Wayne Grover
3282 Parade Place
Lantana, Florida, 33462

May 26, 1987

To Whom It May Concern:

Ted Owens, both called and wrote to me well in advance of the Challenger disaster of January 1986. He told me that his SI's were going to destroy a shuttle and astronauts planning to go would do so at their own risk.

The written message was before a previous shuttle launch, the phone message before the Challenger disaster. My wife was witness to the phone and written messages.

He said he did not want to see loss of life but the SI's were determined that he, (Owens) should be paid heed to by the government of the United States, therefore, loss of life would not be ruled out.

He also told me that U.S. Space Program was in for a tough time because his requests for an landing/communication base had never been taken seriously by anyone. It is a fact that the American space program went into its worst slump in history and has yet to pull out or even be competitive again.

Mr. Owens has been keeping me informed of some of his activities. I have kept a substantial record of his letters and clipping since 1979. I neither confirm nor deny that he has the ability to control events through psychokinetic powers.

Wayne Grover

Wayne H. Grover
Journalist

May 27, 1987

Dear Ted:

Enclosed is the confirmation of your calls and letters to us concerning the Shuttle disaster.

I know you tire of the constant derision and strain of trying to accomplish something you believe in. We must each take the path that calls us, yours seems more rocky than most.

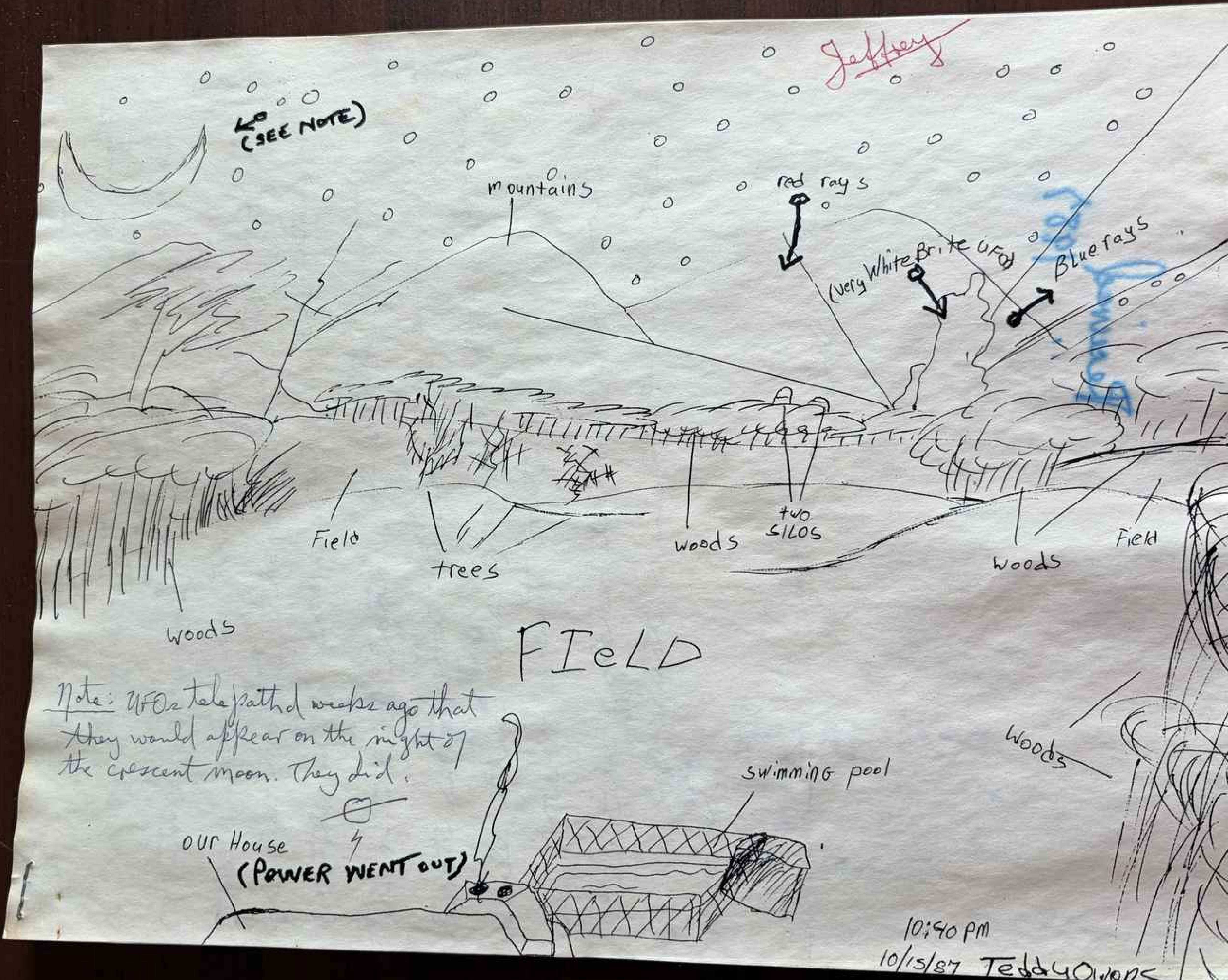
I know you believe in what you are trying to accomplish and to that end, I wish you success. You may be a man before your time and until time catches up, your cries may go unheeded.

This planet must make some vital, permanent changes if we are to leave future generations a chance to survive into the coming centuries. Many thinking people see the problem, but cannot force change to move in a new and better direction.

That you still try is a mark of how great your belief. When the pendulum swings far enough to one side, it must of natural law swing back to balance. That is our hope now for a better future.

Good luck my friend...........

Wayne


~~Jeffrey~~
(SEE NOTE)
mountains
red rays
(very White Brite UFO)
Blue rays
Field
trees
woods
two SILOS
woods
Field
woods
FIELD
Note: UFOs telepathd weeks ago that they would appear on the night of the crescent moon. They did.
swimming pool
our House
(POWER WENT OUT)
woods
10:40 pm
10/15/87 Teddy Owens

t 10:40 PM on 10/15/87 I saw
a very very bright, intense white Light
on the ground in back of our house. At the same time
the lights in the house were
flickering. I then yelled to my 2
brothers to come out and see it.
Then this beam of white & blue
light shot out into the air.
While this was going on for 20 seconds
the power went out.
After the colored beams shot out,
the U.F.O. just disapeared on the
ground

Beau
Owens

Ted Owens
Rt 149, RR 2
Box 2169
Fort Ann, N.Y.
12827

Dr. Jeffrey Mishlove
48 Saint Frances Lane
San Rafael, California
94901

USA 17

John Harvard USA 56

HART... N.Y. 6 1987 PM 12838

reports...my UFOs brought
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contacts and communication.

t that there are three UFOs
us reasons of theirs).

of what they have told me.
s at all, from anyone.
peared over our barn
rn containing 50 cows).
not only Beau. As you
ey were seen by a scientist
people.

ens (PK Man)

[redacted]

Thursday, July 30, 1987

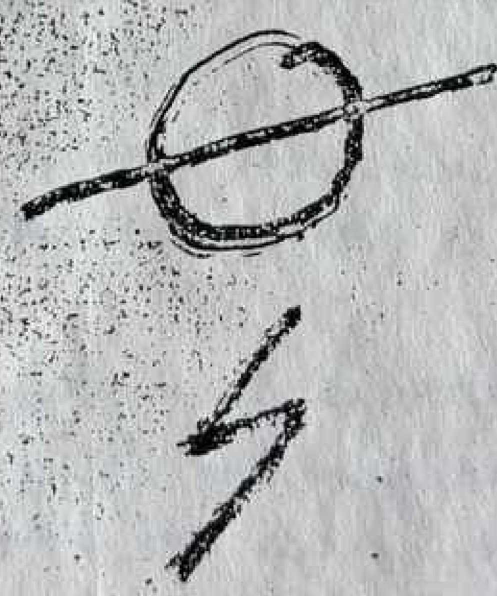
SCIENTISTS

As I have told you before in my reports...my UFOs brought me and my family here to Fort Ann and, through tremendous synchronicity, stopped us here. They told me that they had certain time windows here that meshed with me. They told me that their sole reason for bringing me and mine here was to make powerful contacts and communication.

I have also told you in the past that there are three UFOs over me at all times (for various reasons of theirs).

Herein is the documented proof of what they have told me. There can be no rebuttal on this at all, from anyone. Tuesday night two giant UFOs appeared over our barn (which is the Tom Fish dairy barn containing 50 cows). Beau saw them at 3 AM. But...not only Beau. As you will see from the newsclip, they were seen by a scientist and his friends. ~~as well as many other people~~.

Ted Owens (PK Man)

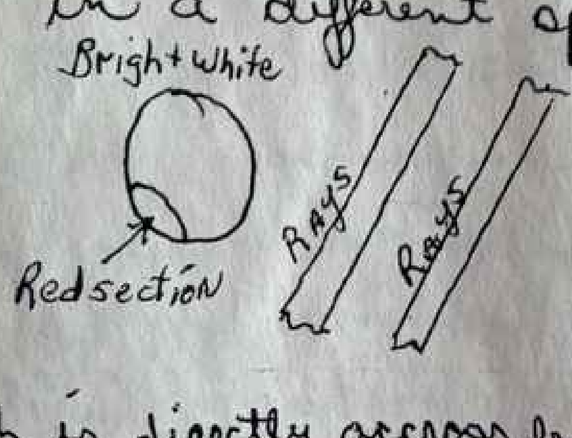


FORT ANN [redacted], N.Y. Vil.

On numerous occassions upon returning home late in the evenings (appr. 10:00), I have spotted a strange object maybe 3/4 of a mile up in the sky. This object was in the shape of a sphere with a bright red light in the lower left section of it. I have seen this in front of my house* and behind my house on separate ~~or~~ nights. Once when taking some relation to their home in granville, N.Y., approximate 18 Miles from my home which is on Route 149 in FORT ANN [redacted] Vil., I spotted this object and pointed it out to this couple. they described the same thing that I had seen. When we reached their home I could still see it off in the distance. When I returned home this object was always parellel with my truck as though I were being followed. When I pulled in the driveway it was directly over my house.

One occasion when I spotted it behind my house, (Round object with red appearing in the lower left section) two beams or rays of light appeared to the right of it.

While watching this object I have noticed that it has the ability of disappearing and reappering in a different spot with the snap of a finger.



