

The Stock Market Crash Source Analysis

Directions:

- Write a 1 page overview of the 1929 stock market crash.
 - *Must Use At Least 6 Sources*
 - 2 Must Be Cartoons
- Include info from before, during, and after the crash.
- Focus On: Causes and Consequences
- Cite Your Source: (Wall Street Journal May 15, 1929)

It is to be feared that the agitation [criticism] against speculation in Wall Street is very largely a case of sour grapes. It is felt that some people are making money with apparent ease and it is known that they are making it in

Wall Street, which is always an object of distrust to the demagogue.¹ The radical politician feels that he must show injury to others somehow. Without the slightest knowledge of the stock market and its almost automatic safeguards, he says that the speculation is a danger to the country

17 MONTHS BEFORE THE CRASH

"Gambling and Speculation"

The Wall Street Journal, May 15, 1928

The machinery through which the excited speculation in stocks is operating has commenced to creak and groan as strains are put upon it which it was never designed to meet. . . The fuel of desire to make money

by selling something at a higher price than was paid for it is still being poured into the market, and this desire, as Colonel Ayres of Cleveland² says, cannot be killed; it must commit suicide.

Therefore the observer of things financial, as May [1928] draws to a close, must share some of the feelings of a watcher at the bedside. He is overlooking a mob movement leading toward a stock market break, the effects of which only the most acrobatic, the most favored, and those who have participated least in proportion to their resources,³ can expect to escape

15 MONTHS BEFORE THE CRASH

Alan H. Temple (economist), "Impending Suicide"

The North American Review, July 1928

Millionaires have been made many times over with the unprecedented rise of certain individual stocks. Of a list of twenty well-known stocks which have increased from 600 to 6,000 percent during the last ten years, twelve famous names appear above the 1,000 percent mark, with one outstanding motor stock heading the list with a 6,493 percent increase. No wonder our nation has gone stock market mad.

10 MONTHS BEFORE THE CRASH

H. W. Moorhouse (economist)

"What's Happening in Wall Street?"

The North American Review, December 1928

The common stocks of this country have in the past ten years increased enormously

in value because the business of the country has increased. Ten thousand dollars invested ten years ago in the common stock of General Motors would now be worth more than a million and a half dollars. And General Motors is only one of many first-class industrial corporations. It may be said that this is a phenomenal increase and that conditions are going to be different in the next ten years. That prophecy may be true, but it is not founded on experience. In my opinion the wealth of the country is bound to increase at a very rapid rate.

2 MONTHS BEFORE THE CRASH

Samuel Crowther, "Everybody Ought to Be Rich: An Interview

with John J. Raskob," *Ladies' Home Journal*, August 1929s

The difference between a hitchhiker and an amateur stock market player is that the latter will always find it easier to be "taken for a ride."

An outsider trying to beat the market is like a meatball trying to live in companionate marriage with a shark.⁴

The only tips that are dependable are found on asparagus.

"The Wall Street Lamb," *American Magazine*, reprinted in the *Milwaukee Journal*, March 12, 1929

55 DAYS BEFORE THE CRASH

Roger Babson (businessman and investment analyst)
Address to the Natl. Business Conference, Sept. 5, 1929
(excerpts as reported in *The New York Times*, Sept. 6, 1929)

I repeat what I said at this time last year and the year before, that sooner or later a crash is coming which will take in the leading stocks and cause a decline of from 60 to 80 points in the Dow-Jones Barometer. Fair weather cannot always continue. The economic cycle is in progress today as it was in the past. The Federal Reserve System⁶ has put the banks in a strong position, but it has not changed human nature. More people are borrowing and speculating today than ever in our history. Sooner or later a crash is coming and it may be terrific. Wise are those investors who now get out of debt and reef their sails.⁷ This does not mean selling all you have, but it does mean paying up your loans and avoiding margin speculation. . . . Sooner or later the stock market boom will collapse like the Florida boom.⁸ Someday the time is coming when the market will begin to slide off, sellers will exceed buyers, and paper profits⁹ will begin to disappear. Then there will immediately be a stampede to save what paper profits then exist.

