The first contemporary global financial crisis occured in the autumn of 1987, known infamously as “Black Monday”. In the first half of 1987, U.S. goods and services are became cheaper due to a steep decline in value relative to other world currencies, which resulted as increment in exports. This increase provided U.S. companies with a strong earnings outlook, and a commensurate rise in stock market valuations. There had been a corporate restoration and American companies were promising strong future earnings growth. By August 1987, the Dow Jones Industrials was up over 800 points for the year, which means a 41% rise in value. However, in September 1987, the economic worries about the weak dollar and rising interest rates started making investors nervous. Volatility in the market increased significantly. During October 14 to 16, the Dow fell over 260 points and the S&P 500 declined 10%, the volatility of the market created a great deal of anxiety over the weekend.

On the “Black Monday”, October 19, 1987, the stock market plummeted right from the opening bell. Program trading moved millions of shares, and clients as well as investment houses were left wondering what their actual market positions were like for most of the day. Portfolio insurance professionals also contributed to the stock market crash of 1987 through their electronic trading systems. As these computerized systems analyzed the events of the days prior to Black Monday, they flooded the market with sell orders. The failure resulted as S&P 500 stock market index falling about 20.4% and the Dow Jones Industrial Average (DJIA) dropped 22.6% in a single trading session, which is about $500 billion loss that remains the largest one-day stock market decline in history. At the end of the month, most of the major exchanges had dropped more than 20%.

The market crash of 1987 was a serious event not just because of the swiftness and severity of the market decline, but also because it showed the weaknesses of the trading systems themselves and how they could be strained and come close to breaking in extreme conditions. The problems in the trading systems interacted with the price declines to make the crisis worse.

Resources:

http://www.federalreserve.gov/pubs/feds/2007/200713/200713pap.pdf

http://www.federalreservehistory.org/Events/DetailView/48

http://www.money-zine.com/investing/stocks/stock-market-crash-of-1987/

http://www.investopedia.com/terms/b/blackmonday.asp