What can we learn from history?

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Disasters don't have a lasting impact on stocks

By Jason Zweig

NEW YORK (Money) - There is no direct precedent whatsoever for the horror of Sept. 11. But lesser disasters have struck America's financial markets before, and a look back can help us look forward more clearly and calmly.

On Sept. 16, 1920, an anarchist set off a bomb in a horse-drawn wagon parked across Wall Street from the headquarters of J.P. Morgan & Co. His objective was probably to disrupt the federal transfer of more than $900 million worth of gold ingots (some $8 billion in today's money) and steal the gold. The blast killed 40 people and injured more than 300, sending severed heads and arms flying through windows and landing on ledges.

At the time, it was probably the deadliest terrorist act on record. The New York Stock Exchange immediately shut down. But when trading resumed the next day, stocks actually rose 1.5 percent, and the bombing made no lasting mark on stock prices -- although, to this day, several buildings on Wall Street bear the pockmarks from that explosion. (The anarchist did not get any of the gold, nor was he ever tracked down. The crime remains unsolved.)

Some Terrorist Events and Acts of War that Affected the DOW:

Event	Initial reaction*	1 month after	3 months	6 months
Pearl Harbor	-6.5%	3.8%	-2.9%	-9.6%
Korean War	-12%	9.1%	15.3%	19.2%
Cuban Missile Crisis	-9.4%	15.1%	21.3%	28.7%
U.S. bombing of Cambodia	-14.4%	9.9%	20.3%	20.7%
U.S. invades Grenada	-2.7%	3.9%	-2.8%	-3.2%
U.S. bombing of Libya	2.6%	-4.3%	-4.1%	-1.0%
U.S. Invasion of Panama	-1.9%	-2.7%	0.3%	8%
Gulf War	-4.3%	17%	19.8%	18.7%

* Note: In some cases, initial reaction lasted several days or weeks
Source: Ned Davis Research

The Japanese bombing of Pearl Harbor, the last time that U.S. territory was attacked by foreign enemies, sent stocks tumbling by 4.4 percent on Monday, Dec. 8, 1941, and another 3.2% on Tuesday, the first two trading sessions after that day of infamy.

But the market quickly stabilized. Except for a drop through the spring of 1942, when Japan appeared to be winning the battle for the Pacific, stocks revived steadily throughout World War II. An investor who bought U.S. blue chips just after Pearl Harbor and held them just until the end of 1945 would have earned more than 25% annually, according to researcher Ibbotson Associates of Chicago. **"In general,"**

says finance professor William Schwert of the University of Rochester, "it's remarkable how little impact war has had on U.S. stock prices."

The impact after JFK

The 1963 assassination of John F. Kennedy was terrifying for most Americans, who initially saw it as an attack upon U.S. society by unidentified -- probably foreign -- conspirators. (Some, of course, still see it that way.) The stock market dropped 2.9% the day J.F.K. was killed. But stocks rose 4.5% on the next trading day -- one of the best daily returns of the 20th century -- and kept right on going, gaining 25% over the next 12 months.

The stock market also shrugged off the first attack on the World Trade Center, when six people were killed and more than 1,000 injured by a bomb set off in the garage by terrorists on Feb. 26, 1993. Stocks dropped only about 0.5% the next day and rose about 13.7% over the next 12 months.

Finally, it's worth taking a look at the Tel Aviv stock market, since Israel has been struck so repeatedly and destructively by terrorism. Over the past five years, according to Morgan Stanley Capital International, the Israeli market (which consists largely of technology stocks) has gained an annualized average of 12.2%. Over the same period, U.S. stocks generated a 13.2% compound return. (The Israeli returns include a 42% loss over the past 12 months, which has been driven as much by the fall of technology stocks around the world as by the rise in violence within Israel.)

Overall, the Israeli experience suggests that the traumatic toll exacted by terrorism does not necessarily extend to the financial markets. The modern financial history of the U.S. holds no example of a physical disaster, or even an outright war, that wreaked lasting havoc on investment returns. (The high inflation and bear markets of the 1970s were produced only in part by the Vietnam War.) Of course, the World Trade Center attack, which already stands apart from all normal experience, could turn out to be an exception in financial history too. But the odds seem against it.

"In a world where time appears to be measured in terms of the last trade," says Brian Thompson, executive director of the Museum of American Financial History, "there is a long-term view, and in the end it always prevails." (Thompson himself is a survivor of the attack; the financial museum, based just six blocks southeast of the World Trade Center, was bombarded with debris and filled with dust.) "Wall Street is predicated on optimism," adds Thompson. "The very acts of raising capital and making investments are based on the simple belief that tomorrow will be a better day. And that's what makes economic growth and opportunity possible.

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