SUPPLEMENTARY LESSON 4

BOOMS AND BUSTS

DISCOVER HOW THE WORLD REALLY WORKS

2015 ASX Schools Sharemarket Game

ASX

Booms & busts

Markets tend to move in cycles – this means there will be times when the markets are up and the economy is booming, there are plenty of jobs, people are making money, they spend more money and max out their credit cards. It feels like the good times are just going to go on forever.

Some commentators say the sharemarket is driven by greed and fear. In the boom times, confidence is high and no-one wants to miss out on profits. Investors can sometimes get carried away in their optimism, borrowing a lot of money to invest, investing in risky companies and ignoring warning signs.

There will also be times when the markets are down, the economy is flat, there are fewer jobs around, less people are spending money and the cost of living is higher. People are worried about keeping their jobs and are not confident about the future. When people lose confidence, fear takes over. People become scared that they will not only lose the profits they have made but possibly all of the money they started with. Fear overtakes greed and people start to panic trying to sell their shares at whatever price they can get.

If you take a look back in history you can clearly see these cycles.

These are sometimes called booms and busts – a boom is where the market moves upward and continues to move up, and then there is a sharp drop which is often called a bust – this is when people can lose a lot of money.

In this lesson we will take a look at four major events that have had an impact on the market. Prior to each one of these events there was a boom time, where things were good, people were investing and making a lot of money.

THE WALL STREET CRASH OF 1929

Watch: '1929 Wall Street Stock Market Crash' and answer the questions below.
http://www.youtube.com/watch?v=RJpLMvgUXe8

1) In the 1920's was it prosperous? Which areas in America were the most prosperous?

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2) Where were people making the most money?

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3) What was happening to the economy in the summer of 1929?

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4) Were there warnings that the boom times might be coming to a close? Did people take notice?

5) What happened on Wednesday 23 October 1929?

6) Why were people shocked? What did they do?

7) What did the bankers agree to do? Did it work?

8) Tuesday 29 October 1929 – what is this day known as? What happened?

9) Who was the worst hit? How much did they lose?

10) What did those that had money do?

11) How long did it take for the American economy to recover?

Following this period from 1929-1932 there was a depression – this is known as **'The Great Depression.'** During this period, many people around the world were unemployed, incomes fell, international trade declined and the price of everything plummeted. It took many years for the economy to recover.

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The crash of 1987

Stock markets around the world, including Australia enjoyed strong gains for quite a period. People who invested in shares were rewarded with big profits. The low point was in July 1982 and the market peaked in September 1987. The All Ordinaries index rose by 381% in 5 years.

On Monday 19 October 1987, the Hong Kong stock market was the first to experience a big drop which then spread to other markets around the world, including Australia.

Watch: **'Black Monday – Part 1: Nightly Business Report – 19 October 1987** and answer the questions below. (Only watch to 6:25) http://www.youtube.com/watch?v=4pjSIlkNxXg

1) What was this day called in America?

2) What happened to the Dow Jones Index – how much did it drop on 19 October 1987?

3) How did brokers react?

(Continued over)

See if you can find out the following:

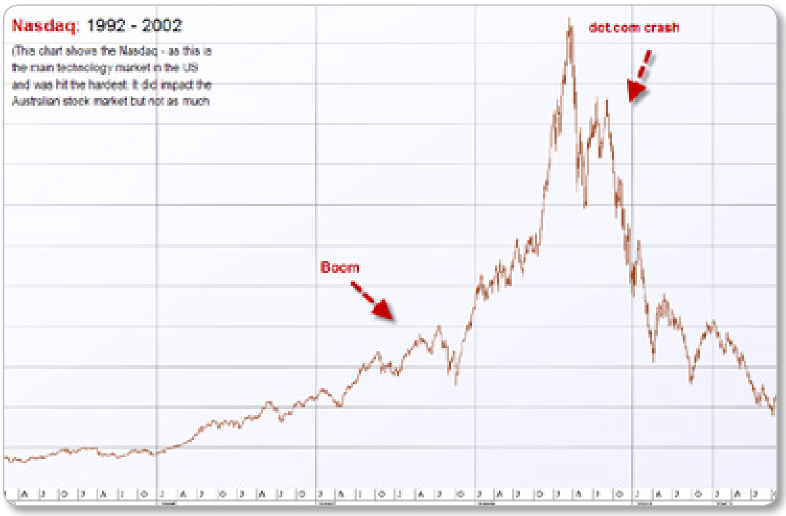
4) How far did the Australian sharemarket fall on 20 October 1987?

