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## Oct. 1987 panic still a mystery

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Andre Ratkai was a 27-year-old researcher at a small Denver Tech Center brokerage on the day the Dow Jones industrial average lost 22.6 percent of its value in a matter of hours.

Approaching the 20th anniversary of Black Monday - Oct. 19, 1987 - Ratkai recounts the horror as if it were yesterday. Interest rates were in the double digits, the dollar was plummeting, and it appeared global dominance might soon shift from the United States to Japan.

Real-estate values were collapsing, savings and loans had just been looted by white-collar thieves, and junk-bond financed raiders were launching hostile takeovers of huge companies and putting thousands out of work.

The stock market had become increasingly

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volatile, but there was nothing in the news on Oct. 19 that would warrant history's largest one-day percentage loss in the Dow - more than 500 points, akin to a 3,100-point drop today. The causes of Black Monday remain a mystery.

Program trading, then in its infancy, is often listed as the chief culprit. Many also blame the advent of portfolio insurance - a loss-curbing strategy that doesn't work when everyone wants out.

Some point to the New York Stock Exchange's order handling system, which could not keep pace with the sudden spike in sell orders. Those who prefer a more rational explanation say it was a just a long-overdue correction.

It still seems to many, though, that the panic was simply caused by

panic. panic.

"When I walked into the office, the market was already down 100 points," Ratkai said. "We were all kind of shocked. ... There were no buyers. ... Every time we thought we had just hit a bottom the market would go down lower and lower and lower.

"By lunchtime, it was turning into the proverbial boulder rolling downhill and there didn't seem to be anything that could stop it. ... When it got down to 400 or 450 we got these calls from people saying, 'Get me the hell out.'"

Then, as the day wore on, silence.

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"By that time, nobody was really even talking on the phone," Ratkai said. "A few calls here and there, but this silence fell over the office. ...

"I had just gotten this job in August 1987, and there I was in October figuring that my career was over."

This scene played out in brokerages around the world as other markets fell like dominoes. In New York, floor traders fainted and brokerage Donaldson, Lufkin & Jenrette stationed security guards outside its building, fearing violent confrontations with its clients.

"Everybody was worried that the end was here," recalled Dave Evans, a managing director with Wachovia Securities. "They thought the economy was through, and that the banking system was going to fold up. We really hadn't seen anything like it since the 1929 crash."

Indeed, most news accounts referenced the 1929 crash - another Black Monday that preceded the Great Depression. But not everybody freaked out.

Mike Conn of Denver-based Investment Management Associates was in Atlanta, racing in a Sports Club Car of America event. "Everyone kept coming up to me that day at the racetrack and saying 'Are you OK?' And I said, 'I am out of the office, I have no idea if I am OK or not. ... Maybe I was naive, but I didn't think it was the end of the world.'"

The stock market rebounded by 1988, and those

who could hold their positions or invest amid the carnage prospered.

Many credit the Federal Reserve Bank, then led by Alan Greenspan, for calming the market and paving the way for the greatest boom in history.

The market would collapse again after the Internet bust of the 1990s, only to recover to the new highs we enjoy today.

Could Black Monday happen again?

"I thought it was about to happen a few weeks ago when all this subprime news hit," said Evans. "This time the Fed was ready for it," citing the central bank's quick moves to lower interest rates.

The firm Ratkai worked for during the crash went belly up. He's now president of Praxis Advisory Group and an adjunct professor at the University of Denver.

What did he learn from Black Monday? Invest when there is blood in the streets, diversify, and never listen to people who make their living on Wall Street.

Al Lewis' column appears Sundays, Tuesdays and Fridays. Respond to Lewis at [denverpostbloghouse.com/lewis](http://denverpostbloghouse.com/lewis), 303-954-1967 or [alewis@denverpost.com](mailto:alewis@denverpost.com).

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