Roger Babson's dire predictions of an "inevitable crash" in the stock market, which would some time break the averages 60 to 80 points, evoked retorts today from economists, stock exchange houses, and others, most of whom took an opposite view or advised clients and the public not to be stampeded by Mr. Babson's forecast of a collapse that would rival that of the Florida land boom.

Mr. Babson's view was directly controverted by Prof. Irving Fisher of Yale University, an economist of highest standing. Prof. Fisher flatly asserted that "stock prices are not high and Wall Street will not experience anything in the nature of a crash."

53 DAYS BEFORE THE CRASH

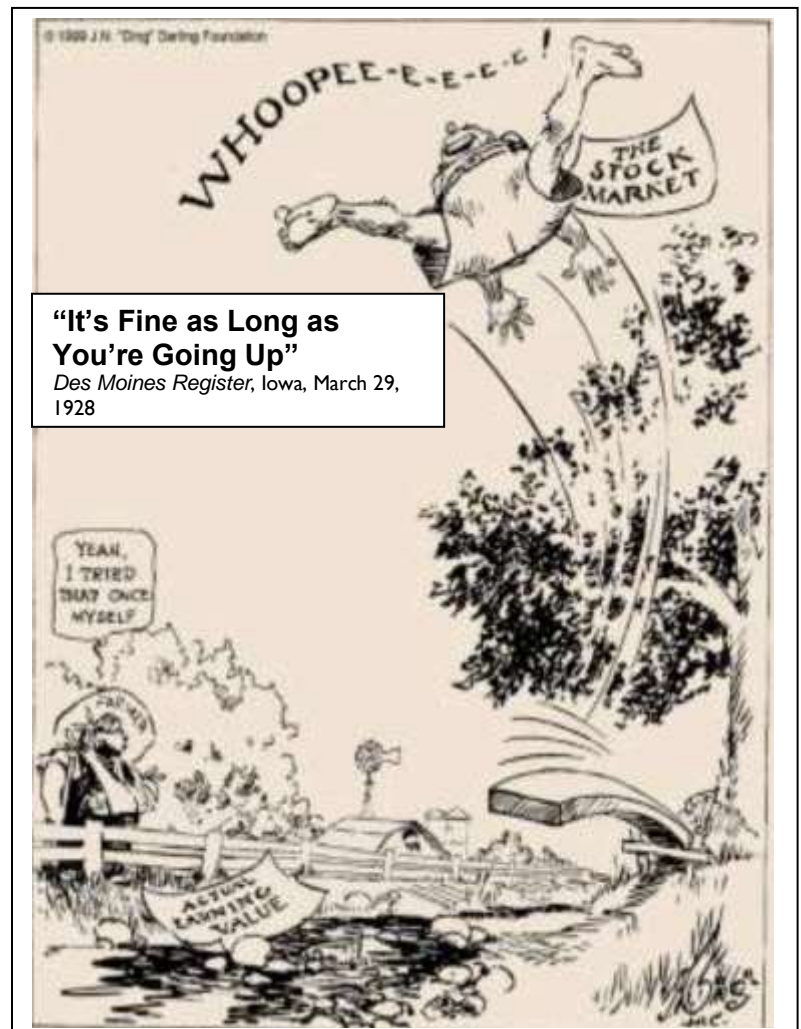
"Babson's Stock Crash Prophecy Draws Fire from Other Experts," *Chicago Tribune*, Sept. 7, 1929

16 DAYS BEFORE THE CRASH

"Stock Prices Will Stay at High Level for Years to Come, Says Ohio Economist," *The New York Times*, Oct. 13, 1929

The stock market will see bigger gains in the immediate future than at any other period of its history, and except for minor fluctuations the present high level of prices will be constant for years to come, according to a statement by Dr. Charles Amos Dice, professor of business organization at Ohio State University . . . "Among the yardsticks for predicting the behavior of stocks which have been rendered obsolete," Dr. Dice went on, "are the truism that what goes up must come down, . . . that stock prices cannot safely exceed ten times the net earnings available for dividends on the common stock per share."

