<u>1929: HISTORY OF A TRAGIC FINANCIAL DISASTER</u>

The 1929 crash happened after a decade that had been mainly characterized by prosperity and economic growth. The Dow Jones remarkably grew during the aforementioned period, since many people were excessively optimistic and overly enthusiastic about the overall economic situation and the future pattern of financial markets. Trading was thought of as an overwhelming opportunity from which profits could have been gained easily. In addition, investors started buying on margins, thus leveraging their risk exposure. To underscore the boom and the consequent bubble that the US stock market was exposed to, it suffices to write that the Dow Jones grew from a value of 60 to 400 in the period going from 1921 to 1929.

The crash followed the most standard and classic pattern of extreme events. First, incredible optimism and irrational euphoria quickly spread among the investors and the overall society. Indeed, people started thinking that the stock market was a place where they could become rich. However, as the famous saying goes, *"trees do not grow to the sky, what goes up must come down".* Second, these unbelievable expectations led to a huge fall of the market. A lot of overconfident people lost most of their savings due to the market crash. Nevertheless, as during many bubbles and consequent crises, there were also speculators who managed to gain considerable amount of money during this turmoil. An enlightening example is given by Jesse Livermore, an American trader who correctly predicted the crash and shorted stocks to profit from the decline, earning over 100 million dollars.

Stock prices began to rise remarkably in 1925, and there was a strong upward trend in 1927. In 1929 the regulator came into play: the Federal Reserve raised interest rates several times in order to bring the economy and the market back to a situation of normality without inflated stock prices. Nevertheless, on March 25, 1929, the stock market experienced a mini-crash. It was a prelude of what was to come, the market was about to experience one of its worst falls ever.

As one would expect, the second ingredient of the story played an essential role from that time onwards: panic. After that prices began to drop, most of the margin calls were issued because of panic. When banker Charles Mitchell announced that his bank would keep lending, the overall panic situation was mitigated for a while. However, in October the market was bearish again. Large numbers of investors liquidated their shares, and rumors circulated of people committing suicide. October 29, 1929, "Black Tuesday", is still nowadays considered the worst day in stock market history. The fall continued relentlessly until 1932, when the Dow Jones reached 41.


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