Gordon R. Van Lint
RR2 Bx 2170
FORT ANN, N.Y. 12879

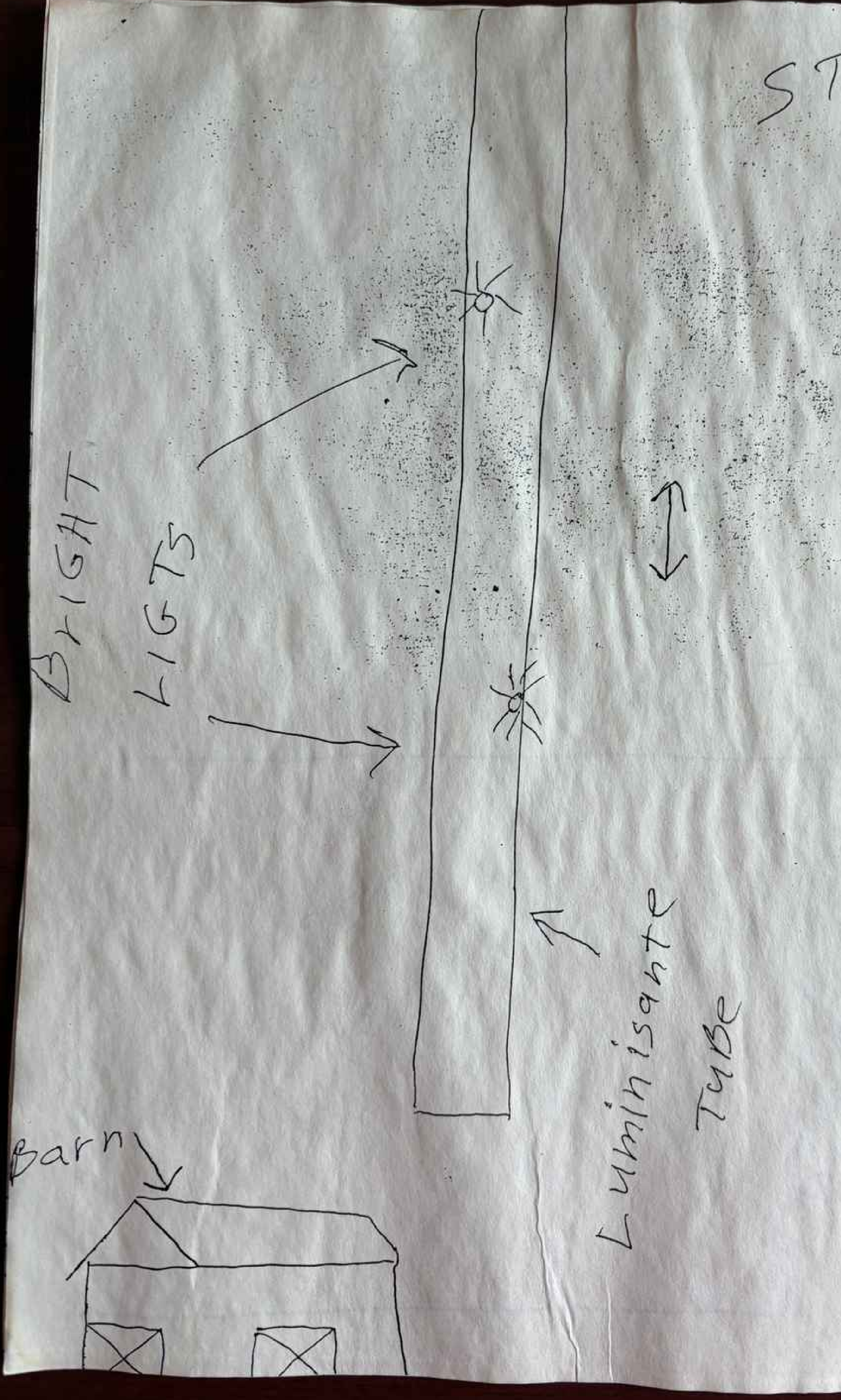
* Which is directly accross from Ted Owens and his Families house.

morning my son, Bean (24) reported to me, greatly
cited, that last night, about 3 AM, something woke him up.
went to his bedroom window and looked out. Over the barn was
giant tube; vertical. There were two lights inside it. Then
ddenly a second giant vertical tube appeared beside it.
is second tube then changed form, into a square. (Ted)

nd together they formed a "10", and inside
he square it was very dark black.
Now the vertical tube was about a mile
long and 50 yds. wide and the square
was about 2 miles wide and 2 miles long
~~The~~ this all lasted for 1 min.
Then they both disappeared simultaniosly.
Then the dogs started barking up a
storm for a few minutes. (Bean)

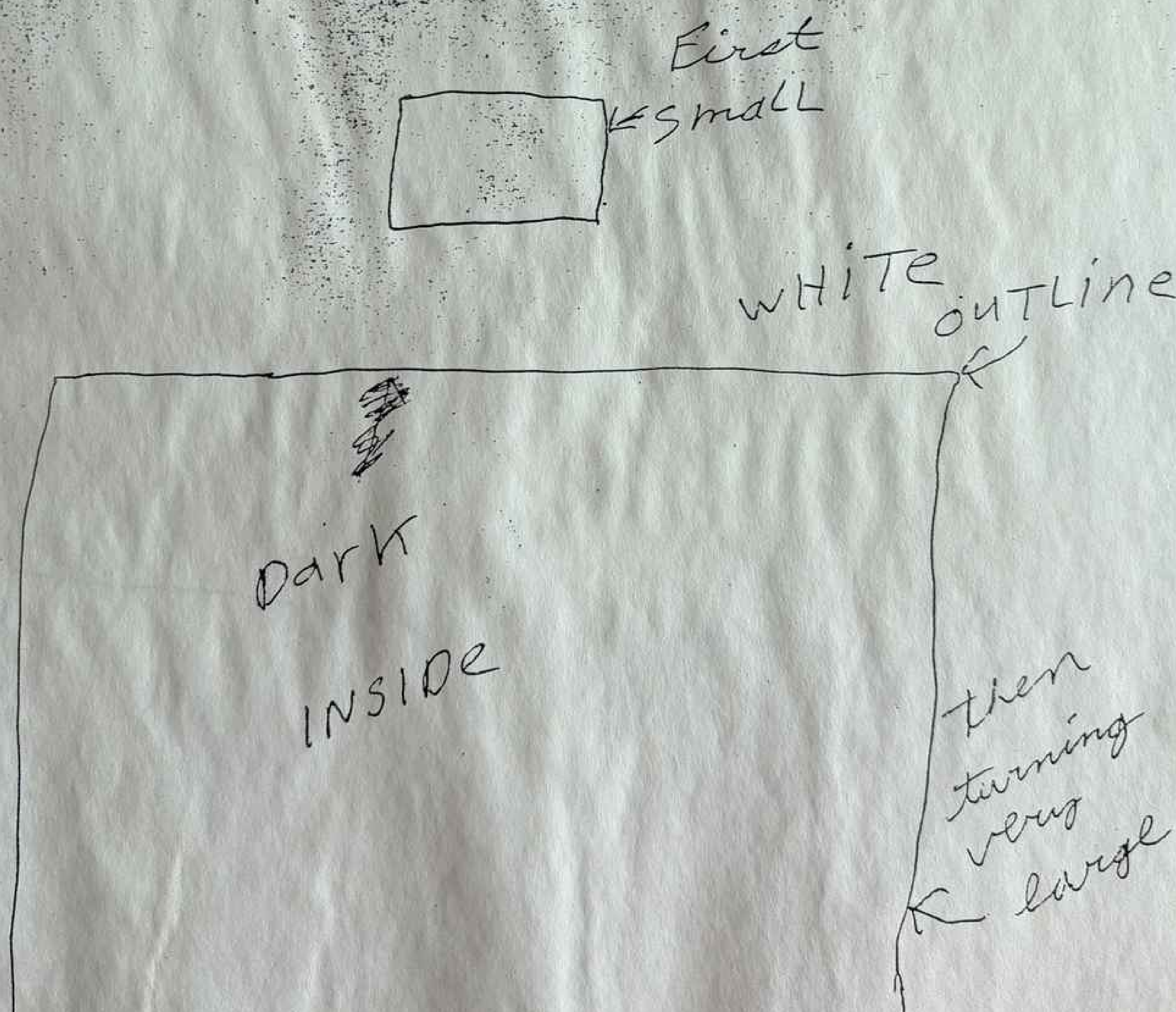
Added note: This morning, around 7 AM, when I walked from
our house the long road out past the barn with 50 cows in
it (to get my morning newspaper) the cows were wild
inside the barn – squalling and raising hell. Normally
they are quiet. I wondered if a coyote was inside the barn.
ots of coyotes around us. (This happened before Bean woke up,
ame out of his bedroom and notified me re UFOs over the barn. Ted

STaGe 1



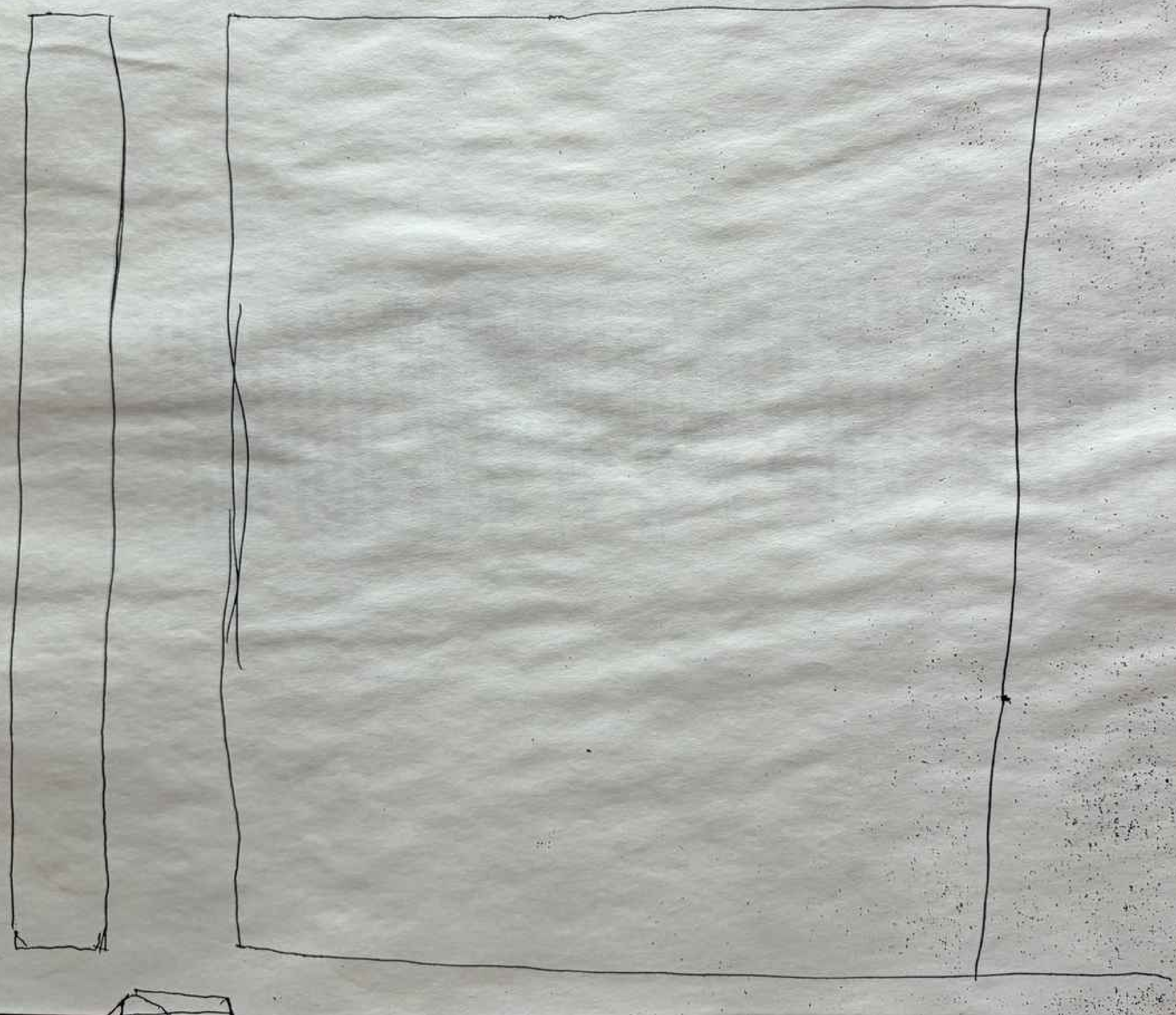
WED.
7/29/87
(BOTTOM)

Page 2 It changed into a small square and then it grew bigger



WED.
7/29/87
(Bottom)

STAGE 3 This Tube appeared on the left and
← after 1 minute it all disapeared.



WED.
7/29/87

Briefly

Post-Star THURSDAY 7/30/87

Lights filled sky above Fort Ann

(here)

On a lonely Washington County road Tuesday night, a van full of people pulled over to stare at bright columns of light in the sky.

"There were five or six columns or clusters of light," said Larry Smotroff, Dean of Community Service and Continuing Education at Mattatuck Community College in Waterbury, Conn. "They were a bluish-aquamarine and they varied in intensity."

Smotroff said he and six of his friends were returning from a movie at Aviation Mall in Queensbury when they spotted the lights sometime between 11:30 p.m. and midnight. He said the movie, "Superman IV," stunk — but the lights were more impressive.

