



## Black Monday Taught Investors A Lesson They Must Never Forget

### Description

The 30th anniversary of Black Monday has triggered fears that we could be heading for a similarly spectacular crash.

Article after article has retold the story of the biggest ever one-day stock market crash and reminded us that markets look overvalued today.

The suggestion is that we are heading for another Black Monday, and should be prepared to cut and run. We should do nothing of the kind.

### Paint it black

Black Monday, 19 October 1987, was certainly a crash to remember with the Dow Jones falling 22.6% in a single day, wiping \$500 billion off share values.

This was far more extreme than the original Black Monday on 28 October 1929, when the market dropped a relatively modest 12.8%.

New electronic trading systems worsened the sell-off by automatically liquidating stock holdings once they fell below a certain level. Portfolio insurance designed to minimise losses created a vicious cycle of selling instead.

Investors braced themselves for a repeat of the 1930s depression. It felt like the world was going to end. It didn't.

### Running with the bulls

Black Monday was preceded by a spectacular bull run. The Dow Jones average of 30 industrial stocks rose a dizzying 27.66% in 1985, then another 22.58% in 1986.

By August 1987 the US market was up another 40%, but then investors started to worry that shares were overvalued.

You can see why people are keen to draw parallels with today, as the current bull run has lasted well over eight years and stocks look pricey.

The Shiller PE measure of stock market valuation peaked at 17.5 in the run-up to Black Monday. Today it sits at 31.

It has only hit this level twice before, in 1929 and the dot-com bubble of 1999. How scared should we be?

## **Flying high**

Stock markets will inevitably crash at some point. Why? Because that's what stock markets do.

Nobody knows when this will happen, whatever they may claim. So please do not rush to sell now, as markets could just as easily power higher.

Also, even if markets do crash, it does not matter. Really.

## **Monday, Monday**

The true lesson of Black Monday is what came afterwards. Markets recovered rapidly, and actually ended the year higher than they began.

In 1988, the Dow leapt 11.85% and another 26.96% in 1989. The 1990s bull run followed.

Markets always recover, if you give them time. Provided you are invested for at least five or 10 years, you can afford to sit tight.

If we do get a crash, there is only one sensible thing long-term investors can do. Grit their teeth, and buy shares.

Good companies will get sold off with the bad, so find those companies, and pick up their stock at the new reduced price. Then simply sit back, let the dividends roll up, and wait for share prices to rise again, as they always do.

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