"The day of the small investor is here. Once despised and turned away, he is now sought day and night. The appeals come from the best banking houses as well as from the fly-by-night operator. The wage earner is made aware of how easy it is to build up an estate by small installment payments."



"It's Fine as Long as You're Going Up"

Des Moines Register, Iowa, March 29, 1928



7 DAYS BEFORE THE CRASH

"Stocks Slump Again, but Rally at Close on Strong Support," *The New York Times*, Oct. 22, 1929

Margin calls: stockbrokers' demands that investors immediately make payment on the loans they arranged through the brokers to make their stock purchases

Amid scenes of wild confusion and drastically lower prices, the stock market continued yesterday to pay the piper for its long dance of advancing and inflated prices. . . . Trading was so confused, the market was so big and broad, and the [ticker] tape so late, that most traders in stocks had no idea where they stood at any particular time. At any rate, in those stocks which reflected vulnerability, the losses of open market value ran into the hundreds of millions of dollars.

Five major factors are considered mainly responsible for the market's wide break, which now has lasted through three days of trade and has cut billions off open market values. These are:

- ❑ The readjustment of prices to a lower level more commensurate with earnings and immediate prospects.
- ❑ Unanswered margin calls¹⁰ by thousands of small traders whose stocks were sold at the market. The catching of a multitude of stop-loss orders¹¹ also added to the confusion.
- ❑ Foreign liquidation [selling] on a large scale, especially in the railroad stocks, as foreigners had to protect their interests at home.
- ❑ Impressive hammering at the market by bearish traders [investors taking advantage of the falling "bear" market], with especially skillful short selling¹² by many wealthy individuals.
- ❑ The development of a wave of apprehension among stockholders, many of whom still had profits.



"Never Again—Until the Next One Comes Along"

Des Moines Register, November 8, 1929

Stock market, Florida land boom, Get rich quick oil stock, War price speculation: four instances of "small speculators" losing millions of dollars in risky investments promoted with get-rich-quick dazzle. The four investment figures are clothed as the personification of greed.

Frightened by the decline in stock prices during the last month and a half, thousands of stockholders dumped their shares on the market yesterday afternoon in such an avalanche of selling as to bring about one of the widest declines in history. Even the best of seasoned, dividend paying shares were sold regardless of the prices they would bring, and the result was a tremendous smash in which stocks lost from a few points to as much as ninety-six.

5 DAYS BEFORE THE CRASH

"Prices of Stocks Drop in Heavy Liquidation; Total Drop of Billions," *The New York Times*, Oct. 24, 1929

"Somebody Had to Save Him from Himself!"

Los Angeles Times, February 8, 1929

Cartoonist: Edmund Gale ■ Dow-Jones closing average, Feb. 7: 305.75.

On February 6, 1929, the Federal Reserve Board warned that banks and stockbrokers were loaning too much money for "speculative credit," i.e., loans for stock purchases by small investors ("the speculation crazy public") who would likely be unable to repay the loans if their stocks failed to rise in value. Soon after, the Federal Reserve Bank of New York reduced the amount it loaned to New York brokers for lending to potential investors.

5 HOURS AFTER THE CRASH: OCT. 29, 1929, 9:20pm

Lawrence Richey, secretary to Pres. Herbert Hoover
Memo to the President, sent as White House telegram

Mr. President: – Mr Rand, of Remington-Rand just telephoned stating that he thinks you should issue statement to the press tonight for publication tomorrow morning, such as this:

"I am of the opinion that speculators excessives have been thoroughly liquidated [sold] and sound investment securities [stocks and bonds] have been reduced to a safe and attractive [price] level. Now is the time for Bankers, Brokers, and Investors to exercise the utmost of patience and cool judgment in all dealings with one another."

Mr. Rand states that conditions are very serious and if exist for day or two longer as they have for past few days, will result in ruining millions of business people. States reaction not alone in New York, but all over the Country, as he has been in touch with different sections of the country over long-distance phone, and states business people of the Country are looking to you for some such statement to save the situation.



1 DAY AFTER THE CRASH

“The Stock Market”

New York Evening Post, October 30, 1929

It is clear that the Street is going through the greatest disaster in its history. No fair words can gloss over that fact.

