

Stock Market Crash of 1929

The 1920's were a time of peace and great prosperity. After World War I, the "Roaring Twenties" was fueled by increased industrialization and new technologies, such as the radio and the automobile. Air flight was also becoming widespread, as well. The economy benefited greatly from the new life changing technologies.

As the Dow Jones Industrial Average soared, many investors quickly snapped up shares. Stocks were seen as extremely safe by most economists, due to the powerful economic boom. Investors soon purchased stock on [margin](#). Margin is the borrowing of stock for the purpose of getting more leverage. For every dollar invested, a margin user would borrow 9 dollars worth of stock. Because of this leverage, if a stock went up 1%, the investor would make 10%! This also works the other way around, exaggerating even minor losses. If a stock drops too much, a margin holder could lose all of their money AND owe their broker money as well.

From 1921 to 1929, the Dow Jones rocketed from 60 to 400! Millionaires were created instantly. Soon stock market trading became America's favorite pastime as investors jockeyed to make a quick killing. Investors mortgaged their homes, and foolishly invested their life savings in hot stocks, such as Ford and RCA. To the average investor, stocks were a sure thing. Few people actually studied the fundamentals of the companies they invested in. Thousands of fraudulent companies were formed to hoodwink investors. Most investors never even thought a crash was possible. To them, the stock market "always went up".

By 1929, the Fed raised interest rates several times to cool the overheated stock market. By October, the bear market had commenced. On Thursday, October 24 1929, panic selling occurred as investors realized the stock boom had been an over inflated [bubble](#). Margin investors were being decimated as every stock holder tried to liquidate, to no avail. Millionaire margin investors became bankrupt instantly, as the stock market crashed on October 28 th and 29 th. By November of 1929, the Dow sank from 400 to 145. In three days, the New York Stock Exchange erased over 5 billion dollars worth of share values! By the end of the 1929 stock market crash, 16 billion dollars had been shaved off stock capitalization.

On Black Tuesday, the twenty-ninth, the market collapsed. In the words of a gray haired Stock Exchange guard, "They roared like a lot of lions and tigers. They hollered and screamed, they clawed at one another collars. It was like a bunch of crazy men. Every once in a while, when Radio or Steel or Auburn would take another tumble, you'd see some poor devil collapse and fall to the floor."

In a single day, sixteen million shares were traded--a record--and thirty billion dollars vanished into thin air. Westinghouse lost two thirds of its September value. DuPont dropped seventy points. The "Era of Get Rich Quick" was over. Jack Dempsey, America's first millionaire athlete, lost \$3 million. Cynical New York hotel clerks asked incoming guests, "You want a room for sleeping or jumping?"

To make matters worse, banks had invested their deposits in the stock market. Now that stocks were obliterated, the banks had lost their depositors money! Bank runs started, where bank patrons tried to withdraw their savings all at once. Major banks and brokerage houses became insolvent, adding more fuel to the bear market. The financial system was in shambles. Many bankrupt speculators, who were once aristocracy, commit suicide by jumping out of buildings. Even bank patrons who had not invested in shares became broke as \$140 billion of depositor money disappeared and 10,000 banks failed.

The 1929 stock market crash was beneficial for some, however. Jesse Livermore correctly forecasted the economic crisis and shorted. He made over 100 million dollars! Joseph Kennedy, John F. Kennedy's father, sold before the 1929 stock market crash and kept millions in profit. Kennedy decided to sell because he overheard shoeshine boys and other novices speculating on stocks. Livermore and Kennedy were individuals are known as the "[smart money](#)", who profit regardless if the market is skyrocketing or plummeting.

The stock market crash of 1929 launched the [Great Depression](#). The Depression was the time from October 1929 to the mid 1930's. Mass poverty occurred then, as many workers lost their jobs and were forced to live in shanty towns. Former millionaire businessmen were reduced to selling apples and pencils on street corners. One third of Americans were below the poverty line in the Great Depression. The Dow Jones finally surpassed its 1929 high, a full 26 years later in 1955.

The stock market crash of 1929 was identical to any other financial bubble. The classic pattern of extreme euphoria and irrational expectations will always lead to devastating financial crashes.

Stock Market Crash Questions

Name: _____

1. What does buying on margin mean?
2. What happened to Margin buyers during the crash?
3. What happened to Banks during the stock market crash of 1929?
4. How did the Stock Exchange guard describe Black Tuesday?
5. What phase of U.S. economic history did the Crash of 1929 begin?

<http://hoover.archives.gov/exhibits/Hooverstory/gallery06/gallery06.html>
<http://www.stock-market-crash.net/1929.htm>