AWESOME stories

Stock Market Crash of 1929 - Buying on Margin

As people became comfortable buying stocks, speculation became comfortable, too. When stories of overnight fortunes were reported in the news, regular folks wondered: Why not me?

As the boom market continued, people were increasingly willing to buy stocks with borrowed money. The "buy now, pay later" method of credit was introduced to the stock market as "buying on margin." The deal was to put some of the money down, then pay for the rest of the shares with profits when the paper was sold. The concept works, provided that the stock prices keep going up.

Buying on margin became so popular that by the late 1920s, "ninety percent of the purchase price of the stock was being made with borrowed money." Not only that ... the U.S. economy had come to depend on that activity. Before the crash, nearly forty cents of every dollar loaned in America was used to buy stocks.

As more people bought stocks with borrowed money, the demand for stocks increased - as did the prices. In 1928 alone, the stock market doubled.

Applying the formula of the time, a person with $6,000 could buy $60,000 worth of stock because all one had to do was put down 10% of the purchase price. With a market going ever upward, who would have thought about "paying the piper" - that is, the rest (90%) of the purchase price - in the event the value of the stock "tanked?"

Recklessness became part of the national consciousness. "The market takes care of things pretty well," so why not join in?

Calvin Cooledge, then President of the United States, had friends in the financial industry. Regulations, at the time, were so minimal that "the street" could run itself.

(Does any of this sound familiar?)

See, also:

Stock Market Crash of 1929 - Part 1

Stock Market Crash of 1929 - Part 3

Stock Market Crash of 1929 - Part 4

Stock Market Crash of 1929 - Part 5

Stock Market Crash of 1929 - Part 6

Credits:

Clip from "1929: The Great Crash," online via BBC. Copyright, BBC, all rights reserved. Clip provided as fair use for educational purposes and to acquaint new viewers with the program.

BBC provides the following background about this documentary which explores causes of the 1929 Wall Street Crash:

Over six terrifying, desperate days in October 1929, shares crashed by a third on the New York Stock Exchange. More than $25 billion in individual wealth was lost. Later, three thousand banks failed, taking people's savings with them. Surviving eyewitnesses describe the biggest financial catastrophe in history.

In 1919, the US had emerged victorious and dominant from World War One. Britain and its European allies were exhausted financially from the war. In contrast, the US economy was thriving and the world danced to the American tune.

Easy credit and mass production set the tone in the roaring twenties for an era of consumption like none that had ever been seen before. The stock market rose and investors piled in, borrowing money to cash in on the bubble. In 1928, the market went up by 50 per cent in just 12 months. The crash was followed by a devastating worldwide depression that lasted until the Second World War. Shares did not regain their pre-crash values until 1954.

This is the story of a financial disaster that we hoped could never happen again.

1929: The Great Crash

Blakeway Productions (2009)

Initial Broadcast, BBC 2

Director
Joanna Bartholomew

Producers
Joanna Batholomew
Denys Blakeway

Narrator

Bill Paterson

Readings

John Sessions

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http://www.awesomestories.com/asset/AcademicActivities/Stock-Market-Crash-of-1929-Buying-on-Margin