Because there is no tightness of money¹⁴ we are without the most familiar feature of a bad [economic] time. Furthermore, the stock market has been operating so independently of business that we have not yet realized the larger results of its break. Nevertheless, good must come even from this stern and cruel housecleaning. The country will go back to work. . . .

That means here, as it meant in postwar Germany, a revival of values. How can any cool head fail to agree with Professor Irving Fisher’s declaration that standard American stocks have gone so much too low as to be crying to be bought? Such stocks are the bone and sinew of the country. Not to believe in them is not to believe in America. The world has so many things that must be done, and no one can do them better than our own people. Our business strength has pulled us out of difficulties in days gone by. With faith it will do it again.

**STOCKS COLLAPSE IN 16,410,030-SHARE DAY,
BUT RALLY AT CLOSE CHEERS BROKERS;
BANKERS OPTIMISTIC, TO CONTINUE AID**

**“Down but Not
Out!”**

*Atlanta
Constitution*, Oct.
31, 1929

Cartoonist: Brown ■ Dow-
Jones closing average, Oct.
30: 258.47.



1 DAY AFTER THE CRASH

Newspaper commentary, October 30, 1929, compiled by the Associated Press

Denver Post

The United States has more money than any country in the world and more gamblers—they prefer to call themselves investors. Every man who is buying and selling on margin is gambling. And the snowball they have been rolling uphill got too big and heavy and rolled back over them. The little fellow is not alone to blame for present conditions; the big fellows, bankers, brokers, money lenders, are equally to blame.

Philadelphia Evening Ledger

Again in yesterday's stock market we were able to see how dangerous a thing the emotion of fright may be when it is artificially created by careful and persistent propaganda and used as a means of control or discipline in the field of finance and business. The propagandists of gloom and economic terror certainly should feel proud of their work, whatever the feeling of the country may be when it pauses to think a little later on. The poison of fear was fed liberally to the public mind, and so all of a sudden the lords of the nation's credit found themselves trying desperately to stop a fall of price that was even more unreasonable and disturbing than the rise of which they complained [of] in the first place.

Birmingham [Alabama] Age-Herald

No thoughtful person can regard what has taken place as less than good and hopeful. The country had gone speculation mad. It is worthwhile for the sake of the larger good that even so drastic a liquidation as has been witnessed should have taken place. There will be no panic because the United States has gotten beyond that stage in its economic development and because resources are available through the Federal Reserve System to prevent such a calamity.

Nashville [Tennessee] Banner

The underlying industrial and commercial structure of the country was not involved and is not impaired, but a superstructure of financial exploitation, reckless investment, and straining of credit brought about a dangerous and top-heavy condition. The reaction had to come, and the country will be better off for the lesson it has had, costly though it be.

Montgomery [Alabama] Journal

The collapse was inevitable and has been predicted by careful observers for many weeks. Prices of stocks have been boosted beyond all reason. . . . The prices were purely artificial and speculative. Now they have dropped to a more nearly normal figure, and while the experience has been costly to thousands of people, in the long run it is much better to have the nation's securities on a business basis than upon a gambling and speculative basis.

Chicago Herald and Examiner

Although losses suffered by the public have been enormous, a group of investors, numbering thousands, escaped uninjured and is now ready to take advantage of the break. Thus is presented in the richest country in the world, with the most remarkable record of continuous prosperity in history, a bargain counter on which are offered shares in ownership of the rich industries that have led the way to progress in modern civilization.

Kansas City Star

Now that the inevitable deflation has come, business conditions remain essentially sound with expanding demands throughout the world. With market uncertainties virtually at an end and with credit being released from Wall Street for ordinary business uses, the way is prepared for a further advance in industry. Once the adjustment is completed, the country will move forward to new levels of prosperity.

The Baltimore Sun

The stock market crash obviously is the result of many forces, most of them transitory, and all of them combined incapable of upsetting the firm base of prosperity. The task of unravelling and weighing all of these forces, which in all their fury yesterday did not touch the mainsprings of prosperity, is one that will occupy specialists for many years. An aspect of the crash, however, that is perfectly obvious to anyone who reads is that it is an inevitable reaction to a consistent postwar Republican policy of pumping artificial stimulants in the economic system.

