

The Stock Market Crash of 1987, As Observed Now By Candle Light

"It came out of nowhere."

Did it, really?

For the past twenty years, analysts of many persuasions have been attempting to pinpoint the external causes of the breathtaking 508-point, 22.6% decline in the Dow Jones Industrial Average on "Black Monday," October 19, 1987, which represented the largest single-day decline in the history of the Average.

It seems appropriate to make a distinction between the events of October 19 proper on the one hand, and the events which *prefigured* it, which began on October 5 and culminated on October 16, on the other. The bulk of the published comments which the writer has seen speak in rather general terms of the overall economic picture leading up to the decline, while focusing on October 19, "Black Monday," in attempts to identify specific reasons why the chaotic market action *of that day* unfolded as it did.

It appears to be generally agreed by numerous commentators that there was no specific news or event which triggered the avalanche which occurred on October 19, "Black Monday."

Various "reasons" have been identified in the literature as "causes" of the disastrous decline of October 19, among them being "program trading" and "portfolio insurance." Rather than argue the point, the inventors of portfolio insurance conceded that such activity may indeed have had an adverse effect upon the market on that day. There was a need at the time to find a scapegoat, a reason or reasons, and the President appointed a special commission to conduct the search. The Commission was not able to identify a specific trigger of the decline.

The point which is intended to be made here is that the story of Black Monday, October 19, as an individual day in the stock market, is vastly secondary; and that the larger story began on October 5 and encompasses the entire period from October 5 through October 19; further, that there was no exogenous cause or trigger for the overall decline; rather, that its birthday on October 5 arose as a manifestation of mass psychology which coalesced on that very day.

What was going on in the nation, leading up to October 1987? The Dow had risen 1,000 points in the course of a year, having peaked on August 25; new 52-week lows had begun to overtake new 52-week highs; this was a time of general euphoria, possibly beginning to fade off a bit; leveraged buyouts, mergers, hostile takeovers, and Initial Public Offerings; insider trading; falling dollars and falling Bonds; but a slowing economy.

For several years, Elliott Wave analyst Robert Prechter, in particular, had been watching the development of this scenario, and had become increasingly concerned that a substantial selloff was approaching. On October 5, 1987, at a point when the Dow was just below the peak of August 25 and at the top of a small rise, he concluded from his analysis that all of the ingredients for a decline were in place, and he issued "a full 100 per cent Sell recommendation" to all of his subscribers.

As of that date, Japanese Candlestick charting was not yet widely known in the Western world. However, in the light of current knowledge we are now able to apply the Candlestick analytical technique to the stock market price charts of October 1987. Let us ask this question: Do those charts corroborate Prechter's Sell recommendation?

Very interestingly, the answer is an emphatic Yes!

On Thursday, October 1, 1987, the Dow Industrials opened at 2596.30 and closed at 2639.20. The next day (Friday), the Dow opened at 2639.20 and closed at 2641.00 (i.e., the open and the close were virtually identical) in a Candlestick pattern known as a "Doji." On the following Monday (being the next trading day), the Dow opened at 2641.00 and closed at 2640.20, thereby constituting the second Doji in a row, AS WELL AS A THIRD DOJI: AN *INTER-DAY DOJI AS BETWEEN BOTH THE OPENING AND CLOSING PRICES OF FRIDAY AND OF MONDAY!*

This was an extraordinarily powerful warning of a trend reversal. No one then had the knowledge to recognize it.

And, notably, the day of the second Doji (Monday, October 5, 1987) was the SAME DAY upon which Robert Prechter issued his "100% Sell recommendation" AND TWO FULL WEEKS before October 19, "Black Monday!"

What transpired by way of clues of impending disaster during those two weeks? The very next day after the Prechter Sell recommendation and the second Doji (that next day being Tuesday, October 6) the Dow declined 91.60 points. Wednesday, October 7, was essentially flat. Thursday, October 8, was down 34.50 points. Friday, October 9, was down 34.40 points. Monday the 12th, down 10.80; Tuesday the 13th, up 38.80; Wednesday the 14th, down 95.50; Thursday the 15th, down 57.60; Friday the 16th, down 108.40; for a total decline of 393.50 points from October 5th through October 16th.

So, Black Monday did not “come out of nowhere;” it had a gestation period of two full weeks. It radiated abundant warnings all during its approach. The slide began with a serious drop of 91.60 points on Tuesday October 6 and then continued in nearly unbroken, accelerating fashion through the close on Friday October 16. Awake investors should have been out of the market long before that, or certainly before the market closed on October 16. The Dow Industrials gapped down at Monday’s opening and then declined 508 points on the day. Those who had elected to remain in were badly hurt. The total decline from October 5 through October 19 was *901.50 points*. Prechter’s subscribers escaped with little more than a scratch.

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Candlestick charting techniques are in full flower. There is reason to believe that, if there is a next time, Candlestick warning signals will be seen and broadcast; and hopefully that they, too, will be heeded in time to forestall serious losses.

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William G. Kurtz Jr. www.candlewave.com info@candlewave.com

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