Remembering the crash of '87

By Peter Robertson

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It is hard to believe that twenty five years have passed since the great stockmarket crash of '87. On Monday 19th October 1987, the US Dow Jones Index (DJIA) fell by 22%, wiping $550bn off the value of companies in what would forever be known as 'Black Monday'. It remains to this day the largest single day decline in history.

During the course of 1986, the US economy began shifting from a rapidly growing recovery to a slower growing expansion, which resulted in a "soft landing" as the economy slowed and inflation dropped. Having risen by 13.8% in January 1987 alone, the DJIA advanced significantly, peaking in August 1987 at 2,722 points. The index was up 44% year to date.

On October 14th, the DJIA dropped 95.46 points (a then record) to 2,412.70, and fell another 58 points the next day, down over 12% from the August high.

On Friday 16th, when all the markets in London were unexpectedly closed due to the Great Storm of 1987, the DJIA closed down another 108.35 points to close at 2,246.74 on record volume. American Treasury Secretary James Baker stated concerns about the falling prices. That weekend many investors worried over their stock investments and on Monday 19th October markets collapsed.

By the end of October, markets in Hong Kong had fallen 45.5%, Australia 41.8%, United Kingdom 26.45%, United States 22.68% and Canada 22.5%.

In the intervening months a number of factors were put forward as to what caused the crash but not one was ever cited as conclusive. These included program trading (where computer perform rapid stock trading based on external inputs); overvalued markets (the DJIA had already rallied 44% in the eight months to August), economic factors (the US had started to raise interest rates to cool its rapid recovery) and market psychology 'herd like' factors which brought about mass selling. Perhaps it was a combination of all these factors which contributed to the crash.

Without wishing to tempt fate, could such a one day crash happen again? Given the current imbalances in the global economy and the vast levels of debt accumulated by Western Economies in the last 30 years, the answer is 'yes', although internal controls adopted by exchanges in the modern era could reduce the magnitude of any single day decline.

On a positive note, by September of 1989 the market had regained all of the value it had lost in the '87 crash. Twenty five years on, despite the current headwinds facing the global economy, the DJIA (at 13,000) is 647% higher than it was in 1987.