thursday at 13,888.96 and has traded as high as 14,198.09.

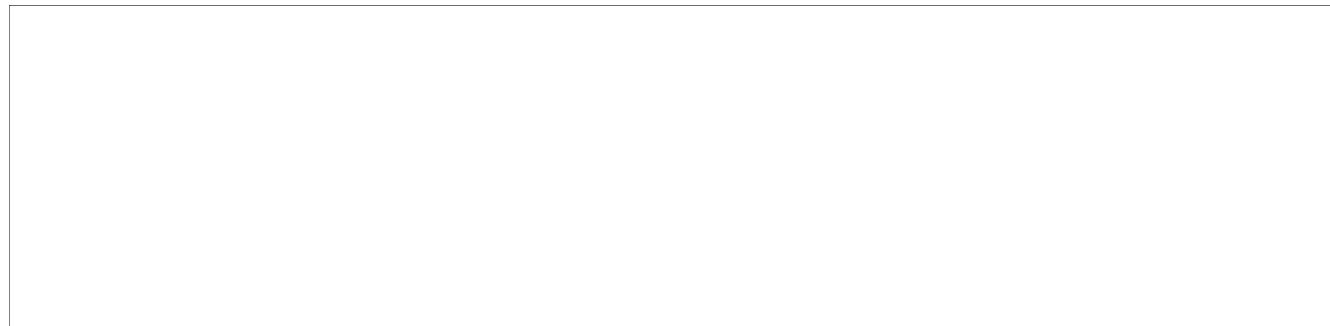
“The market is a lot bigger, it’s a lot more electronic. It’s a lot more resilient, I think, than it was then,” said John Thain, the NYSE’s present chief.

On Black Monday, the exchange traded 604 million shares. This year when the market saw big swings in August, the NYSE traded about 2.8 billion shares per day.

But an accounting of similarities or differences can obscure broader truths about the mortality of market runups. The same frenetic air that brought on ’87 eventually felled the dot-com run-up at the start of this decade and the more recent buy-a-homeget-rich-quick market.

“There was not that realization of how

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much leverage had been introduced into the system. It's the same thing with subprime now," Phelan said, referring to loans made to borrowers with poor credit and recent concerns about rising default rates among such loans.

And as was seen with the February stock market pullback this year, and the market's retrenchment after major indexes touched fresh highs in August, Wall Street's peaks can meet with swift ends.

That is what traders recall about Oct. 19, 1987.

"That day really changed people's minds as to what could really happen and what risks they really had down here. For a long time it was not something you thought about on a regular basis. I think after that day everyone thought about that risk all the time,"

Doreen Mogavero, head of the firm Mogavero Lee and Co., said recently from her booth on the floor of the exchange, where she has been a member for 28 years.

Indeed, Wall Street seemed to welcome a dose of conservatism. Safety measures emerged from inquiries into the crash that include computerized mechanisms to slow or even halt trading if declines prove steep enough.

Still, the events of recent years have shown that when the market's fear is deep enough, there is little to be done to stop a rush to flee the market. On Sept. 17, 2001, when the stock market reopened for the first time after the 9/11

attacks, nothing but the market's own dynamics could have stopped the selling. The Dow fell about 720 points before ending the day with its worst point drop ever: 684.81.

Compare that with Phelan's recollection of Black Monday.

"It was almost like a fountain they were coming out so fast," he said of sell orders arriving on the NYSE trading floor during the crash.

Mogavero said that day on the floor and the unsettling trading that continued in subsequent sessions left her a more conservative investor.

"The looks on people's faces during the day actually told the story. After about lunchtime it started to become apparent things were not usual, and I think at that point it became a very sort of frantic environment," she said.

"It happened so fast that many clients didn't have the time to react, which was a good thing for them from a longterm perspective" because they stayed in the market. "The difference between then and now is there wasn't as much information about the market then as there is now. You didn't have the 24-hour attention to the market."

PHIL PRICE — partner, Ramsay Stattman Vela & Price Inc., a Colorado Springs-based investment management firm that manages \$175 million for clients

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“At the time, I had the feeling that this couldn’t be happening. A movement of that magnitude in a single day had never happened before, even during the Great Depression. It seemed unfathomable and unwarranted; it was irrational. “If it happened before, it can happen again. I would like to think that we have all learned from the experience. It is never a good idea to sell first and ask questions later. People were selling out of panic.”

JERRY BRUNI — president, J.V. Bruni and Co., a Springsbased investment management firm that manages more than \$800 million for clients

“It was startling to lose so much money so quickly for no reason. People panicked. I didn’t sell anything, but I was a nervous wreck. “Today it seems like a little blip.

The correction that lasted from 2000 to 2002 was more difficult because it lasted so long. It clearly showed how influential investor psychology is on behavior.”

THAYER TUTT — president and chief investment officer, El Pomar Foundation, a Colorado Springs-based charitable foundation with assets of more than \$500 million

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