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The Crash Of 1929 – Could It Happen Again?
**by Andrew Beattie (Contact Author | Biography)**

Despite a number of serious downturns and corrections since, the crash of 1929 still reigns as the most dreadful market event in history. This is partially because of the severity of the event, but mostly because the entire economy buckled and then broke under the strain, starting America on the way to the Great Depression. Read on to find out how and why it happened.

**The Roaring Twenties**

The Dow Jones Industrial Average (DJIA) doubled, stock values raced upward and the future looked promising. On an everyday level, the car, radio and motion pictures were stirring up high hopes, and Henry Ford had shaken up America by offering great pay for shorter hours, forcing other industries to pick up their feet. More than anything, America was feeling its power. World War I left America with trading ties all over the world and almost every major European nation a debtor to the U.S.

With stocks skyrocketing in price, stories of people making fortunes on stocks lured people into throwing cash into the market. At the same time, the Federal Reserve Bank was very accommodating, and even eager, to shake off the brief recession that followed immediately after the war. It expanded the money supply and lowered interest rates. In this loan-friendly environment, brokers, amateur investors and even banks were leveraging everything on margin to get more of the action. The buying glut caused prices to break away from the fundamentals and sent them soaring. By 1928, signs that such prosperity could not continue forever began to appear. (For more, read *Recession-Proof Your Portfolio*.)

**No Cure for Hiccups**

On June 12, 1928, the New York Stock Exchange (NYSE) saw five million shares trade hands during a seemingly random drop across the board. This market hiccup was fleeting and the bull market picked up again, but with perhaps a slight sense of unease over how quickly the market could go down. The Fed noticed and set about reversing the footloose policies that had added momentum to the bull run by increasing interest rates and announcing a ban on loans for margin trades in February 1929. In most runaway markets, this bucket of ice water should have been enough to cool things down, but investors were leveraged to the hilt and their hopes and desperation kept the market rising.

In the summer, many banks also tried to cool things down by raising the discount rate on loans to brokers, many of whom were trading with huge outstanding debts. This hike effectively halted the bull market. The Dow slumped for weeks before rallying briefly in early September to reach a pre-crash high of 381.17 and then slumping again. Reality, however, didn't fully set in until late October.

**Black Days**

October 24 and 25, Black Thursday and Black Friday, heralded the beginning of the chaos to follow. The NYSE watched as 13 million shares traded hands in furious bouts of panic selling. An intervention by wealthier investors, essentially the buying up of huge blocks of plummeting shares, halted the slide briefly. The crash resumed on Black Monday, as more investors rushed to get out of the market while the Wall Street titans continued to hold up prices. The Dow dropped 13% despite Wall Street's best efforts and, the following day, the situation worsened. On Black Tuesday, more than 16 million shares were traded in panic selling that lasted the whole day. The market lost $14 billion. (To find out what it means when investors are selling off their stocks for safer investments, read *Panic Selling - Capitulation Or Crash?*)

**Tremors**

The crash was severe, but the aftershocks were actually more damaging. If everyone had been investing with money they could afford to lose, the crash wouldn't rank among the most severe market corrections. However, with everyone, including banks, trading on margin, the bloodletting on Wall Street meant millions of dollars in bad loans. The banks holding the bad loans could call in the collateral, but in the market slide, even that meant losing money.

Soon enough, banks began to fail. The shock to the overall banking system was so severe that the whole economy spiraled into a severe recession, which deepened into a depression and as the economy soured, the market continued to fall. On the worst day of the crash, the Dow lost 13%, but throughout the following years of depression, it shed 89% of its pre-crash high.

**Conclusion**

In most contexts, the term "crash" is used for market downturns that are sudden and harsh. The Great Crash of 1929, however, is used to refer to more than three years of economic misery. While the crash of 1981 almost doubled the single-day loss of Black Tuesday and several subsequent crises have shed more market value, the crash of 1929 encompasses the many crashes, slides and general misery that followed during the Depression years. With any luck, it will remain both the first and last crash to earn the title of "great."

For further reading on this topic, see *The Greatest Market Crashes*.

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