"We were taken back by what we considered quite some phenomonon," he said.

Smotroff, who holds degrees in Psychology and Communications, does not have a background in the hard sciences, such as physics. But he said he has a background in scientific research.

Members of the group watched the lights from the intersection of Route 149 and Buttermilk Falls Road in Fort Ann.

"We watched them for a good 12 or 15 minutes before we continued on our way," Smotroff said.

Smotroff, who said no one in the group had been drinking, said he had never seen any type of UFOs before. But he said he had recently seen a documentary film on the subject.

An operator at the Plattsburgh Air Force Base and a dispatcher for the Washington County Sheriff's Department said they had not received any reports of the lights.

October 21, 1987

Scientists

(Do not have my typewriters patched up yet, hence this)

Some years ago I told you in your written files from me that my UFOs would attack the U.S. economy until their Base is provided them. ("UFOs vs Economy," remember?) They warned that they could cause a worse Stock Market crash than the one in 1929.
And that collapse—crash just occurred.
I sent their message to you.
And not long ago I told you that regardless of the fact that the Stock Market was making gains—ahead would be catastrophe (words to that effect.)

Owens
(XPK Man)

Oct. 26, 1987
10:27 PM

UFO in plain sight on our front lawn. White, circular, luminescent, about 10 feet in circumference.

O
Was a crescent moon

UFOs vs Space Work

Economy may sink 'Star Wars'

LOS ANGELES (AP) — The need to reduce the federal deficit and the weakened condition of the stock market after last month's plunge could ground the "Star Wars" space-based defense, an aerospace industry analyst says.

These factors could also delay defense spending on key aerospace projects and shift national political priorities toward domestic spending instead of military projects, says John N. Simon, a vice president of Seidler AMDEC Securities Inc.

Post-Star 11/2/87

November 3, 1987

Scientists

After I called long distance and warned Wayne Grover that my UFOs were going to destroy a space shuttle... I was amazed when the next shuttle went up and returned safely. What I did not know was that my UFOs were waiting for "Challenger" to destroy — because a school teacher would be aboard — millions of children therefore would be witnessing the event, and the TV set in front of them would teach them to let space-work alone!

Some years ago my UFOs told me to warn you that the above would occur (stock market crash) "UFOs vs economy". I kept wondering why it did not. Well, my UFOs were simply waiting for the correct timing. As you can read above — the crash will cripple or wipe out Star Wars (space military work; delay or wipe out key aerospace work, and deflect huge sums of military expenditures toward where it should be going domestic spending where it will help the U.S. people plus the interior of the U.S.

Owens

NOVEMBER 2, 1987

$2.00

TIME

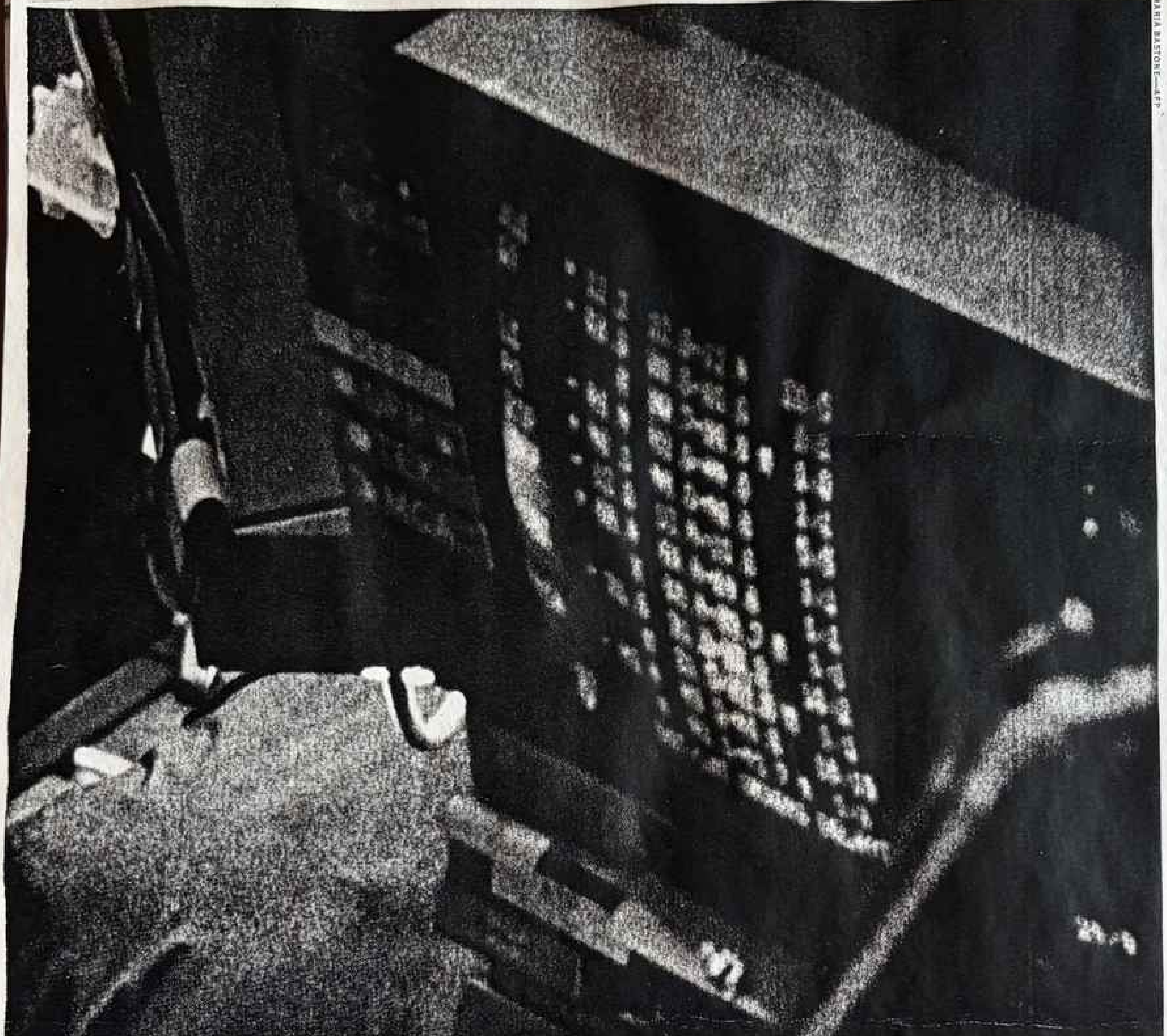
THE CRASH

After a wild week on Wall Street, the world is different

After The Fall

Decades have a way of crashing to a close during the blink of an hour. The '60s ended at Altamont, when a knife-and-death climax to a Rolling Stones concert showed that the decade of love, peace and music had trouble, even with the music. The '70s limped along with an inner-directed malaise until Jan. 20, 1981, when the U.S. hostages lifted off from Tehran just as Ronald Reagan was taking office. The '80s, as befits their high-flying adrenaline, may have dissipated a few years early, sputtering to an end during the stock market's terrifying final hour of free fall on Monday. Although Wall Street may eventually stabilize, the tenor of the times will never be the same.

What crashed was more than just the market. It was the Reagan Illusion: the idea that there could be a defense buildup and tax cuts without a price, that the country could live beyond its means indefinitely. The initial Reagan years, with their aura of tinseled optimism, had restored the nation's tattered pride and the lost sense that leadership was possible in the presidency. But he stayed a term too long. As he shouted befuddled Hooverisms over the roar of his helicopter last week or doddered precariously through his press conference, Reagan appeared embarrassingly irrelevant to a reality that he could scarcely


MARIA BASTONE—AFP

comprehend. Stripped of his ability to create economic illusions, stripped of his chance to play host to Mikhail Gorbachev, he elicited the unnerving suspicion that he was the emperor with no clothes.

Now it's the morning after, and the dream of painless prosperity has been punctured. But what a wild binge it was! Speculative fortunes built on junk bonds and stock manipulations helped paper over the cracks in an economy beset by sluggish investment and productivity. Some of the best minds of a generation marched off to make millions as market mavens, embracing the greed-and-glory smugness that suffused both Wall Street and Washington. An economy that was once based on manufacturing might and inventive genius began pursuing wealth through mergers and takeovers and the creation of new "financial instruments." Fortunes were conjured out of thin air by fresh-faced traders who created nothing more than paper—gilded castles in the sky held aloft by red suspenders.

So when the fall came, so did a few smirks, along with jokes about yuppie brokers losing their BMWs. But mainly the reaction was personal: What did the crash mean for me, my pension, my mortgage, my business, my job, my tuition bills? Most of the momentous events that splash their headlines for history can be viewed dispassionately from afar. Not a Wall Street panic, however, not even for those who don't play the market.

For many of Wall Street's whiz kids, Monday was their first taste of financial fear, their first hard lesson that what goes up can come tumbling down. For others, it produced a gnawing unease about not only their investments but also the health of their nation. Just as the crash of the space shuttle *Challenger* was a blow to America's sense of technological grace, so the crash of the market shattered its sense of financial security.

There was an odd disjuncture: the market's implosion seemed to be a frightful rendezvous with reality and, at the same time, an unhinged flight of fantasy. On the one hand, fundamental economic problems appeared to be crashing home to roost. On the other, the panic within the looking-glass world of Wall Street produced wild price fluctuations that bore little resemblance to the fundamental value of the venerable industries involved.

But the stock exchange has never pretended to measure the underlying value of American companies. Instead, it produces a collective judgment about the future profits these firms will generate. By suddenly and wildly re-evaluating its expectations about the years ahead, the market may have helped fulfill its own gloomy prophecy. —*By Walter Isaacson*

The Crash

TIME/NOVEMBER 2, 1987

COVER STORIES

Panic Grips The Globe

A crisis spotlights Washington's failures

First came a vague foreboding, a kind of free-floating anxiety. The U.S., said worriers, could not go on forever spending more than it would tax itself to pay for, buying more overseas than it could earn from foreign sales, and borrowing more abroad than it could easily repay. There had to be a day of reckoning, and it could unhinge the whole world economy. But when might it come? What form would it take? How bad might it be? No one could say, and so the forebodings could be pushed to the back of the mind.

But then, slowly at first, the anxiety began to take on a shape that could be sensed if not exactly foreseen. On all the world's stock exchanges, prices had leaped up too far, too fast, to be sustained. The mood in the markets shifted from fantasy about instant wealth to nervousness about an inevitable "correction" (a wonderful euphemism). By Monday morning the concern was no longer vague but had taken on physical form—piles of papers littering brokers' desks, each representing a hastily scribbled order to sell stock; rows of numbers flashing on computer screens, bringing news of alarming price breaks in all the early-opening markets: Tokyo, Hong Kong, London, Paris, Zurich . . .

Then trading began in New York, and the unimaginable happened: a collapse on a scale never seen before—no, not even in 1929. Prices went down, down, down, swiftly wiping out an entire year's spectacular gains. "I just can't believe that this is happening," moaned one trader, as he took nonstop sell orders at Donaldson, Lufkin & Jenrette. At lunchtime, brokers across the U.S. went hungry or ate sandwiches at their desks while trying to keep phone receivers pressed to both ears. "This is going to make '29 look like a kiddie party," shouted a trader on the Los Angeles floor of the Pacific Stock Exchange.

Almost an entire nation become paralyzed with curiosity and concern. Crowds gathered to watch the electronic tickers in brokers' offices or stare at television monitors through plate-glass windows. In downtown Boston, police ordered a Fidelity Investments branch to turn off its ticker because a throng of nervous investors had spilled out onto Congress Street and was blocking traffic. George Finch, 66, a retired businessman in San Francisco, summed up the bewilderment: "I don't know what the hell is going on."

