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COMMENTARY

Market Opinions And Topics Of Interest
September 14, 2001

Historical Perspective: The 1920 Wall Street Terrorist Attack and the "Red Scare"

It was a clear morning in the middle of September. If there was one geographical spot in the United States that could justly be called the financial center of the country, it was the junction of Broad and Wall Streets in New York.

There was a sudden blinding flash of bluish-white light and a terrific crashing roar, followed by the clatter of falling glass from innumerable windows and by the screams of men and women. A huge bomb had gone off in the street - with such appalling violence that it killed thirty people outright and injured hundreds, wrecked the interior of offices, smashed windows for blocks around, and drove an iron slug through the window of the Bankers' Club on the thirty-fourth floor of the Equitable Building.

Only Yesterday: An Informal History of the 1920's by: Frederick Lewis Allen

The quote above is **not** from news accounts from this past week. It describes events from 81 years ago!

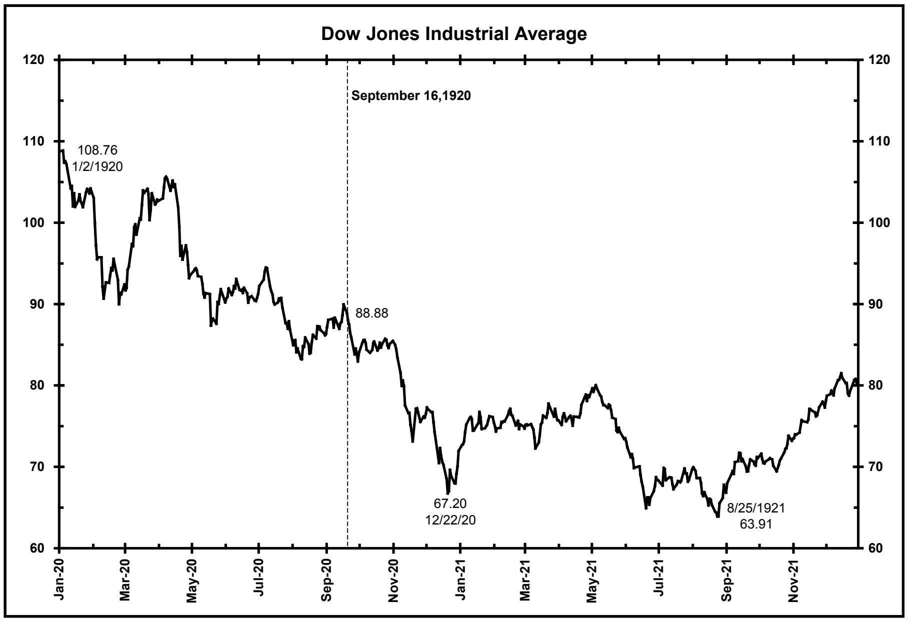
On September 16, 1920 a horse-drawn wagon was parked in front of the offices of J.P. Morgan – directly across the street from the New York Stock Exchange (NYSE). A moment before noon, the driver slipped into the busy lunchtime crowd. Seconds later, a bomb exploded, killing scores and injuring hundreds. The blast killed clerks and brokers on the front steps of the NYSE (about 200 feet from "ground zero"). The NYSE immediately closed for the rest of the day (Scars from this blast are still plainly visible in the marble facing of the J.P. Morgan building).

In recent days, we have read numerous research reports that offer historical analogs to what happened this past week. Many of these analogs include the Cuban Missile Crises, the Gulf War, the assassination of JFK, and the first World Trade Center bombing. While all these events were indeed profound, we do not believe they are analogous to what happened this past week -- especially when one considers the following:

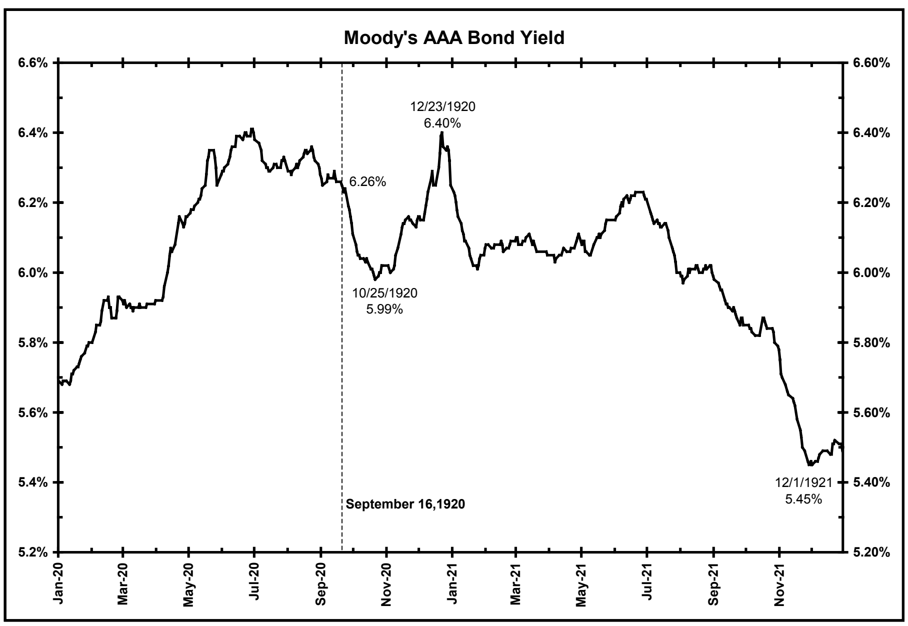
- This is the first time a foreign enemy (allegedly) has inflicted significant damage on U.S. soil since the war of 1812.
- This is the longest closing of the NYSE since the "banking holiday" of March 6 to 14, 1933.
- This was an attack on the very symbol of American capitalism – Wall Street.
- The 1920 terrorist bomb occurred in the middle of a downtrend. The Dow Jones Industrial Average (DJIA) was down 22% year-to-date. Currently, the DJIA is down 10.95% year-to-date (the S&P 500 is down 17.25% year-to-date).
- The 1920 terrorist bomb led to moral outrage in the country. The American public demanded action. Attorney General Palmer used broad power to round up anarchists and "leftists" far and wide. The bomber was never found.
- This event helped to accelerate the "red scare" in the country. For years after this bombing (and other similar bombings around the country both before and after), the American public feared "reds" similar to the way we view foreign terrorists today.

What Happened Next?

As the chart at the top of the next page shows, the Dow Jones Industrial Average continued its downtrend after this event. It fell another 24%, bottoming just before Christmas 1920. It then "double bottomed" the following August. The August 1921 low marked a major bottom that launched the roaring bull market of the 1920s, which peaked at 386 on September 3, 1929.



The next chart shows the yield of the Moody's Aaa Bond Index for the same period. As stock prices fell in the wake of this terrorist act, yields moved lower as well.



Conclusion

One event does not make a trend. However, of all the reports that we have read looking for historical analogies, **none** included this event – arguably the most relevant of all historical events to this week's tragedy. It also argues **against** the conventional wisdom of a quick sell-off and then a rebound.

Food for thought.