The Stock Market Crash

The Beginning of the Fall:

The stock market crash started on Thursday, October 24, 1929 when the market dropped a little, and then continued to sag through Saturday. On Monday the stock market began a precipitous slide that turned into a frantic selling wave. (WHY?)

When the market opened on Tuesday the frantic selling continued. On that day, October 29, prices fell so drastically that the day is remembered as "Black Tuesday". Individuals, businesses and industries, banks, and institutions saw the value of their stocks plummet. The volume of selling increased, causing the ticker tape price quotations to be over an hour late. By the Day's end, some firms were bankrupt, many stock holders had lost much money, and a severe loss of confidence in the economy began to spread across the nation.

This one-day loss was bad enough, but the worse was yet to come. One stock, General Electric (GE), tells the story. In September 1929 one share of GE sold for $391. On the day before "Black Tuesday" one share sold for $250. On the day of the crash the stock lost $28. Two weeks later the price of a share of GE had tumbled to $180, and by the summer of 1932 one share of General Electric was worth $10. This represents a 97% loss of value for shareholders. Not many could survive such a loss.

The Margin:

Let's say you purchased 100 shares of stock in September 1929 <u>on Margin</u>. On Margin at the time was 10% of the total amount. In other words: 100 shares X $400 per share=$40,000; but you could make the purchase of 100 shares for 10% of $40,000 or $4,000.

As long as the market goes up your fine-your profits could pay the margin share.

But if the stock would fall, you were obligated to come up with the margin amount.

People mortgaged houses-farms-businesses in order to come up with the <u>margin</u> call.

Soon people were frantically trying to unload their stock. As the drastic selling continued the values of stock plummeted. Fortunes were lost-businesses went under.

Back to our ***example***:

Sept. 1929	100 shares x $400 =	$40,000
Summer 1932	100 shares x $ 10 =	<u>$ 1,000</u>
OVERSPECULATION LOSS	=	$39,000

The Banks:

<u>Banks failed</u> - Banks had lent money (too much) to farmers and businessmen who went bankrupt. The banks couldn't get these loans paid back to them so they failed.
- Also there was a run on the banks as people tried to withdraw their savings. Banks had lent savings out as loans so many lost their savings.

After the stock market collapsed for 10 days, the Vice-President closed it down to give investors time to reassess and hopefully those who had made some money or broke even thanks to timing might come back into the market.

It didn't happen. On November 13, the stock market hit rock bottom due to forced liquidations of the rest of the leveraged stock.

Company	Sept. 3	Nov. 13	%
ATT	$ 181	$86	-52%
GE	$ 396	$168	-58%
GM	$72	$36	-50%
WARDS	$137	$49	-64%
USS	$261	$150	-43%
WESTINGHOUSE	$289	$102	-65%

Hundreds of moderate income Americans lost their life savings and many went from affluence to poverty in just 2 months.

THE COLLAPSE OF THE BANKING SYSTEM

a) During the 1920's, over 7,000 banks had failed. Most of them were small country banks.

Causes:
Overproduction
Overspeculation
Greed
Excessive borrowing on credit
Dust bowls - agricultural problems