By the time the 4 p.m. closing bell rang at the New York Stock Exchange on what instantly became known as Black Monday, the Dow Jones industrial average had plunged 508 points, or an incredible 22.6%, to close for the day at 1738.74. Some $500 billion in paper value, a sum equal to the entire gross national product of France, vanished into thin air. Volume on the New York exchange topped 600 million shares, nearly doubling the all-time record. Brokers could find only one word to describe the rout, an old word long gone out of fashion but resurrected because no other would do: panic. The frenzy rose as it spread once again around the globe. On Tuesday stock prices fell by 12.2% in London, 15% in Tokyo, 6% in Paris and 6.7% in Toronto, on top of huge losses Monday.

Then, since blind panic is no more sustainable than unthinking euphoria, came a crazy whipsawing that continued virtually all week and in markets all around the world. Up, down, up, down, with trends reversing in hours, and then reversing again. And always the questions: Would the stock crisis cause a recession? Or even a global depression like the one ushered in by the 1929 Crash? What would happen to the dollar, to interest rates, to world trade? What might Ronald Reagan do to calm the markets? Could a

Black Monday on the New York Stock Exchange

OURNAL.

The Crash of '87

Stocks Plunge 508.32

Amid Panicky Selling

LE QUOTIDIEN DE PARIS

Les Bourses mondiales dans la tourmente

LE CRASH

The New York Times

STOCKS PLUNGE 508 POINTS, A DROP OF 22.6%; 604 MILLION VOLUME NEARLY DOUBLES RECORD

NY、最大の508ドル

東証、大半は値つかず

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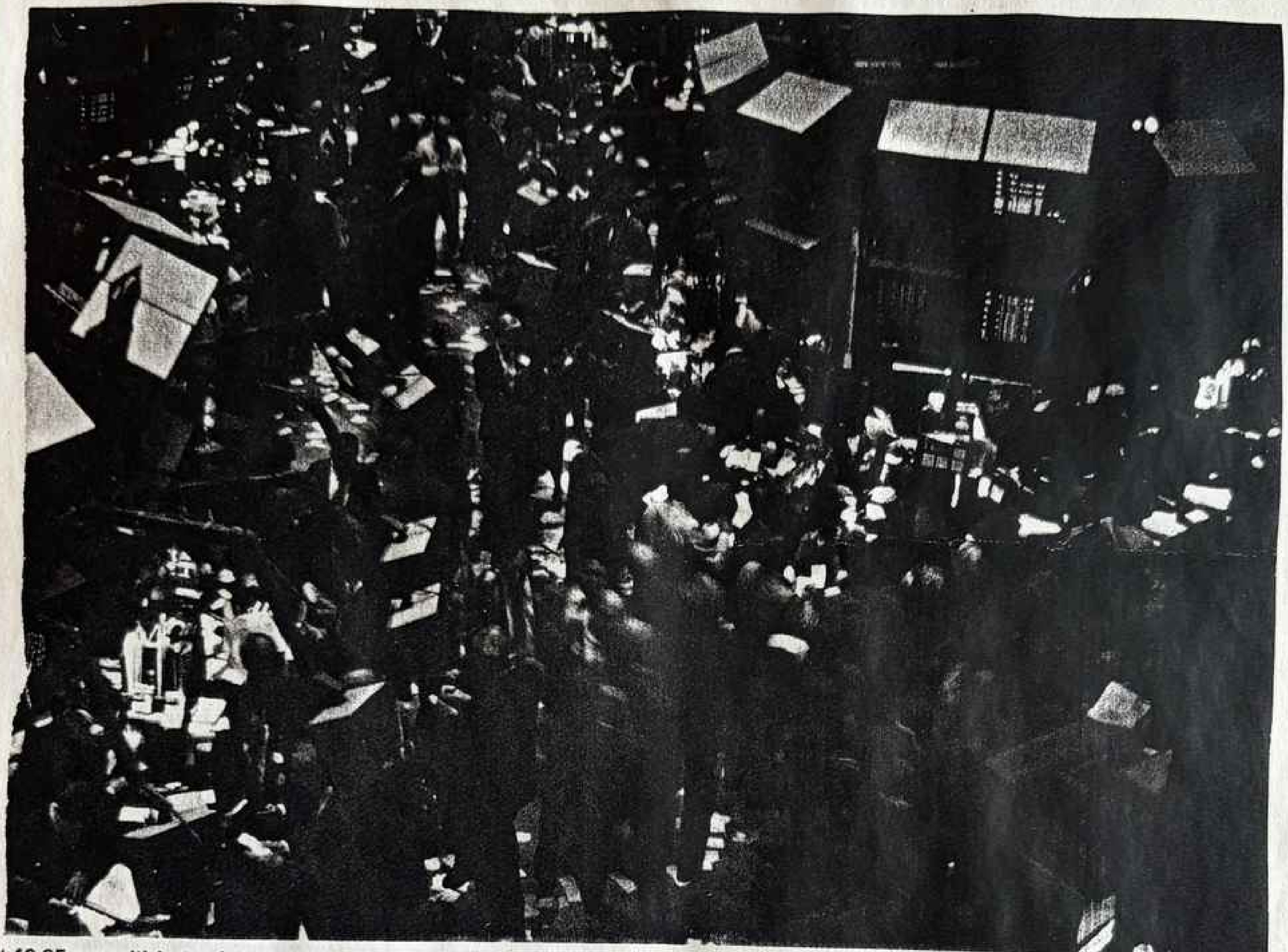

:40.05 p.m., with just under 20 minutes of trading left and share prices plunging too rapidly for anyone to keep track of

BILL FOLEY

President who was so weakened by the Iran-*contra* affair and the impending defeat on the Bork nomination, and who was distracted by war in the Persian Gulf and his wife's cancer operation, possibly quell the financial turmoil? Did he even understand that he faced a first-class crisis of confidence in his leadership?

At first the President gave no sign that he did. He spoke only in comments shouted to reporters over the roar of helicopter rotors on the White House lawn and in brief formal remarks issued through his spokesman, Marlin Fitzwater. On Black Monday, he blithely attributed the crash to "some people grabbing profits" accumulated during the market's long rise. In a statement after the close of trading, he said that "the underlying economy remains sound"—unwittingly drawing another parallel to 1929, when Herbert Hoover said almost exactly the same thing. On Wednesday, Reagan remarked that the midweek rally indicated the Monday collapse had been "some kind of a correction"—a statement that would have been reassuring only if he had intended it ironically, as he obviously had not. Some critics began speaking of the President in tones of contempt. Said a Wall Street money manager during the midst of the crash: "You sell and get what you can and never again listen to Ronald Reagan." M.I.T. Professor Robert Solow, who was awarded the Nobel Prize for Economics last week, took the occasion to criticize Reagan's long, obstinate resistance to tax increases thought necessary by many to trim the budget deficit and thus restore confidence. The President, said Solow, "is holding the Congress back from slow access of intelligence."

By Thursday night, however, Reagan at last showed that he recognized the seriousness of the situation—and the need for action. "We shouldn't assume that the stock market's excess volatility is over," he asserted at a White House press conference, and he acknowledged that public fear spread by those gyrations "could possibly bring about a recession." More important, he announced that he was summoning the leaders of Congress to a bipartisan deficit-cutting conference at which, through his top aides, he was "putting everything on the table with the exception of Social Security, with no other preconditions." Including a tax increase? Though he could not quite bring himself to pronounce those words, Reagan clearly indicated that, well, yes, he would at least discuss the subject. Reminded again and again by reporters of his many previous pledges to veto anything resembling a tax increase, he refused to repeat any such pledge; he merely said both spending and taxes should be kept "as low as possible."

It was, however, anything but an inspiring performance. The President repeatedly stumbled and seemed unsure of just what he wanted to say. Several times he slipped into well-worn denunciations of congressional Democrats before remembering that this time he was supposed to sound conciliatory. In his Saturday radio speech, Reagan once again called on Democrats to "remember that lower taxes mean higher growth," even while acknowledging that "all sides must contribute" to a budget-cutting package. The net impression was that in countenancing discussion of a tax increase he was doing something he felt he must, without any conviction.

The impact of the President's words was hard to gauge. Exchanges in Asia and Europe suffered additional heavy losses Friday, but that might have been more a response to a bad Thursday on Wall Street. Despite a lukewarm reaction in the New York financial community to the President's statements, prices on the Big Board steadied, perhaps from exhaustion. The Dow average eked out a .33 gain to close the week at 1950.76. Two bits of news helped: the Consumer Price Index rose at an annual rate of only 2.1% in September, less than half the 5.8% pace in August; the GNP grew at an annual rate of 3.8%, after adjustment for inflation, in the third quarter, up from 2.5% in the second quarter. Those figures seemed to indicate that the American economy, if not exactly sound in its fundamentals, was at least not deteriorating as drastically as the Black Monday stock-price collapse might have led an unsophisticated observer to believe.

Nonetheless, the week as a whole will go down as the worst in financial history. The Dow's Black Monday plunge of 22.6% was almost double the record 12.8% fall on Oct. 28, 1929. Despite a spirited rally on Tuesday and Wednesday, the Dow was still down an unprecedented 295.98 points, or 13.2%, for the week. That immediately eclipsed the record 235.48-point decline the market had suffered the previous week. From its peak of 2722 in August to its Friday close, the average has fallen 28.3%, burning up an estimated $870 billion in equity values. Volume for the week was inconceivably greater than ever before, totaling 2.3 billion shares on the Big Board; the four heaviest trading days in New York exchange history all occurred last week. The turnover strained the exchange's computer network to the limit, and the Big Board decided to knock off trading two hours early on Friday and this Monday and Tuesday to allow exhausted brokers time to catch up on their paperwork.

At best, the President may have bought some time for the White House and Congress to come up with a program to convince investors that something worthwhile will be done to bring budget and trade deficits under control. Probably not much time, either. Wildly gyrating markets are better than those that plunge straight down, but they are hard on the nerves of stockholders who have already proved they are ready to jump at the first sign of trouble. The continued drop on the foreign exchanges Friday cannot be brushed off. If the wild week proved anything, it was that in an era when the U.S. is dependent on foreign goods and capital, no exchange is an island. Price breaks overseas can touch off panic in the U.S., which can then hammer prices down further abroad; that, in fact, is roughly what happened Monday and Tuesday.

Moreover, even if prices stabilize—a gargantuan if, given the extreme jumpiness of the markets—the bust that has already occurred darkens prospects for business. Even in an economy the size of the U.S.'s, the nearly $385 billion in asset values that vanished last week alone is a sum large enough to have a strong impact. Not all those losses are theoretical; for many people who sold on Monday, the damage is painfully real. And investors who sat tight and saw the value of their stocks recover a bit at midweek have had an unforgettable demonstration that they cannot count on

Baker: "Wait and See"

A seven-year veteran of the Reagan Administration, Treasury Secretary James Baker is no stranger to crisis. Rarely, however, has he been placed so squarely in the vortex. On Friday, Baker met over breakfast in the Treasury Secretary's ornate dining room with TIME's *international economics correspondent, Christopher Redman. For 90 minutes they discussed the week's tumultuous events. Excerpts from the interview:*

Q. There have been accusations that your remarks about interest rates were ill-timed and helped trigger the Monday crash. Is that so?

A. What triggered it was not my remarks but a front-page story in one of our major newspapers. It quoted an unnamed Government official, not me, and drew inaccurate conclusions from my remarks in a way that could not but contribute to market nervousness.

Q. What needs to be done to prevent this crash from leading to a depression?

A. We need to continue to work hard to coordinate our economic policies in the manner envisaged by the Plaza and Louvre [international monetary] accords. And each country needs to do its utmost to take actions that are sometimes very difficult politically. We must recognize that more and more we are an interdependent world.


MICHAEL EVANS

The Secretary: squarely in the vortex of events

Q. Can we avoid a recession?

A. I think we can with the right policies. And we're pursuing the right policies in the United States by moving to negotiate a budget-deficit-reduction package with the Congress and by adopting an easier monetary policy stance. But it's important that monetary authorities around the world recognize that there's been a large loss of wealth and that consideration should be given to an easing of monetary policy.

