



MARKET MAYHEM · RESEARCH SHEET · EPISODE 09

508 Points in 508 Minutes

Black Monday 1987: The Largest Single-Day Crash in Wall Street History

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On 19 October 1987, the Dow Jones fell 22.6% in a single day, the largest one-day percentage drop in its history, with no war, no bankruptcy, no obvious trigger. The machines did it, and the market discovered that the insurance everyone had bought against a crash was the very thing that caused it.

Key Facts

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|---------------------|--|
| Event | Black Monday — the largest single-day percentage crash in Wall Street history |
| Date | 19 October 1987 |
| The Culprit | “Portfolio insurance” — automated programs that sold more as prices fell, in a cascade |
| The Reach | A global crash — Hong Kong, London and other markets fell heavily in parallel |
| The Response | The Fed, under new chair Alan Greenspan, flooded the system with liquidity |
| The Legacy | Circuit breakers (market-wide trading halts) were introduced to prevent a repeat |

By the Numbers

The Dow fell 22.6% (508 points) in a single day — the record that still stands

Hundreds of billions in value erased in hours, with no clear news trigger

Recovery was unusually fast — within roughly two years, and no recession followed

Portfolio-insurance selling turned a decline into an automated, self-feeding collapse

The Insurance That Caused the Fire

Portfolio insurance promised institutions they could hedge a falling market by automatically selling stock-index futures as prices dropped. On paper it was elegant. In practice, when everyone's program sold at once, the selling drove prices lower, which triggered more programmatic selling, in a feedback loop. The tool built to protect against a crash manufactured one, and there was no human circuit breaker to stop it.

“ A crash needs no headline. Sometimes the structure of the market is the whole story. ”

How It Happened

By 1987 a long bull market had pushed valuations high and rates were rising. Many large institutions had adopted “portfolio insurance”, a strategy that used computer models to sell index futures automatically as the market fell, supposedly limiting losses.

The strategy assumed you could always sell into a liquid market. It also assumed you were one of few doing it. Both assumptions were false: a large share of the market was running the same playbook.

When stocks began falling the week of 19 October, the programs began selling. That selling pushed prices lower, which told the programs to sell more. Human buyers stepped back from the avalanche, liquidity evaporated, and the feedback loop ran unchecked.

The Collapse

On Monday 19 October the cascade hit full force. The Dow fell 22.6% in a single session, a scale of one-day loss never seen before or since, as automated selling overwhelmed the market’s ability to absorb it.

The panic was global. Markets from Hong Kong to London fell sharply in the same window, proving how interconnected and machine-driven world markets had become.

The aftermath, though, was mild by crash standards. Alan Greenspan’s Fed publicly committed to providing liquidity, confidence returned, and the market recovered within about two years with no recession. The lasting fix was structural: circuit breakers to halt trading and break future cascades.

Timeline

| | |
|-----------------------|--|
| Aug 1987 | Alan Greenspan becomes Fed chair; the bull market peaks |
| Oct 14–16 1987 | Markets slide through the week; portfolio-insurance selling builds |
| 19 Oct 1987 | Black Monday – the Dow falls 22.6% (508 points) in one day |
| 20 Oct 1987 | The Fed publicly commits to providing liquidity; confidence steadies |
| 1988 | Circuit breakers (market-wide trading halts) are introduced |
| 1989 | The market recovers its pre-crash highs |

Mind • Method • Money — What This Means for You

METHOD • A hedge that assumes liquidity can create the illiquidity it fears

Portfolio insurance worked in the model and failed in the world, because it assumed you could always sell and that you were acting alone. When a strategy is crowded, its own success plants the seed of its failure. Understand what your protection actually depends on.

MONEY · Automated selling is leverage on emotion

Programs that sell more as prices fall turn an ordinary decline into a liquidation. The modern echoes are algorithmic trading, stop-loss clusters and forced deleveraging. Know where the automatic sellers are stacked below you.

MIND · Structure can crash a market with no news at all

There was no war, no default, no scandal on Black Monday. The lesson is humbling: you can do all your fundamental homework and still be hit by the plumbing. Respect market structure and liquidity as risks in their own right.

Modern Parallels

Every era rebuilds the same trap with new tools: from portfolio insurance in 1987 to the volatility-targeting funds and algorithmic stop-clusters of today. Whenever a large, crowded population of traders is programmed to sell into weakness, the conditions for a structural, newsless cascade are quietly in place.

Read & Listen

Read the full write-up and listen to the episode: [Black Monday, 1987 \(EP09\)](#)

Related Research

Previous episode: [EP08 · The Latin American Debt Crisis \(1982\)](#)

Next episode: [EP10 · Japan's Lost Decades \(1989\)](#)

The next one forming: [The Next Market Crash — 5 Scenarios](#)

Sources & Further Reading

Report of the Presidential Task Force on Market Mechanisms (the Brady Report, 1988)

Charles P. Kindleberger, Manias, Panics, and Crashes: A History of Financial Crises

Market Mayhem: When Greed Meets Gravity, The Complete Trader's Edge

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Learn the framework behind these lessons in [The Complete Trader's Edge](#) — 70 chapters of Mind, Method and Money.



FROM THE BOOK

This crash is dissected in full in **Market Mayhem: When Greed Meets Gravity** — 22 chapters, four centuries of bubbles, one repeating blueprint.

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