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Panic struck Wall Street 20 years ago

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The 366-point drop in the Dow Jones Industrial Average on Friday was an unwelcome reminder that it was the 20-year anniversary of "Black Monday," when the Dow fell almost 23 percent in one day.
This time, however, the big point loss translated only to a 2.64 percent drop because the Dow has crossed the 13,000 level in the 20-year interim.

But when the Dow fell 508 points in a remarkable free-fall Oct. 19, 1987, a wave of fear and panic washed over investors and market professionals alike.

"It was shock, disbelief and fear," said Fred Russell, principal of Fredric E. Russell Investment Management Co. in Tulsa, of that day now two decades distant. "I remember everyone was afraid, including myself."

Russell had just opened his own money management firm.

"I told myself there was no logical reason to be afraid, because the companies in the United States we invested in would be pretty much the same whether their stocks were 20 percent higher or 20 percent lower," he said. "The problem is logic and emotion don't always coincide."

Black Monday remains ingrained in the memories of millions of Americans who can remember exactly where they were that day in much the same way that people recall the instant they heard about the terrorist attack on the World Trade Center in 2001.

While the market righted itself fairly quickly and began to climb out of the horrific one-day drop, it left a bitter aftertaste with many, especially investors who watched helplessly as much of their stock portfolios or retirement accounts disappeared in one day of frenzied trading.

Nick Massey, regional vice president of Householder Group in Oklahoma City, was an investment professional in the San Francisco area in 1987. He felt the wrath of investors because of a personalized license plate that branded his automobile.

The car boasted "MKT WZRD" on the plates, and people noticed.

"That was such a horrible experience for people that for two weeks after that I had people drive by and honk and shake their fists and flip me off, people that I didn't even know," Massey said. "That was such a devastating experience that they didn't think it was funny."

Massey eventually switched to regular license plates and has never "personalized" again, he said.

While the stock market has crossed some historic milestones this year, Massey draws some important distinctions between 1987 and 2007.

•*Then:* The market was overvalued by as much as 30 percent when compared to the yield of the 10-year Treasury bond, he said. That made it ripe for a fall.
•*Now:* The market is 30 percent undervalued when using the same 10-year Treasury bond yield as a measuring stick.

While the Standard & Poor's 500 was trading at more than 20 times earnings in 1987, it is trading at just 14.5 times earnings today, he said.

"I don't think we have anywhere near the kind of scenario today to cause a Black Monday," Massey said.

John Burns, a principal of Burns Advisory Group in Oklahoma City, had only been out of college for a year in 1987. He and his wife were traveling to Florida on Black Monday, and the memory of seeing the stunned faces of his fellow travelers has lingered through the years.

"I can remember seeing the news in the airport, and people were just hushed," Burns said. "We got on the airplane to go to our destination, and the businessman next to me ordered a double scotch.

"There are not too many days I can actually recollect where I was or who I was talking to, but I do remember that 20 years later."

There were some important — and hard — lessons learned on Black Monday.

First, having liquidity, or access to funds, was critical in allowing the markets to weather the big sell-off. And quick, decisive action by the Federal Reserve also helped restore stability, Burns said.

For investors, the lessons may be more about dealing with emotions.

"Don't panic over volatility," Burns said. "Invest for the long run. That was a short-term event. Volatility is alive and well in the marketplace. It's not something to be feared, but something that needs to be understood so you can make good decisions.

"Extreme volatility represents some good (buying) opportunities in a lot of cases."

The stock market is not the place for everyone, Russell said. The ride is never smooth, and many investors panic and sell when stocks are at their lowest levels.

"This is a game for rich people," Russell said. "Merrill Lynch doesn't tell you that, but that's what I believe. We always have some type of nasty surprise."