Q. You didn't mention protectionism.

A. Trade is very important, and fear of protectionism was one thing that had equity markets unsettled. The Administration is totally committed to free trade, and the President has said he will veto protectionist trade bills now on the Hill.

Q. There's clearly going to be some negative impact from the crash. What's the damage, and how can it be limited?

eventually being as rich in reality as they once looked on paper.

To be sure, hardly anyone expects a rerun of the Great Depression that followed the 1929 Crash. Main reasons: the economy has developed many safeguards, and the Government, if it cannot yet be trusted to resolve the nation's fundamental financial problems, at least knows enough to avoid making the situation drastically worse. The banking system collapsed in the wake of the 1929 debacle, but it is much sounder today, shored up by federal deposit insurance, among other things. Says James Wilcox, an economist at the University of California, Berkeley: "In the 1930s when things looked bad, people ran from the banks out of fear. In 1987 people run to the banks to put their money in, because this time the banks are among the safest things around."

Reagan pointing out the market's (momentary) direction
Thursday night, said an aide, "he almost blew it."

The Federal Reserve Board, in hindsight, is widely considered to have played a role in converting the 1929 Crash into the 1930s Depression by allowing the U.S. supply of money and credit to shrink substantially at the worst possible time. Last week the Fed took exactly the opposite tack. Chairman Alan Greenspan on Monday was denounced by some critics for having inadvertently helped trigger the stock-market break by pushing up interest rates in early September. But on Tuesday morning he became something of an instant hero by reversing policy: just before the markets opened, he announced that the Federal Reserve, "consistent with its responsibilities as a central bank," would make as much money available as might be needed—for example, to banks that might be hurt by suddenly uncollectible loans to stockbrokers. Greenspan seemed to be as good as his word; by week's end the Fed was apparently pumping enough money into banks to bring interest rates down again slightly. Led by Citicorp, the major U.S. banks dropped the benchmark prime rate that they charge corporate customers from 9.25% to 9%. The move came only two weeks after the banks had boosted the prime from 8.75% to 9.25%.

But if no depression is in the cards, the market crack could cause a recession all by itself. Economists last week were quoting odds like so many Las Vegas bookies. Some guessed the chances of a recession had gone from 1 in 4 to 1 in 2, others from 15% to 35%, but few doubted that the odds had increased. If a recession does not come, most agreed, the economy probably is in for at least a slowdown that might knock a percentage point or two off its growth rate.

Frank Korth, senior vice president of Shearson Lehman, explains the mechanism by which market cracks get translated into slowdowns or recessions: "If you lose $4,000 in the stock market, you don't go out and spend $1,200 on a new color TV or $4,000 on a new motorboat. As a result, the man on the street whose job is in the boat plant is out of a job because there is no market for his company's product. Boatbuilders don't want to build inventory, so they close down their plants. Everybody loses: the plant workers, the suppliers, the corner grocer, the shoe store."

This is, of course, a highly simplified scheme, and there is nothing inevitable

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A. We don't know yet, and we won't know until we get a better readout on some of the credit problems that might spew out of this. Although we don't know of any, there may be problems in terms of ripple effects. So we have to wait and see. But we're doing what we can. I think the policy moves we've made are the right ones. We're in close contact with the exchanges. And we've just had some good numbers: growth in the third quarter came in at 3.8%, much stronger than we anticipated. That's good because we're going to have some adverse effects from this market decline and we'd rather have that coming off a high GNP number.

Q. Do you expect America's economic partners to make further efforts to ensure that the recovery continues?

A. We've all got to do what we can to bring our economies into better balance.

Q. Does that mean you still want to see faster growth in West Germany?

A. We want to see deficit countries—to wit, the United States—move on fiscal deficits and fight protectionism. And we'd like to see surplus countries generating as much growth as possible, consistent with maintaining the gains the world has made against inflation.

Q. As part of the U.S. contribution, the President said he will consider tax revenues in a deficit-reduction package.

A. Right.

Q. He also said they should not harm the economy. What form could they take?

A. As the President said, we're not going to negotiate in public by saying what is or is not that kind of tax.

Q. What was the President's objective at his news conference?

A. It was important for the President to be seen to be in charge, to be leading and taking action. He also needed not to be seen as another Herbert Hoover. He couldn't say, "Don't worry, everything's O.K." But at the same time he needed to be reassuring, and that's not an easy line to walk.

Q. Why the need for budget compromise?

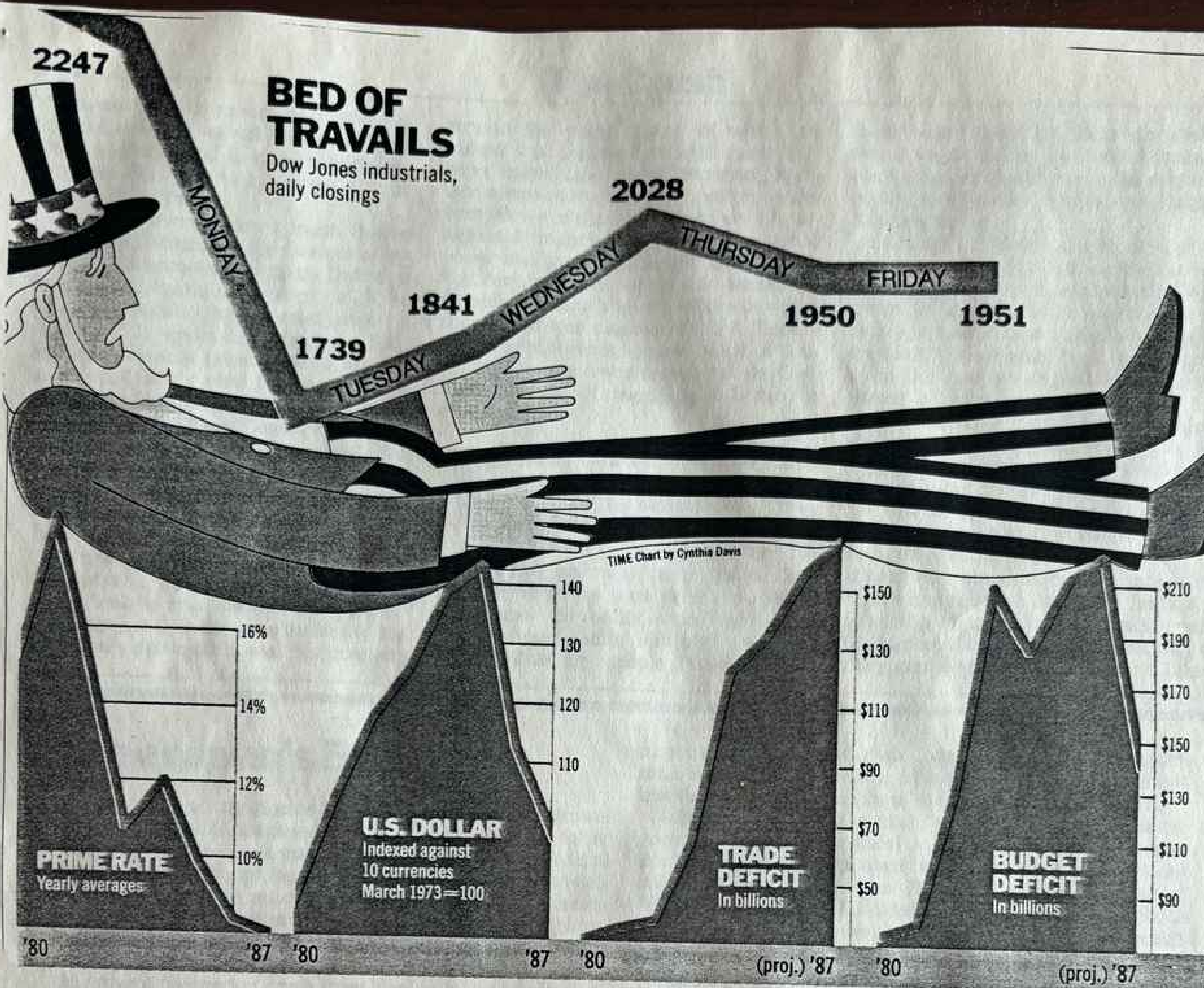
A. The major plus to a negotiated deal is that the markets would see the two branches of Government cooperating to solve the problems.

Q. What's the time frame for reaching a deficit package?

A. We have to do this not in the months ahead but in the days ahead.

Q. Can any good come from this turmoil?

A. We probably wouldn't be doing this [negotiating with Congress] but for the events of the past week. It is clear that they were the catalyst that was needed to bring about face-to-face discussions on debt reductions.



about it; it could be averted by Government action that would restore confidence. But what kind of action? An answer must begin with an analysis of what triggered the market crash.

Superficially, the bust might seem, to put it bluntly, insane. By no rational calculation could the asset value and earning power of American corporations be 22.6% less on Monday night than they had been the previous Friday. But that statement assumes that their values on Friday were realistic, and in hindsight there is widespread agreement that they were not. In other words, the crash to some extent really was—oh, all right—a correction, though one on a scale to make that word seem ludicrously inadequate.

Says Korth of Shearson Lehman: "The market should not have reached 2700 [on the Dow Jones average] in the first place. We probably should have been trading around 1900 or 2100; maybe 2000 would have been the right number based on interest rates, corporate earnings and other fundamentals. We were 700 points ahead on sheer greed." As early as August, when the American bull market celebrated its fifth birthday, some investing pros were noting apprehensively that stock prices were getting out of line with expected corporate earnings, and dividend yields had fallen well below the interest return on bonds, making the fixed-income securities potentially a better investment. But the general feeling then was that the Dow might go as high as 3000, on pure momentum if nothing else, so why not stick around for the end of the ride? A similar psychology ruled overseas, according to Nils Lundgren, chief economist of Sweden's PKbanken. Says he: "The market was really overspeculated, with people saying to themselves, 'I won't get out now, but as soon as stocks start to fall, I will sell.' When you have that mentality operating, you are ready for a big fall."

When markets get into such a state, almost anything can start a smashup. In the event, last week's explosion did not lack for triggers. Interest rates were pushing higher: the yield on U.S. Treasury bonds rocketed briefly above 10%. That seemed likely to pull money out of stocks into the bond market. In fact, something of the sort seems to have happened. While the stock market suffered through its collapse Monday, the bond market began a brisk rally, presumably propelled by money fleeing the stock exchanges and looking for a safe haven. The biggest immediate blow of all was a report two weeks ago showing that the monthly U.S. trade deficit in August had declined only slightly, to $15.7 billion. Investors who had been hoping for a large reduction took that as a sign that U.S. finances were out of control and that the Reagan Administration did not know how to fix them. They began dumping stocks.

Moneymen in the U.S. and Europe found a personal villain: U.S. Secretary of the Treasury James Baker. Some came close to implying that he turned a serious stock-price decline into an all-out crash single-handedly. That would be a wild exaggeration, but he surely did not help.

What Baker did was get into a complicated but unnerving spat with West German financial authorities, who two weeks ago permitted the fourth rise in German interest rates in three months. What was so bad about that? Washington would like West Germany, Japan and other major countries to reduce interest rates for two reasons: 1) to avoid competing against the U.S. for international capital needed to cover the federal budget deficit; 2) to stimulate their domestic economies so they will import more U.S. products and not be so dependent on export sales that swell the American trade deficit. Baker might have been justified in criticizing the German interest-rate boost;

he was not the only moneyman to consider it unnecessary as well as unwise. The boost was supposed to combat inflation, but West Germany is a country with almost no inflation.

