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Crash of '87 Recollections: 'My Singularly Worst-Day Ever'

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By Paul Vigna

Nobody who lived through the Crash of '87 — the worst one-day loss in Wall Street history — will ever forget it, such was the electric shock it sent through Wall Street.



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It was "as close to financial meltdown as I'd ever want to see," NYSE Chairman John Phelan told the Wall Street Journal that day.

From a first day on a new job, to a first day in New York City, to a veteran trader trying to play the madness, what follows are the recollections of some people who were in the market that day.

Dennis Gartman (*Then: self-employed trader, and writing The Gartman Letter, which he started in 1985. Now: self-employed trader, and writing The Gartman Letter*) "It should have been my singularly best day ever; it turned into my singularly worst day ever," Gartman told MarketBeat. He had seen the swoon coming, and tried to play it by setting up a complex trade involving S&P futures and Value Line futures. As the market turned, he got squeezed. We pick up the details via today's Gartman Letter:

More In Black Monday

[That Old Sinking Feeling Returns, Circa October 1987](#)

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Chaos was building in the market itself as the Dow fell 200, then 400 and finally 500 points lower on the day.

Margin clerks around the world were in panic, as were market participants and the media. It was indeed utter chaos.

It was then that we received a call from the firm we were clearing our trades

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MarketBeat looks under the hood of Wall Street each day, finding market-moving news, analyzing trends and highlighting noteworthy commentary from the best blogs and research. MarketBeat is updated frequently throughout the day, helping investors stay on top of what's happening in the markets. Lead writers **Paul Vigna** and **Steven Russolillo** spearhead the MarketBeat team, with contributions from other Journal reporters and editors. Have a comment? Write to paul.vigna@wsj.com or steven.russolillo@wsj.com.



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1987 Crash

through, with the margin clerk demanding that we post full margin on both sides of the transaction; that is, the firm wanted us to pay for the full value of the S&P and the full value of the Value Line futures, so rather than an initial margin of \$1,000/contract they were demanding of us several millions of dollars and we were informed that if we did not have the margin wired by noon they would liquidate our positions accordingly. They were in panic mode, and in retrospect we understand their concerns.

Not having the margins demanded, we had no choice but to hope that the trade moved back in our favour in the next few minutes. It did, but only by a few full points, and at noon, having received one more call from the firm we were dealing with at the time demanding that we meet their margin call or liquidate, we chose to liquidate.

We were out, our loss of \$25,000 or so being quite real and our fears for the country being even more so.

Marilyn Cohen (*Then: bond trader at Cantor Fitzgerald. Now: CEO, Envision Capital Management*) I was giving a speech to the Young Presidents' Organization – a group of entrepreneurs. As a bond market person, that was an inflection point for bonds and it was the second big leg of the bull market rally (the first rally came off of 1981-1982).

Remember there were no laptops, no Internet, no smartphones so people kept running in with updates as the market kept dropping but they were unshaken and unstirred about the equity market collapsing. Their reasoning? Their individual businesses, they believed, were in good shape and their revenue streams and business plans were completely independent of market behavior. Around the room each one said "stock market decline will have little effect on my businesses." Fast forward 25 years, I doubt they would say that today. Back then the 30-year Treasury bond yield was 10.5% and my speech on bonds took on a whole new interest for them, because the Fed came to the rescue.



David Rosenberg (*Then: financial markets economist Bank of Nova Scotia BNS.T -0.37% . Now: chief economist, Gluskin Sheff*) Oct. 19, 1987, was my first day on Bay Street. I was lured away from CMHC in Ottawa where I was a housing policy analyst to the Bank of Nova Scotia

as a financial markets economist.

It was my first day ever on a trading floor. Let's just say that pandemonium was the order of the day. Chaotic. If someone at that time had offered me a return ticket on Voyageur Colonial to take me back on the 401 to my cushy civil service job in the nation's capital, I would have grabbed it in a millisecond.

As it turned out, I spent the day following Bill Mackness (then the chief economist) and Warren Jestin (current chief economist) around all day and at each meeting they advised the decision-makers at the bank that the panic would quickly subside on the back of Fed liquidity, and boy were they ever proven right.

What stands out from that day was the classic Kipling situation of keeping your head cool as everyone else is losing theirs.

John Mauldin (*Then: owner, Communications Management. Now: author and*

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investment strategist) Ironically, I was in midtown for one of my first ever visits to NYC. You could feel the tension and buzz walking along the streets, although I thought this was just NYC as it was normally.

I had nothing in the stock market at the time, although heavily involved in investment publishing, so I was aware by the middle of the day what was going on and the significance as something we would look back on in the future and remember, kind of like watching the landing on the moon, but had no personal gut emotional attachment, just a sense of overall concern.

Now? It was just another bad day at the office in the middle of a huge bull market. But it stays with me because outlier events are still very much possible when humans are involved.

Ed Yardeni (*Then, chief economist, EF Hutton. Now, consultant, strategist; founder, Yardeni Research*) The 1987 stock market crash on Monday, Oct. 19, stress-tested the conviction of bulls like myself and Greg Smith [I was the chief economist at EF Hutton and Greg was the chief investment strategists].

Nevertheless, Greg and I spent much of that day talking to our sales force reassuring them that this was unlikely to be the beginning of a secular bear market. On Wednesday, I received a call from a Prudential Securities investment banker, who was convinced that the crash was triggered the week before by news that the House Ways and Means Committee was considering eliminating the tax deduction for interest paid on debt used in corporate takeovers. At the time big deals were a big deal driving stock prices higher. I was convinced. I wrote an op-ed article for the Oct. 28, 1987, issue of The Wall Street Journal calling on the committee to junk the proposal. The committee's chairman, Dan Rostenkowski, did just that during December 1987.