5) What was this day called in Australia & New Zealand? Why was it different?

The dot.com bubble

By the late 1990's, dot.com stocks (internet / technology) boomed as investors began buying up shares in companies that were built on promises based around new technology. Some talked about a new economy where profits didn't matter because it was all about growth and creativity.

While some companies became established, successful companies others didn't survive. During the dot.com boom many people speculated heavily, investing in any companies seen to be "high tech" or associated with the internet regardless of how these companies were performing.



Due to a slowing economy and concerns about continued losses people started to lose faith in the "dot.com story". In 2000, there was a massive sell off of these types of companies. Many investors and firms lost money and a lot of the dot.com companies went out of business.

Watch: **Dot Coms Gone Bust – USA** and answer the questions on pg.5.(Only watch up to 8.23 minutes)
http://www.youtube.com/watch?v=FeJfvmO7gOg&NR=1

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1) What is the other term used for the dot.com crash?

2) What company did Steph Paternot own prior to the dot.com crash?

3) When the company listed at what price did their shares open?

What did the shares rise to on the first day?

4) How much were these shares worth after the crash?

5) How does Jennifer Byrne describe the mid 1990's?

6) Although they attracted millions of people to their business – was the company profitable?

7) Why do you think people got drawn into investing in these businesses?

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The global financial crisis (GFC) and the credit crunch

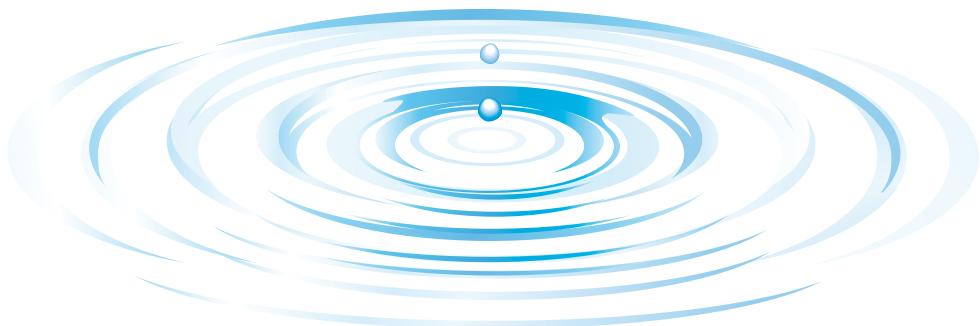
From 2001 to 2007 the sharemarket again enjoyed good times.

In America, banks were lending aggressively and property prices were skyrocketing. People could borrow a lot of money without necessarily being able to repay the money. Financial products were becoming more and more complicated and companies in the finance sector seemed to all depend on each other. If one big company had problems this affected a lot of other companies as well.

People took on too much debt and were unable to repay their loans. This affected the banks and other lenders. Then those companies lending to the banks had problems and there was a worry that not just a few banks would collapse but the whole financial system.

If you throw a stone into a pond you can see the ripples spread out. Just like the stone in the pond, financial uncertainty caused the ripples that resulted in a massive loss of confidence in the American property market, in American banks and the stock market. These ripples then spread to other countries.

In 2008, the Dow Jones lost almost 34% of its value, its worst year since 1931 and the Australian market lost 41.3% for the year.



SUPPLEMENTARY LESSON 4: STUDENT WORKSHEET

Booms: As you can see from the previous charts, prior to every one of these busts there was a boom time.

Discuss

1) When the market is booming how do people feel?

2) What are the advantages are of a market boom?

3) What might the dangers be?

So there you have it – some of the booms and busts over the past 80 years. One positive thing we can see from looking at the long-term performance of the sharemarket is that despite the busts, the market eventually recovers and booms again.

Investigate:

1) Ask you parents or grandparents if they remember 1987 and what happened?

   Did it affect them?

2) Did the GFC have an impact on their finances?

3) What lessons have they learnt from these experiences?

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