Baker, however, went much further than merely criticizing the Germans. In a series of statements beginning Thursday, Oct. 15, and continuing through a TV interview on Sunday, he repeatedly asserted that the U.S. would not accept the German interest-rate boost quietly. Moneymen immediately read his comments to mean that Washington would no longer abide by the February Louvre accord under which the U.S., West Germany, Japan and four other nations try to keep the values of their currencies within a narrow trading range. Indeed, the New York *Times* quoted an unnamed "senior Administration official" as announcing an "abrupt shift in policy," implying the U.S. would seek to retaliate against the Germans not just by letting the dollar fall but by actively driving it down. For investors around the world, many of whom assumed the unnamed official must have been Baker, that raised horrifying specters: chaos in the currency markets and a breakdown of the slender degree of international financial cooperation achieved under the Louvre agreement (named after the Paris museum, which also houses the French Finance Ministry offices in which the accord was negotiated). U.S. Economist Pierre Rinfret accuses Baker of "initiating economic warfare against the Germans and then threatening to bomb his own currency."

Treasury sources vehemently deny that Baker intended any such thing. All he wanted to say, they insist, was that Washington would not let the West Germans push the U.S. into raising its own interest rates; they point out that his statements never even mentioned the dollar specifically. And the unnamed senior official? It was not Baker, Treasury people insist; in fact, Baker would like to get his hands on whoever it was. Perhaps, but such statements cannot inspire confidence in the degree of policy coordination within the Reagan Administration.

Ironically, Baker in a sense won his campaign. Flying to Europe for a scheduled visit Monday, he persuaded the West Germans to roll back the interest-rate increase he had assailed, and they together specifically reaffirmed the Louvre agreement. But it was much too late to calm the unrest Baker's previous statements had intensified. Well before he patched things up with the Germans, selling on the world's stock exchanges had accelerated into an all-out crash.

One factor behind the speed of the market's descent was the almost complete computerization of the New York exchange and other markets. There is immense dispute, even days after the fact, as to what part computers that make trades semiautomatically played in touching off the gigantic volume of sell orders. Taking

Greenspan's Big Test

If any one man can decide how last week's market turmoil will affect the U.S. economy, and indeed that of the entire world, he is Alan Greenspan, 61. As chairman of the Federal Reserve Board, the soft-spoken economic forecaster is the ultimate arbiter of the nation's credit supply and thus of the interest rates at which money is lent throughout the U.S. banking system. On the job less than three months, Greenspan is suddenly being forced to make rapid and delicate decisions to prevent the market crash from turning into a mushrooming financial collapse and to stave off a steep recession. Says Charles Schultze, who was chairman of President Jimmy Carter's Council of Economic Advisers: "Greenspan is in a very difficult period in which he is truly being tested."

Following Black Monday, Greenspan moved quickly to avert further disaster. The day after the market's plunge, the new Fed chairman cut short a speaking trip to Dallas and hurried back to his ornate second-floor office in Washington's Eccles Building. He had already issued a terse announcement that the nation's central bank would "serve as a source of liquidity to support the economic and financial system." That was a signal that banks would have no difficulty obtaining additional credit as needed to provide for the huge losses sustained by shell-shocked brokerages. Greenspan's announcement produced an immediate decline in interest rates, as the banking system moved in effect to replace some of the $500 billion in stock values that vanished on Black Monday.

Greenspan also began moving behind the scenes to bolster the Reagan Administration's political response to the crash. Within an hour of Treasury Secretary James Baker's return from West Germany to Washington on Tuesday, Greenspan was huddling with him to plan the Administration's response to the market crash. Later that day the Fed chairman helped persuade Reagan to offer Congress a summit meeting to negotiate a federal-deficit reduction program.

People like Lyle Gramley, a former Federal Reserve governor who is now chief economist for the Mortgage Bankers Association, praised the Fed chairman for his decisive actions. But critics like Paul Craig Roberts of Washington's Center for Strategic and International Studies charge that Greenspan also helped cause last week's market disaster. They note that back on Sept. 4, Greenspan's first important move as Fed chief was to push successfully for a hike in the bellwether discount rate, the interest that the Fed charges on funds lent to financial institutions, from 5½% to 6%. It was the first such increase in nearly 3½ years.

Greenspan justified the rate hike as a move against potential inflationary pressures, which indeed it was. But for investors, any increase in interest rates makes stocks less attractive, since higher returns become available for bonds, Treasury bills and other fixed-income securities. During the two trading days after the Fed announced its decision, the Dow Jones industrial average dropped 54 points. Admits Gramley: "A common problem is the markets do not understand Alan Greenspan's statements. He needed to express [the Fed's decision] more clearly."

Greenspan's task is especially difficult because he follows Paul Volcker, who left the Fed last August after eight years as chairman. Volcker was legendary for his ability to inspire confidence at home and abroad. Greenspan's experience is also grounds for reassurance. In 2½ years as Gerald Ford's chief economic adviser, he had some success in combatting inflation, then the nation's main economic woe. But, unfortunately, the progress was temporary, and inflation was not decisively licked until a severe credit squeeze was imposed in the early 1980s by Volcker and the Fed.


CYNTHIA JOHNSON

The chairman after a huddle at Treasury


KURITA—GAMMA/LIAISON

Frenzy on the floor of the Tokyo Stock Exchange as prices dropped on Tuesday

no chances, however, the Big Board after the Monday debacle instituted restrictions on so-called program trades of large portfolios of stock carried out by computer, in order to damp down price swings.

In a broader sense, computers unquestionably had an all-important role. They enable the exchanges to execute trades swiftly, in volume that would have been inconceivable a few years ago. So at times of market excitement, the volume that would once have been stretched over a week or so gets squeezed into a day. When the orders are predominantly on one side, prices run up or down violently.

But never so violently as on Black Monday. Tickers and news reports flashed the story of huge price declines on heavy volume. With each sale, more investors became convinced that a collapse had begun and they had better get out while they still could. Mutual-fund managers tried to hold on but could not; they had to dump stock to get cash to pay off investors who clamored to redeem their fund shares. Margin calls to investors who had bought stock on credit aggravated the frenzy. Some could not put up additional collateral and were sold out.

Why, then, did the rout give way to a rally? Traditionally, that happens after every so-called selling climax (even in 1929), because most investors who were thinking of selling have been cleaned out in one grand sweep and buyers start looking for newly cheap shares. The rally in the middle of last week was given particularly powerful support by some 200 major corporations that started buying up their own stock at bargain prices, in part to keep it out of the hands of would-be raiders. The crash put at least a temporary damper on mergers and acquisitions anyway. Several deals fell through because the bids made for the target companies suddenly looked unrealistically high after

HABANS—SYGMA

Newsstand headlines the same day tell what happened in "the City," London's Wall Street

Pretty much the same thing in Paris, Frankfurt, Amsterdam, Zurich, Madrid . . .

the general decline in stock prices.

But it is anyone's guess whether the small degree of stability so painfully achieved on Friday—volume dwindled as the Dow average stood almost still—will hold even for days or hours. Alan Meltzer, professor of political economy at Pittsburgh's Carnegie-Mellon University, thinks the "markets will remain volatile because there are still too many unanswered questions."

The most fundamental questions, economists agree with the closest approach to unanimity they ever achieve, are: How long will the U.S. try to live it up on borrowed money? And can it summon the will to start the painful readjustment necessary to kick the habit—a readjustment that grows more painful the longer it is put off?

The problem is hideously complicated in detail but simple enough in outline. Ever since the giant tax cuts of 1981, the U.S. has been running deficits on a scale never seen before. True, Reagan announced at his press conference that the deficit in fiscal 1987, which ended on Sept. 30, dropped to $148 billion, from $221 billion the prior fiscal year. But the new figure is still far too high, and it is likely to rise again soon; much of the 1987 reduction was due to one-shot effects of the tax-reform law. Concurrently, the U.S. has swung from a surplus of exports over imports of $3 billion as recently as 1975 to a trade deficit of $156 billion last year.

One result is that America has run up a foreign debt of about $250 billion. Economists across a broad spectrum of ideological positions warn almost with one voice that this situation is precarious in the extreme. Foreigners will not continue forever to finance American profligacy, and the stock-market crash was a relatively mild foretaste of what could happen if they pull their money out. The nation would then face a grim choice of financing the deficit by ruinous printing-press inflation or a sudden, brutal cutback in spending that might trigger a real economic bust.

No wonder, then, that stock investors have been nervous. Whatever the precise mix of emotions and events that triggered last week's collapse—and to establish that mix would require probing into millions of minds around the world—its root cause was a dim but accurate perception that U.S. prosperity was not sustainable with present policy. And with Congress and the President perpetually wrangling over the most modest proposals to reduce the budget deficit, they could see no sign that policy was about to change.

In truth, even with the most brilliant policy, the passage to a sounder prosperity is likely to be tricky, dangerous and painful. Lowering the trade deficit will take years, and will probably require a cut in American consumption—meaning, in other words, at least a temporary reduction in the standard of living. Many economists think the dollar will have to fall further too, reluctant as both U.S. and foreign moneymen are to see that happen. The reluctance is understandable. Unless a decline is carefully managed, it will raise two dangers: a renewal of inflation and a panic flight of foreign capital from the U.S. (since foreigners would not be eager to hold dollar-denominated investments that shrank in value against their own currencies).

But there is an impressive consensus, in the U.S. and abroad, on how to begin to correct the imbalances in the American economy. The President and the Democratic-controlled Congress must agree, right away, on a package of measures that hold some real promise of reducing the budget deficit steadily and substantially. Certainly these must include painful spending cuts. But they must also include tax increases, much as Reagan hates the thought. Not because they are any panacea; indeed they carry a serious risk. Higher taxes might reduce consumer spending just when a recession is beginning, and deepen the slump. But no significant budget cut is possible without at least some sort of modest tax increase, and no progress toward solving the nation's fundamental economic problems is possible without a real deficit reduction.

That was the theme, implicit or explicit, of comments around the world last week. Foreign government and financial leaders have an all-important stake in U.S. economic policy. The worldwide market crack is already hurting their economies; for example, it has delayed European programs to privatize industry by selling chunks of government-owned companies to individual investors. An American recession, should that be the result of a continued stock slump, could quickly travel abroad.


MARTY KATZ

Watching the tape through the window of a brokerage in Washington

For the week, a crazy whipsaw: up, down, up, down—in hours.

French President François Mitterrand, speaking at a financial forum Thursday, complained about a "world that constantly moves the carpet under your feet, pulling it out and threatening to trip you up." The market bust, he said, "is the disorder of a non-system. There is no system. It has been broken." Others left no doubt about who must bear responsibility for fixing it. Says a senior Canadian government economist: "Everyone, all around the world, has been keeping an eye on the U.S. economy and wondering how long it could continue to survive without dealing with things like its trade imbalance and its huge federal deficit. When people became convinced that the U.S. lacked the will (we know it has the ability) to deal with these problems, they lost confidence in the U.S. market." Guido Carli, former head of the Bank of Italy, is specific about what needs to be done: "The only way out is to reduce the U.S. deficit. Otherwise there is a risk of recession."

Does Reagan now understand the necessity? Just before Black Monday, Treasury Secretary Baker in a TV interview restated the President's opposition to any sort of tax boost. But he and other insiders were already monitoring the stock market apprehensively. The previous Friday, White House Chief of Staff Howard Baker had pulled together an informal group consisting of himself, the Treasury Secretary, Council of Economic Advisers Chairman Beryl Sprinkel, Federal Reserve Chairman Greenspan and White House Aide Kenneth Duberstein. They

Are Computers to Blame?

If big investors are determined to panic, computers can sure help. A few keystrokes into a broker's desktop computer can trigger the sale of thousands of shares of, say, 500 different companies. Such "program trades" may have played a role in making Black Monday the worst day in Wall Street history. As one Chicago broker joked, the difference between 1929 and 1987 is that last week, it was the computers that jumped out the windows.

But how much are the computers to blame? That issue stirs a great deal of confusion. The term program trading is misleading: it derives not from the fact that trades are executed by computer programs but that they involve the systematic sale of portfolios of stocks as if they were one stock. The first program trades, executed in the early 1970s, did not involve computers.