At the start of 1988, I reaffirmed my bullish outlook by forecasting that the DJIA would rise to a new high of 5000 by 1993. Three years later, I realized that it might take longer to get there. So I amended the forecast to Dow "5, 5 by '95." I predicted that the Dow would soar to 5000 and that the 30-year Treasury bond yield would fall to 5% by 1995. When the Dow rose to my target on Nov. 21, 1995, I raised the ante with a forecast of 10000 by 2000.

Tim Gramotovich (*Then: trader at Drexel Burnham. Now; chief investment officer at Peritus Asset Management*) I remember it like yesterday. I was at Drexel Burnham and even though I was there for a couple of years, I had just completed getting all of my securities licenses a week earlier.



The Independent/Everett Collection

Great timing. I remember the stares on the brokers/traders faces as the market fell and continued to fall the entire day. And no rally. I had no clue what this meant. The only thing that made sense to me was that [Occidental Petroleum](#) OXY -1.37% traded down some 40% and yet oil prices were actually up. So I tried to buy some in my own account. I think the order was filled three days later. I remember going home to my wife and turning on the TV. She asked me if it was bad for my job. I told her the truth. I had no idea.

It was the weeks that followed that were also fresh on my mind. Security guards were placed at all of our offices as clients who were "margin'd" were perhaps looking to extract revenge on their brokers. It was all very strange. Fortunately it turned out to be a market event not an economic event and was much easier than the 2008 period.

Kenneth Polcari (*Then: member of William Lathan & Co, a brokerage firm on NYSE floor. Now, managing director with ICAP, a brokerage firm*): Sunday night

October 18th – we tucked ourselves into bed for a good nights sleep as the drama began to unfold on the other side of the world.....The “CRASH” began in Hong Kong and spread across the region.....as morning turned to afternoon in Asia the contagion spread west to Europe. As the sun began to rise over NYC I was unaware of the disaster that had struck the other markets. As usual – my alarm clock rang at 5 am. I woke up, showered, shaved got dressed – got in the car, drove to Bella’s Donuts for my cup of coffee then onto the train station to catch the 6:05 am train to Grand Central – arriving in 32 mins. I would then descend into the bowels of the city to take the #5 subway train 4 stops to Wall Street. (If I remember correctly – the fare was 50 cts. Today it is \$2.50). When I arrived at my booth on the NYSE – I began to prepare for the day – totally oblivious to the coming storm.

At about 7:15 am....the phone rang – a customer calling....what could they want? It was so early.....I remember it was Johnny Parasco – “hey bud” he said – “Do you know what ‘s going on around the world?” I was not sure what he meant – remember – there were no TV’s, or radio’s on the NYSE (don’t even ask about a computer) – I only had the newspaper and trust me – the front page story was about what happened on Friday the 16th. I hadn’t a clue what had happened around the world....but I had a feeling I was about to find out.....I remember asking: “ What? What happened?”and then it started.....the orders, the customers calling, the sense of anxiety, almost panic in their voices....and it was only 8 am.

By 9 am – the floor was a buzz....people were stunned at the news – the devastation was hard to imagine.....as the minutes ticked by the sell orders kept piling up and the customers held nothing back.....”Sell 100k beam” (shorthand for [IBM](#) **IBM -0.82%**), “Sell 150K electric” (shorthand for GE), “Sell 75k burgers” (you guessed it – MCD), “Sell 125k hot water pipe” (that was shorthand for [Hewlett Packard](#) **HPQ -2.16%**) – HWP) “Sell 200k johnny” (JNJ), “Sell 100k motors” (GM).....you get the picture – right? And these were all market orders – no limits – SELL THE STOCK.....and the other brokers had similar type orders.... When the bell rang at 9:30.....the futures market opened to heavy selling yet the large imbalances in the cash market caused opening delays at the NYSE – by 10 am – 95 S&P stocks representing 30% of the index value had not opened – the pressure continued to build.....and the slaughter began....As the day wore on you could feel the doom, the sense of despair, the sense that it was all about to end.....Dick Grasso under pressure to stop trading remained calm, cool and collected..... – open lines to the Federal Reserve in DC, The Federal Reserve bank of NY, The SEC, and lest we forget – the heads of the families – Goldman, First Boston, Bear Stearns, Shearson Lehman [Morgan Stanley](#) **MS -1.46%**, [JP Morgan](#) **JPM -1.60%** etc..... it was an amazing day and I am proud to have played a part in it.....the system – although under duress – did function, brokers represented their customers, prices collapsed but the 5k men and women of the NYSE did not fail the country. By 4 pm the US capital markets had lost 22.61% of their value – this represented a 508 point decline to end the day at 1738.24. Over \$1 Trillion of stock mkt value had vanished in the past 4 days.....



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7:20 pm October 19, 2012

The Undertaker wrote :

I enjoyed it!

11:50 am October 19, 2012

Marilyn wrote :

I remember it well. I was a government bond trader at Security Pacific Bank (a broker dealer) in LA. We glued with fascination to the old fashioned "screens" that were boxes like the old box TVs. The screens were just black and white — a bunch of numbers that would be decipherable to anyone else. I started buying two year notes even though they had already shot up in value — many traders worried that it was too late to get in. Made quite a bit of money on the desk that day.

11:39 am October 19, 2012

Bob61571 wrote :

Standing in the Charles Schwab office in Downtown Nashville, in shock. I was on vacation, visiting family there that week. Just happened into the office, heard a lot of old men cussing up a blue streak. I had forgotten my Acct. #, so could do not selling/buying.



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