The New York Times

The country's credit facilities have been frightfully mishandled by the reckless Wall Street speculators, but at least the visible signs at the crucial moment do not indicate such spread of spectacular reaction from the stock exchange into trade and industry as almost invariably followed our old time panics. What will be the sequel in trade which may have been stimulated through purchases by an army of speculators with paper profits now scattered to the winds it is useless to conjecture. But if present indications are fulfilled, sound and conservative industry will not be shaken as it used to be on such occasions.

We have had a period of over-speculation that has been extremely widespread, one of those waves of speculation that are more or less uncontrollable, as evidenced by the efforts of the Federal Reserve Board, and that ultimately results in a crash due to its own weight. . . .

7 DAYS AFTER THE CRASH

President Herbert Hoover
Press conference, November 5, 1929

The ultimate result of it is a complete isolation of the stock market phenomenon from the general business phenomenon. In other words, the financial world is functioning entirely normal and rather more easily today than it was two weeks ago, because interest rates are less and there is more capital available.

The effect on production is purely psychological. So far there might be said to be from such a shock some tendency on the part of people through alarm to decrease their activities, but there has been no cancellation of any orders whatsoever. There has been some lessening of buying in some of the luxury contracts, but that is not a phenomenon itself. . . .

The sum of it is, therefore, that we have gone through a crisis in the stock market, but for the first time in history the crisis has been isolated to the stock market itself. It has not extended into either the production activities of the country or the financial fabric of the country, and for that I think we may give the major credit to the constitution of the Federal Reserve System.

The worst panic in Wall Street's history—at least in peace times—record-breaking in magnitude and in widespread losses, was nevertheless an entirely new kind of panic.

11 DAYS AFTER THE CRASH

"Wall Street's 'Prosperity Panic'"
The Literary Digest, November 9, 1929

Future historians, it is freely predicted, will speak of it as "the prosperity panic of 1929." "The panics of the past were brought about by something fundamentally wrong with finance or business, crop failures, earthquakes, strained international relations, prohibitive rates for money, inflated inventories, and the like," remarks the *Wall Street Journal*. But this October catastrophe on Wall Street was purely a speculative stock market panic, all authorities agree. The downward moves in other markets were repercussions of the crash in stock values in New York. One writer frankly terms it "a gamblers' and not an investors' panic."

. . . As Laurence Stern notes in the *New York World*, "in the total decline since September 3, the shrinkage of stock values is conservatively placed at \$50,000,000,000, the most drastic securities deflation [drop in value] in this history of the world." The final orgy of selling was "a financial nightmare, comparable to nothing ever before experienced in Wall Street," continues this writer—"it rocked the financial district to its foundations, hopelessly overwhelmed its mechanical facilities, chilled its blood with terror." Wall Street's cry for money shook the city, newspapers reporting pawnbrokers turning away hundreds eager to raise almost anything on jewels and silver. . . . A fashionable restaurant in a newspaper advertisement asked its guests to please not "discuss Wall Street."

15 DAYS AFTER THE CRASH

"Can the Market Be Controlled?"
The New Republic, November 13, 1929

Is there anybody who would argue that the behavior of the stock exchange during the past year has been a useful element in the nation's life? What good does it do for wealth—even paper wealth—to be won and lost so quickly? While the market was going

up, the successful bulls [proponents of continued stock speculation] and those who profited by their overconfidence loudly proclaimed, despite all critics, the virtues of speculation for the rise, but many of these same forces now console the speculators for their losses only by pointing out their folly. The question is insistent, what could have been done to prevent its happening again? . . .

We cannot hope to suppress the human instinct to gamble, but we may limit its capacity for harm in a realm which is so closely associated with the life of the nation. We may do something to make the stock market serve the purpose it is supposed to serve

My own experience, however, has been that words are of no very great importance in times of economic disturbance. It is action that counts. The action of the Federal Reserve Board in establishing credit stability, ample capital, the confidence of the administration in undertaking tax reduction, with the cooperation of both political parties, speaks a good deal stronger than any number of statements.