Program trading came into its own in 1982, with the advent of stock-index futures. These enable investors to make a bet on which way the entire market is going. Index futures, used with program trades in the stocks on the index, open up a variety of opportunities. One of the most popular takes advantage of momentary differences between the price of a futures contract and of the stocks themselves. When this spread is sufficiently wide, a trader can lock in a profit at no risk by, say, buying the futures and selling the underlying stocks. This practice, called index arbitrage, has been blamed for the sharply increased volatility of the market, though the point has never been conclusively proved. Indeed, some experts believe index arbitrage actually reduces volatility by helping the market reverse course when it goes too far in one direction.

But most arbitragers were on the sidelines last Monday because the computers that track prices had fallen hopelessly behind. The real culprit was a variation of program trading called portfolio insurance. This is a defensive strategy designed to protect stock portfolios against market downturns. Rather than sell stocks as their prices are falling, portfolio insurers sell stock-index futures. If the decline persists, the futures can be repurchased at a lower level, yielding a substantial profit that will offset some of the loss sustained on the stocks. But traders who buy the futures hedge their positions by making computer-aided sales of the underlying stocks, driving the market down further. If computers did help accelerate the Black Monday slide, they were not responsible for it. As an IBM executive once said, "Computers don't kill stock markets. People do."

INTER—CONTACT

Wall Street crowd on Tuesday: wild gyrations are better than relentless declines, but still very hard on the nerves

met with the President after the market had closed with a then record loss of 108.36 points (shortly to be vastly eclipsed). Their message: basic economic indicators were good, but the markets were very nervous.

On Monday, Howard Baker was on the telephone almost all day long, keeping in touch with old colleagues on Capitol Hill, where he had once been Republican Senate leader, and phoning people on Wall Street, including New York Stock Exchange Chairman John Phelan, to get market reports. At 3:40 p.m., 20 minutes before the close of trading, the chief of staff and Duberstein called at the Oval Office to give Reagan a market status report. But prices were tumbling too rapidly for anyone to keep track of them. Reagan, as his later statements indicated, simply did not know what to make of the crash.

The decisive meeting occurred Tuesday after the market close. James Baker, by then back in his Treasury office after having cut short his trip to Europe, first called in Howard Baker, Greenspan and Sprinkel to coordinate what they would tell the President. Then, joined by Duberstein, they went upstairs in the White House to the brightly colored West Sitting Room, which the Reagans use as a living room. James Baker opened by telling Reagan that the world seemed to be looking for some movement on the President's part, and the quickest way he could display leadership was by reaching a compromise with Congress on reducing the budget deficit. Everyone knew that would have to include a tax increase.

Greenspan, who had been an informal economic adviser to Reagan before the President chose him to head the Federal Reserve, voiced a somewhat perverse but effective argument: in effect, the only way to keep taxes low was to agree to raise them a bit. If there was no budget compromise with Congress, he said, the financial markets might continue to weaken and the economy might take a real turn for the worse. That, he continued, might give the Democrats enough political clout to shove through a big increase severely trimming back Reagan's cherished tax cuts, either by ramming one through over the President's veto or by winning the 1988 election and enacting a stiff boost after Reagan left office. The President showed great reluctance to accept the advice that he should compromise on a modest boost now. But, says one participant, eventually the "President bought the [Greenspan] argument that if the economy goes down the tubes you lose the whole thing, the whole legacy."

Even so, the two Bakers had to argue further on Thursday to cement Reagan's agreement to state in his press conference that night that he would put everything on the table in budget discussions with congressional leaders. But as the President began speaking, advisers who had coached him were concerned that he would take back that pledge almost immediately after making it. Their fear was that once Reagan got past his prepared statement and started answering reporters' questions, he would go on automatic pilot and repeat all his standard denunciations of taxes. In fact, Reagan once or twice started to do exactly that but caught himself before going too far. Said an adviser the next day: "He almost blew it. He came very close."

But he did not blow it, and the budget negotiations were set to begin early this week. It should not take long to find out whether some agreement can be reached. Even if a renewed market decline does not force a quick resolution—and one very well might—the talks will be racing a deadline of sorts. If a budget compromise is not worked out and enacted by Nov. 20, some $23 billion of automatic spending cuts go into effect under a modified version of the Gramm-Rudman Act. They would slash away with idiot impartiality at defense and social spending, at good programs and bad. And that would just about end any chance that Washington would give the stock markets the signal they yearn for.

What if the negotiations break down and the market gets the opposite signal: that the U.S. is unable or unwilling even to start working out some long-range solution to its gargantuan budget and trade deficits? As last week's wild price whipsawing demonstrated, no one can predict stock prices and volume for even a few hours. But if the U.S. continues to float on a sea of red ink and foreign debt—well then, many financial experts suggest, sooner or later the markets can expect the *real* crash. How it could be much worse than Black Monday is as difficult to imagine as was Black Monday itself just days before. But the world had better hope it never finds out what that ultimate bust would be like. —*By George J. Church.*

Reported by Rosemary Byrnes and Barrett Seaman/Washington and Frederick Ungeheuer/New York, with other bureaus

A Shock Felt Round the World

Stock markets plummet and climb between "hell and heaven"

Investors all over the globe were nervous even before markets opened on the historic day that came to be Black Monday, Oct. 19, 1987. On the previous Friday, the Dow Jones industrial average had suffered a record one-day decline of 108.36 points, to 2246.73. The sense of imminent foreboding was evident as far away as Australia, where the Monday-morning sun rises over the Pacific while it is still Sunday afternoon in New York City.

MONDAY, OCTOBER 19

MELBOURNE, 10 A.M.
One of the first markets to open after Friday's Wall Street scare quickly signals the shocks to come. On a catwalk above the gathering gloom on the trading floor, neatly uniformed "chalkies" sketch stock prices on a green board. All are falling.

TOKYO, 9 A.M.
Uncertainty prevails among the 2,000 dealers in the brand-new Kabutocho exchange building as they try to make sense of Friday's record loss in New York. What will happen on Wall Street later today? The Nikkei Dow Jones index of 225 traded stocks falls from 26,366 to 25,746.

HONG KONG, 10 A.M.

Traders in red waistcoats on the Hong Kong Stock Exchange floor trade in a rush as the Hang Seng index of 30 stocks opens at 3783. In 40 minutes, it drops 133 points. The index ends the day down 421, the worst point loss ever. Officials close the exchange for four days.

LONDON, 8 A.M.
A backlog of sell orders has accumulated from Friday, when damage from one of Britain's worst windstorms kept many dealers home. That day's selling gusts from New York make things even worse. Says Christopher Dark, a manager of Salomon Brothers' London branch: "I keep thinking about the little man with the sign saying THE END OF THE WORLD IS NIGH."

NEW YORK, 9 A.M.
On the 34th-floor trading room of the Donaldson, Lufkin & Jenrette (DLJ) brokerage firm on Wall Street, arriving traders are startled by the presence of uniformed security guards. Corporate officials, deluged by cabled sell orders, know a rough day is ahead: the guards are there to protect traders from any violent clients. The New York Stock Exchange is not yet open, but already some of the firm's brokers are perspiring at their telephone consoles, staring at banked arrays of 200 blinking buttons. Tension mounts as Dudley Eppel, a managing director, delivers a grim pep talk: "Well, here we go. Let's keep our cool and maybe we'll all get through this thing alive. Let's go get 'em!"

NEW YORK, 9:30 A.M.
The Big Board opens. At the bell, the Dow is already off 67 points. In the next 30 minutes, 50 million shares are sold. At DLJ two blocks away, glowing green figures on computer consoles trace the mar-

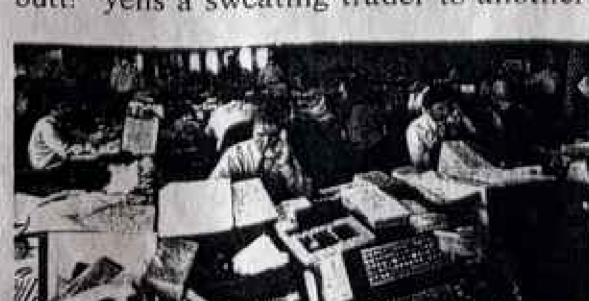
BILL FOLEY

ket's fall. "We're going underwater!" shouts Trader John Sesko as he pops Tic Tac candies into his dry mouth. "55,000 Pepsis to sell!" barks one trader. "60,000 GM to sell!" yells another. The cries do not stop. "Boston wants to sell 30,000 J.P. Morgan!" Long before lunchtime, a trader shouts, "Hamburger to go! Hamburger to go in six figures!" He wants to peddle 100,000 shares of McDonald's.

NEW YORK, 10:30 A.M.
Already 140 million shares have been traded—normally a calm day's average volume. The Dow has sunk another 34 points, down a total of 101, to 2145.

LOS ANGELES, 7:30 A.M.
Physician Richard Weiss listens to radio reports of the developing fiasco as he drives to work. Weiss pulls off the freeway and phones his broker with an order to sell his entire portfolio. The broker ticks off plummeting quotes. "There's Disney going 78, 70, 68. We're making history here." Says Weiss: "We're doing it with my money." He loses $100,000.

NEW YORK, 11 A.M.
The mood turns surly at DLJ. "Get off my butt!" yells a sweating trader to another.



FERRY—GAMMA/LIAISON

As one man breaks into a stream of curses, Managing Director Eppel jumps to his feet. "Now stop it! Just calm down!" The Dow is down 201 points in 1½ hours.

FRANKFURT, 4 P.M.
Treasury Secretary James Baker meets secretly with West German Finance Minister Gerhard Stoltenberg and Bundesbank President Karl Otto Pöhl. Out of the session comes a statement pledging cooperation in stabilizing currencies. Earlier in the day, Bonn's central bank takes steps to ease interest rates.

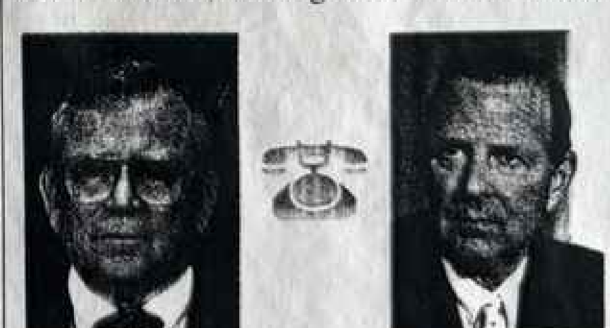
NEW YORK, 11:45 A.M.
There is a glimmer of hope. After dropping 201 points, the Dow has gained 95 in

FOLEY

the past 30 minutes. It now stands at 2130. Is a turnabout in the works?

NEW YORK, NOON
The Dow, now falling, is at 2103. Long lines of people form to take turns in the N.Y.S.E.'s spectator gallery. Heather Walker, 27, wants to "tell my grandchildren I was there." But she wonders if the crash means she will never be a mother. "Even in good times, men are scared of getting married," says Walker. "In the coming depression, forget it."

WASHINGTON, 12:30 P.M.
White House Chief of Staff Howard Baker is on the phone to N.Y.S.E. Chairman John Phelan, among others. Baker also



calls Treasury Secretary Baker in Europe, and he agrees to return as soon as possible to Washington.

NEW YORK, 12:30 P.M.
The Dow is falling again, now down 173.

SAN FRANCISCO, 10 A.M.
At Associated Foreign Exchange, a precious-metals and foreign-currency brokerage, a run begins on Krugerrands, Canadian Maple Leafs and American Eagle gold coins. The frenzy ends only when the company's entire stock is sold: 2,500 coin worth nearly $1 million.

508-point drop rivals crash of '29

By Gregg Fields Post-Star 10/20/87
Knight-Ridder
UFOs vs Economy

Panic swept the world financial markets Monday, producing a collapse of stock prices and a 508-point drop in the Dow Jones industrial average that easily eclipsed the infamous collapse of 1929.

Analysts said fears were fueled by everything from the Reagan administration's fiscal policy to military activity in the Persian Gulf. As a result, the dollar fell along with stock prices, and gold prices soared around the globe.

