The stock market's false rallies--what history tells us

Tom Eley
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Yesterday's worldwide surge in stock market share values marked a partial reversal of the previous week's declines, which had wiped out trillions of dollars in wealth. The rally marked the first reaction of the financial elite to the hundreds of billions of dollars promised to the world's biggest bankers by central banks and governments in Europe and the US.

In one day, the Dow Jones industrial average, the index that measures the stock values of 30 leading publicly traded corporations, climbed over 11 percent, its fifth largest increase on record in percentage terms, and its largest ever in terms of points. The rally followed a sharp increase on the European stock markets, and in turn fueled an even larger increase on the Asian markets.

Under such volatile conditions, it is impossible to predict with any degree of precision whether or not Monday's rally augurs a period of stabilization in the stock markets. However, if we consider the largest rallies in stock market history, Monday's meteoric rise in share values might just as rightly be taken as a warning.

Data published in Monday's *Wall Street Journal* shows that among the 10 biggest days in Wall Street history, eight took place within the first four years of the Great Depression. Another occurred on Oct. 21, 1987, shortly after the largest single-day decline in the history of the stock market, the 22 percent fall that took place on Oct. 19, 1987, so-called "Black Monday."

According to the *Journal*, only two of these increases-those of 1987 and 1933-"marked the end of bear markets." The increase in the Dow that began in 1933, however, proceeded slowly with more sharp falls in store. More fundamentally, improving share prices did nothing to end the Great Depression, which continued until the onset of World War Two. It was not until 1955 that the Dow Jones regained the value that it had achieved in September of 1929. The *Journal* is also incorrect in citing Oct. 21 as the beginning of a bull market in 1987. Two more sharp falls followed in its wake, and it was not until the end of the year that the stock market recovered and maintained its value from the beginning of 1987.

In the "Great Crash" of 1929 there were a number of big single-day increases on the stock market, but the overall trajectory was down. Between October 1929 and July 1932 there were five increases of the Dow of more than 9 percent, including the market's second biggest day ever, Oct. 6, 1931, when stocks surged by nearly 15 percent. What is remembered about these "rallies," however, is that they were fleeting moments in a longer downward spiral-and instants in which many investors gambled and lost. The stock market did not bottom out until July 1932, having lost 82 percent of its value.

Temporary upswings in share values are a feature of periods of crisis, which seem to accentuate the speculative characteristics of capitalism. As Friedrich Engels explained in *Socialism: Utopian and Scientfic* (1880), crises, as they convert "the great establishments ... into State property," show how capitalists have "no further social function than that of pocketing dividends, tearing off coupons, and gambling on the Stock Exchange, where the different capitalists despoil one another of their capital."

In contrast to the 19th century, large sections of the working and middle classes are now being "despoiled" of their retirement funds, having been promised that the stock market would provide the greatest return on their savings.

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