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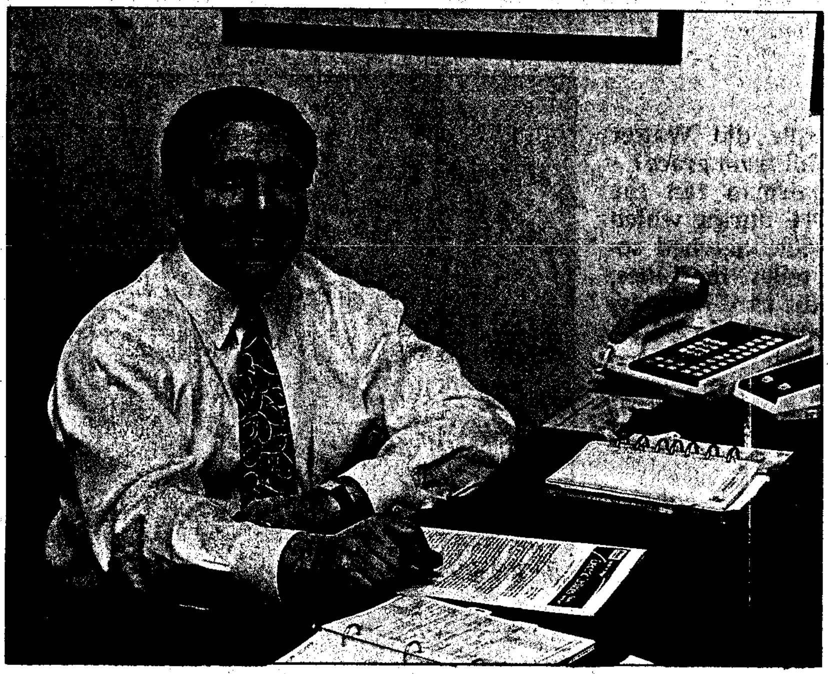
YOUR MONEY



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THE DAY NO ONE ATE LUNCH: Ken Allman, Wheat First Securities vice president, recalls the day the market crashed—Oct. 19, 1987.

Black Monday recalled

Five years later, analysts look back at 508-point drop

By GREG COOK
The Herald-Sun

A look back at the crash of '87/F4

Like any type of traumatic and painful event, Oct. 19, 1987 always will be etched in the minds of analysts who follow the stock market.

It's impossible to forget about a 508-point bombshell.

"At the time, obviously, it's a painful situation when you see the market drop that rapidly," said Ken Allman, vice president of Wheat First Securities in Durham.

"I doubt if too many people went to lunch that day," he said.

The Dow Jones industrial average plummeted 508 points on Oct. 19, 1987, a 22.6 percent crash. When the flood gates opened, they never let up.

It was an all too-infamous day now dubbed as Black Monday.

David Sontag, resident manager of Durham's Merrill Lynch office, also remembers the day vividly. Sontag was working in Columbus, Ohio, but he could have been anywhere.

The Dow Jones Industrial average had plunged more than 100 points on Friday, Oct. 16, so he expected a busy day when he strolled into his office that Monday. Little did he know the bottom would fall out.

"My phone was ringing when I came in at seven in the morning," Sontag said. "My clients were telling me to sell everything.

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"They didn't want to talk to you," he added. "They didn't want to discuss it. They just wanted to sell everything.

"I think everyone was kind of shocked," Sontag said. "It was disbelief to watch a market fall that precipitously in one day."

Campbell Harvey, associate professor of finance at Duke University, recalls that day five years ago. But his perspective is somewhat different from that of most market observers.

"The stock market is a volatile market and you expect moves like that every so often," Harvey said. "I didn't think it was that big of a deal."

He supports his statement by pointing out that the U.S. economy grew in 1988 by 4 percent, just as he had forecast a few days after the crash. Many doomsayers had, in the meantime, predicted a downward economic spiral for the nation.

Black Monday jolted the country into realizing that United States market is linked with economies worldwide, according to Harvey.

"This was really a worldwide crash," Harvey said. "Initially, all the focus was on the U.S., but it really happened in many different countries."

The crash forced a number of Wall Street firms to restructure. It also prompted a string of reform measures on the New York Stock Exchange.

One such change is the installation of so-called "circuit breakers," which activate when a wave of selling hits the market.

When the market drops or rises 50 points in a session, certain restrictions are placed on computerized trading. Another circuit breaker temporarily stops declines in a big index of stocks traded in Chicago.

Many brokers support the overhaul, saying it is necessary to curb a tide of panic selling.

"I think it closes the gate to some degree and alleviates the possibility of a panic," Allman said. "I think the idea is that it slows the descent."

"I think it gives things some time to cool off," Sontag said.

But not everyone agrees, including Duke's Harvey.

"I think all the things they did were mistakes," Harvey said. "If there's information in the market to cause it to drop 250 points, that's fine. Why would you want to delay it?"

The New York Stock Exchange, according to Harvey, is inefficient, especially compared to the national over-the-counter exchange.

"One of the problems, I think, was that the NYSE tried to blame everyone else for the crash," Harvey said.