The dollar fell against all major currencies except the Canadian dollar, although some U.S. Treasury bonds actually scored slight gains as people sold stocks and sought the security of government issues.

"Fear has overtaken greed (on Wall Street)," said Steven L. Eber, a Coral Gables, Fla., investment adviser. "In terms of confidence, the market is acting as if Moammar Gadhafi is going to be our next president."

The Hong Kong stock market today suspended trading for the rest of the week in response to the spectacular worldwide slide.

The stock exchange issued a statement saying its general committee held an emergency meeting this morning and unanimously decided to suspend trading through Friday. All outstanding transactions must be settled during that period, it said.

The move was taken "to protect the investors and to allow the brokers to have time to settle the backlogs ... We need the time," Ronald Li,

Panic rules market; Traders in a tizzy

By Mariann Caprino Post-Star 10/20/87
AP Business Writer
UFOs vs Economy

NEW YORK — As traders join in the stampede to unload stocks, experts say that a profound loss of confidence in the market is generating even more selling.

And while Wall Street professionals are said to have tough skins, psychologists warn that record drops in the Dow Jones industrial average are giving dealers real live "shock" symptoms.

"There's just panic at this point. There's blood in the street," said one market observer who asked not to be identified.

The stampede phenomenon began taking shape when the Dow Jones average of 30 industrial stocks plummeted a record 108 points on Friday. On Monday, the bloodbath continued, eroding billions of dollars from the value of stocks.

"There's a certain attitude which feeds on itself, and selling tends to create additional selling," said Lawrence Kudlow, chief financial economist at Bear Stearns & Co.

Even if fundamental factors are not as terrible as trading activity would seem, one economist said it just doesn't make any sense to go against the market.

"An emotional frenzy has pushed reason to the background," he said.

But on a deeper level, as dealing continues amid intense turbulence, psychologists warn that traders are likely to be suffering from serious symptoms of shock and stress, impeding their ability to make quick, strategic decisions.

"Either (traders) are having anxiety problems — like heart palpitations and headaches — or they're preoccupied with pessimistic thoughts of overwhelming doom," said Harold Berson, a Brooklyn-based psychiatrist.

Whatever their ailments, "this is not the time to be making decisions," he said. Berson noted that traders are likely to lose their objectivity. "They will overlook some companies that are strong and let their emotions override reason."

Trading and making money in a bear market is always difficult, and experts admit that even the pros who know the ropes have a difficult time dealing with wave after wave of selling.

Briefly

Post-Star 10/20/87
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Exchange has no plans to close

NEW YORK (AP) — The head of the New York Stock Exchange said Monday that there are no plans to close the exchange at the moment in response to a securities selloff he described as "the worst market I have ever seen in my lifetime or would hope to see again."

John Phelan, the exchange's chairman and chief executive, said there was no reason for the markets to open late today.

Speaking at a crowded news conference at the exchange, Phelan called Monday's activity that saw the Dow Jones industrial average plummet an unofficial 508 points a "significant fall, a significant decline of assets."

He said the drop to 1,738 in the widely watched indicator represented a "culmination of things that have been building up for the last nine months," including a rise in interest rates, rekindled inflation fears, a decline in the dollar and "five years of a bull market without a correction."

Asked if Monday's severe performance constituted a financial "meltdown," Phelan replied: "I'd call it the nearest thing to a meltdown I'd ever want to see," and one that will have ripple effects in other markets.

Star, Glens Falls, N.Y. Wednesday, October 21, 1987

Chaos on Wall Street

Converging events cause economic collapse

By Gregg Fields
Knight-Ridder

On April 3, 1974, a huge cold front slammed headlong into a massive warm front in the Midwest.

The result spawned a record-setting day of destructive tornadoes. Whole communities watched their pasts destroyed. Forests that took hundreds of years to grow were leveled.

It was a once-in-a-lifetime occurrence — an incredible confluence of seemingly unimportant events.

This week, the same thing happened on Wall Street. In Tokyo. In London, Hong Kong, Paris, Amsterdam, Frankfurt and Singapore. Relatively small news events slammed into economic realities and, once converged, produced a whirlwind of economic collapse around the world.

"What caused it is a convergence of a lot of factors coming together at one point," said Jim King, president of Ivy Financial Services, a Boston-based mutual fund organization.

Among the factors:

• Trade deficit: The U.S. trade deficit figure released last week was an improvement over recent months, but was disappointing to investors who had hoped that the trade crisis was easing. With a huge deficit, the U.S. economy must fight harder to attract foreign investors who see falling value for their glut of dollars.

• The dollar: The U.S. government must support its currency if it has any hope of stabilizing its trade deficit. Falling currencies mean that Americans must pay more to buy imports, which can produce inflation. In addition, foreign investors become reluctant to use their strong currencies to buy dollar-denominated U.S. Treasury bonds, which the United States uses to fund its almost $2 trillion national debt. On Sunday, Treasury Secretary James Baker said one solution might be for the dollar to decline further against major currencies such as the West German mark and the Japanese yen. But that was a red flag for foreign investors, who sought to dump their holding of dollar-based investments.

• Interest rates. Other than allowing the dollar to fall, the only way to support a currency is to raise interest rates, which make the U.S. currency a better investment compared to foreign investments. But high interest rates stifle economic growth, sending fears into investors who imagine a recession around the corner. Rates hurt because consumers must pay more to borrow for their purchases and new homes, and corporations pay more to borrow to expand. Stocks become less attractive because other investments have a higher yield. Abroad, rising interest rates hurt foreign economies, making them less likely to expand and buy U.S. exports.

"Interest rates tend to dominate the market," said Bob Bear, chairman of the finance department at Florida International University.

• Technology: Once investors saw the possibility of a decline in their stock values, the new world of computer trading became apparent. There's one stock market now. It runs virtually all-day, circling the globe, along with the sun, from Tokyo to New York.

As panic gripped New York, it hit Tokyo, Hong Kong and the other world exchanges. The world's Western economies are so intricately tied that everybody knows that if one country falls — particularly the United States — they all will.

Complicating matters more, the new world of technology means that humans don't decide when to trade stocks. Computers do. It's called programmed trading. As stocks fall, computer programs run by huge institutions place gigantic sell orders.

Meanwhile, much of the trading isn't due to economic fundamentals at all. It's the result of trading in new financial instruments — things like index options and futures contracts.

These products are only a few years old, and have mushroomed in popularity. But never before has the world witnessed all these computer-driven programs kicking in at once. What occurred is much like a feeding frenzy in the cafeteria of a sinking ship.

Black Monday II

Wall Street troubles hit home

Investors, brokers, pension funds, companies all take hits

By Rick Gladstone Post-Star
The Associated Press
~~UFOs vs Economy~~ 10/20/87

NEW YORK — The stock market's stupefying drop has injected frightening uncertainty into the economy and could have a profound impact on millions of Americans who don't ordinarily think about the wild gyrations of Wall Street.

The results of a violently depressed stock market may be felt over the next several months in the form of lower consumer spending, higher unemployment, reductions in business plans and even a recession, economists said Monday.

"The stock market always has been a leading indicator of the economy," said John Markese, vice president of the American Association of Individual Investors in Chicago. "If the market is right and it's a precursor of a declining economy, then we all have to be worried."

The impact of a bear market already has started to affect fortunes on Wall Street, where many young professional brokers accustomed to six-figure salaries and high-priced Manhattan condos are confronting the prospect they may take pay cuts or possibly lose their jobs.

More than 1,000 people have been laid off in the past month, and several major brokerages reportedly are contemplating big restructurings on the theory that the market's 5-year-old upward direction has reversed and interest rates are starting to rise significantly.

Many economists said the sudden loss of hundreds of billions of dollars worth of stock value would ripple through the economy in waves, simply by making investors much more cautious about where they put their money or convincing them to keep it in safe, interest-bearing savings accounts.

"A lot of people could be affected by a prolonged and severe decline in the market," said James Lorie, a professor at the University of Chicago's graduate business school. "A major market decline represents a major decline in wealth, and people's willingness to spend money depends on wealth. The indirect effect could be significant to people who don't invest."

For example, investors who had wanted to buy new cars, houses or appliances with earnings from their stock mutual funds might scrap those plans now. That in turn could hurt auto dealers, retailers and building contractors, who already are suffering from economic sluggishness and rising interest rates.

Many companies could be particularly hard hit by the market debacle because their pension funds were among the most significant institutional investors. Although the pensions of an estimated 40 million Americans aren't jeopardized, companies may have to compensate for stock losses suffered by those funds.

"People should be concerned about the market because many own stocks, whether they know it or not, through a pension fund," said Steven Malin, an economist at the Conference Board, a business research group in New York.

"Obviously, what has happened in many companies is that the rise in the stock market had been so propitious that pensions were overfunded and the companies didn't have to contribute," he said. "We may get into a situation where a company might have to make a contribution. For companies with tight budgets, that could mean jobs."

Sharply lower stock prices also can severely hurt a corporation's ability to raise money for expansion. Companies historically have gone to the stock market to raise capital by selling shares to the public, but stock could now become much harder to sell.

National Sce

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~~UFOs vs Space Work~~

Shuttle springs leak in engine

CAPE CANAVERAL, Fla. (AP) — An engine with a tiny leak has robbed workers of most of the cushion time they had to prepare Discovery for the first post-Challenger shuttle flight June 2 and may force a delay, NASA's administrator said Tuesday.

Engineers suspected that one of Discovery's three main engines had sprung a leak following a 520-second test firing of the powerplant on Oct. 10 at the National Space Technology Laboratories near Bay St. Louis, Miss.

Administrator James C. Fletcher confirmed at a news conference Tuesday that there indeed was a leak.

"They found a very, very tiny leak in the oxidizer heat exchanger, but nevertheless it was beyond specs," he said. "We've moved up another engine and that's causing the tightness of the schedule because that will be delivered to the Kennedy Space Center somewhat later than the original one."

Panic could trigger recession

Experts say stock collapse might create ripple effect

By Rosalind Resnick
Knight-Ridder Post Star
UFOs vs Economy 10/20/87

MIAMI — This month's stock market collapse could signal a recession as early as 1989, but investor panic could trigger one even sooner, economists said Monday.

Consumer belt-tightening — sparked by the stock plunge — could send the economy into a tailspin by next year, some observers fretted. If consumers spend less, businesses that sell goods and services will suffer, creating a ripple effect that could devastate the economy.

"People are not going to be spending money on Christmas this year," said Steve Eber of Eber & Co. in Coral Gables, Fla. "They're going to say, 'My stock's been so hit I'll be damned if I buy that Tandy computer for Junior.' "

Economists say there's long-term trouble, too. Though national economic indicators, such as unemployment, inflation and sales, remain healthy, rising interest rates that might reach 12 percent next year could strangle corporate growth and consumer spending by the end of the decade.

Observers say they do not see a direct connection between Monday's stock market free fall and a souring economy, but they point to a common cause — soaring interest rates.

"We're not predicting a recession in 1989, but there is a strong possibility of one by 1990," said Cynthia Latta, a senior financial economist with Data Resources Inc. of Lexington, Mass.

Paul Getman, a senior economist with WEFA Group in Bala Cynwyd, Pa., said he hopes the market will rebound in the next six months, but he believes a recession is likely in 1989, triggered largely by rising interest rates, the budget and trade deficit and a plunging dollar.

"(The decline) is signaling that there are serious problems out there — the many deficits we have and the problems with the currency," Getman said. "For a long time, the stock market has been playing catch-up. At some point, the party will be over."

Monday's record plunge surpassed historical declines, dropping 22.62 percent to 1738.41. Even after the latest drop, the value of its 30 industrial stocks has more than doubled

What happened:

- Market falls 508 points, worst single drop in history.
- Volume of 604.4 million shares nearly doubles old record.
- Losing stocks swamp gainers, 1,976 to 41.
- Gold prices hit five-year high.
- Bonds benefit, get money from stock market.
- Dollar stays relatively stable.

Nov 1987
Economy