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Thirty years after 'Black Monday' crash, easy answers hard to find

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The idea that there are shadowy forces dedicated to protecting and advancing the interests of the powerful and well-connected may never have been more common than it is today. Yes, the internet promotes the skepticism and paranoiathat fuel conspiracy theorists. But so do historical events that have far-reaching effects — at least when there is no clear, accepted understanding of how they came to pass.

The primary modern example of this in the United States is the Nov. 22, 1963, assassination in Dallas of President John F. Kennedy. In 1964, a commission chaired by then-Chief Justice Earl Warren concluded Kennedy had been killed by a lone gunman, Lee Harvey Oswald, who was himself killed on Nov. 24, 1963, on live television by Dallas nightclub owner Jack Ruby while being escorted from jail by police officers. For a variety of reasons, the theory that Oswald was a killer who acted alone has long been broadly questioned, and not just by raving nuts. Among those suspected of involvement: Vice President Lyndon Johnson, the military-industrial complex, Fidel Castro, the KGB, Texas oilmen and more.

But a second example continues to reverberate among some Americans as well. Thirty years ago today — Oct. 19, 1987 — Wall Street had by far its worst day in history. The banner story in The Wall Street Journal the next day offered hints of the borderline national panic that followed:

The Dow Jones Industrial Average plummeted an astonishing 508 points, or 22.6 percent, to 1,738.74. The drop far exceeded the 12.8 percent decline on the notorious day of Oct. 28, 1929, which is generally considered the start of the Great Depression.

Today, the Dow Jones average opened at 23,157.60, its all-time high. Today, a 22.6 percent drop would cut the Dow by more than 5,200 points and put it under 18,000. It would dwarf any one-day plunge seen in the early days of the Great Recession and certainly rock the global economy.

But instead of triggering another depression, the Black Monday market collapse in 1987 came to seem like an enormous blip. Two days later, the Dow Jones had what was then its fourth biggest one-day percentage increase, jumping 10.2 percent. For the year, the Dow ended up gaining 2.3 percent, and went on to increase 11.9 percent in 1988 and 27 percent in 1989.

In the immediate aftermath of Black Monday, a long list of theories emerged as to the cause. Some blamed increasingly computerized trading for a wave of early sales that triggered panic among institutional investors. Others cited House Ways and Means Committee Chairman Dan Rostenkowski's interest in market-punishing tax hikes. Still others pointed to global tensions that

sparked fear of a conventional U.S. war in the Middle East and/or a trade war with West Germany.

But a year after the unsettling event, journalist Tim Metz offered a more provocative theory in his book “Black Monday: The Catastrophe of October 19, 1987 ... and Beyond.” A Los Angeles Times book review detailed what it called Metz’s “whopping conspiracy theory.”

He suggests that government regulators, exchange officials and the “market makers” who sustain trading are parties to a huge — and, until now, undetected — market manipulation scheme. On Tuesday, Oct. 20, when the market had slowed almost to halt, these participants made it appear that prices were starting to again rise, and by so doing they persuaded big investors to join in trading.

This assertion that financial markets were rigged didn’t come from a journalist with an Oliver Stone-ish reputation as a conspiracy monger. Metz was a respected writer and editor who worked 23 years for The Wall Street Journal, including before, during and after Black Monday.

To be sure, for many decades, the assumption that the world’s economy is rigged for the benefit of shadowy forces has been fairly common, especially among those on the left who were wary of corporate power. But a generation after the mysterious events of Oct. 19, 1987, this assumption is everywhere. A Marketplace-Edison Research Poll released earlier this year shows at least 74 percent of Americans believe our economy is rigged — not just Bernie Sanders enthusiasts but populists from across the political spectrum, including what a CATO Institute report called the “core group” that propelled Donald Trump’s rapid political ascent.

But at least with Black Monday, the conspiracists have a problem: Thirty years later, there’s no hard evidence — none — that a conspiracy drove the market’s immense crash and near-immediate bounce back. The Dow Jones numbers the week of the crash look crazy, and it’s easy to speculate that shadowy insiders made a fortune with short sales when the market plunged and a second fortune with regular trading when the market soared.

But none of the many “30 years later” media pieces seen in recent days embraces the Metz hypothesis. In her well-reviewed new book, “A First-Class Catastrophe: The Road to Black Monday, the Worst Day in Wall Street History,” financial journalist Diana B. Henriques depicts the plunge as being caused by several mundane factors, starting with computerized trading and jittery institutional investors — some of the same reasons cited in Black Monday’s immediate aftermath.

As for Metz, there’s an odd coda to his 1988 book that may raise additional questions about its veracity. One of the book’s featured sources was a Chicago commodities trader named Scott Serfling. Seven years after its publication, Serfling was sentenced to federal prison for bilking investors — including Metz — out of hundreds of thousands of dollars.

But if none of the 30-years-later stories are particularly juicy, there is one that should be of great interest to Americans today, even if it doesn’t feature conspiracies in which ne’er-do-wells plunder the innocent. It appeared in Investors Chronicle, a British website. The Aug. 24 article noted a fact that has been all but lost in history: The crash was predicted the Friday before it happened by investment guru Martin Zweig in an interview on the TV show “Wall Street Week.” This is from Investor Chronicle’s account:

Asked by host Louis Rukeyser what he made of the violent trading over the previous week, which had wiped more than 10 percent off the value of the Dow, Mr. Zweig said he expected worse to come. In his words: "I haven't been looking for a bear market per se, I've been really in my own mind looking for a crash."

Zweig, author of the 1986 book, "Winning Wall Street," believed a crash was coming because of his complicated "Super Model" for timing investments. He died in 2013, but some investors still swear by and use his model's analysis of stock valuation and market momentum. For its report on Zweig, Investors Chronicle ran current numbers through the model and found that it "issued its first 'sell' signal in over a decade" on Aug. 18 — the same result that led Zweig to predict a sharp downturn in 1987.

So if history repeats itself, investors beware — and maybe investors prepare. If the Zweig Super Model is right, a savvy trader could absolutely clean up in coming weeks and months — and it won't require any insider rigging.