17 DAYS AFTER THE CRASH

President Herbert Hoover
Press conference, November 15, 1929

29 DAYS AFTER THE CRASH
“After the Whirlwind”
The Nation, November 27, 1929

The bursting of the stock market bubble, blown to the limit by speculators and a public blind to the fact that what goes up may also come down, has laid bare some of the major weaknesses of the economic situation. Does it mean, however, that the United States, having overreached itself and lost its head in the prosperity scramble, is now going to the dogs? Is the country headed for calamity, with the stock market carrying the flag? We think not. . . . The great task of the next few months is the restoration of confidence—confidence in the fundamental strength of the financial structure notwithstanding the strain that has been put upon it, confidence in the essential soundness of legitimate industry and trade. . . . The public that has allowed itself to be drawn into the stock market at unprecedented cost to its pocket must recover its good sense, and the best service that the average man can render to that end is to keep his head and cheerfully shoulder his own share of the blame.

3 MONTHS AFTER THE CRASH
Virgil Jordan, “The Era of Mad Illusions”
The North American Review, January 1930

Probably no nation in modern times has suffered so frequently or so greatly as the United States from recurrent periods of exaggerated optimism and unrealistic interpretation of its economic situation. This tendency to ignore the natural law of

steady growth has its deep roots in American history and the American temperament. The country was discovered, settled, and developed by speculators and adventurers, and not so long ago but that the strain is still in the blood of American business and the general public. The opening of the West under the Homestead Acts, the gold rush of 'Forty-nine, the period of western land speculation and boom railroad building were all reflections of this quality, and they attest the role which the willingness to take any chance has played in the country's growth.

4 MONTHS AFTER THE CRASH
Henry Parker Willis, First secretary of the Federal Reserve Board, 1914-18“Who Caused the Panic of 1929?” *The North American Review*, February 1930

This panic was not “inevitable.” It was the result of gross carelessness or wanton recklessness. The recording of its causes in frank language may help to prevent the recurrence of a similar situation at too early a date. . . .

For generations past it has been expected of our bankers that they should exert themselves to restrain hasty or flighty investors, and that they should inculcate [encourage] the advantages of saving as against speculation. Yet within the past two years it has been indisputably true that this whole range of maxims [guidelines] has been abandoned by our banking community. Through their establishment of affiliated financing companies, they have put themselves into a position as issuers of stocks. Investment trusts, shares in affiliates or associates, and similar securities of all kinds, have poured forth from the banks, while many more have been issued by “groups,” which were practically bankers and banking houses in another form. . . .

The breakdown of 1929 was as nearly the result of willful mismanagement and violation of every principle of sound finance as such an occurrence ever has been. It was the outcome of vulgar grasping for gain at the cost of the community. It has been a national disgrace and a source of untold national and individual loss. In paying the bill entailed by it, the American people should think seriously about how they can best avoid running up another

It is impossible to grasp the change in life and thought produced by the economic upheaval. Reversals of fortune as strange as those produced by the Russian Revolution are all about us. Retired bankers and businessmen became porters

THREE YEARS AFTER THE CRASH
Barnie F. Winkelman, lawyer
Ten Years of Wall Street, 1932

[baggage carriers] and messengers; debutants of 1928 and 1929 became waitresses in 1932. Ladies of the highest culture and fashion peddled cosmetics, solicited subscriptions to magazines or drifted lower in the scale. A million tragedies were enacted in this interim, each more poignant than any novel ever penned. Thousands of the aged, the weak, the demoralized . . . sought a way out in suicide. More startling were the changes of thought in high places. “Even the rain wasn't wet anymore,” remarked a taxi driver early in 1932. Economy superseded lavish expenditure as the heroic gesture. political creeds of a century were discarded overnight. Back in 1910—when the term “socialism” indicated economic leprosy, the mention of the state, city, or government ownership of the utilities or the railroads was abhorrent in polite circles. Yet in 1932 our leading bankers pleaded that our cities take over the transit [transportation] systems, and that the government remove the railroads from private ownership. Such is the magic of red ink.