# “Black Monday” - October 19, 1987

*“I’m not saying I wasn’t startled by the market’s drop, but, remember, I was around in ’87 for the real thing.”*

It is always enlightening to find out what your advisor or investment expert was doing at the time. Even though a good percentage of today’s experts were not even in the business then, we found that navigating through a 22 percent one-day drop was definitely a valuable experience. The experience confirmed to me the importance of our primary directive of sticking with your discipline and, in some ways, established the Alan B. Lancz & Associates, Inc. presence on a global scale.

Throughout the summer of 1987, we emphasized taking profits, as many stocks had performed so well that they were looking expensive. The advance was so broad that we found little to buy, particularly in the higher quality names, and our blue-chip portfolio began to build cash. Many gave us credit for predicting the crash, but it was just a matter of not finding any bargains in which to redeploy our profit-taking proceeds, so cash built up by late summer to 70 percent, the highest level we ever recommended at the time -- or at any time since. The weeks before the Monday plunge, the markets were acting poorly, so we went out west to visit some media companies in anticipation of potentially placing one or two of them on our buy list, should a sell-off bring them down to more attractive levels.

Little did we know that a major decline on the preceding Friday would lead to a 22 percent plunge the following “Black Monday.” That forced our trip back to our offices on a red-eye flight that night. I remember that on the flight from Los Angeles back to Detroit, I felt good about the new opportunities that would greet me at the offices Tuesday morning. To my surprise, Tuesday we had a call from a banker client in panic mode. When we told him that our cash position would be helpful during times like these, he said we would be foolish to buy now. We were lucky to be in cash and it might save our business, but if you buy now after all the problems are known and everyone is selling, you are setting yourself up for numerous lawsuits, he said. Over the next few days we started buying despite such bleak warnings, especially after seeing the Fed supply liquidity into the system and valuations decline to irrational levels. During the week, we spoke with our mentor, Sir John Templeton, just before he was to fly to New York to do a special taping on “Wall Street Week.” I will never forget what he told me during the height of blood in the streets, in a calm, yet assertive voice: “Alan, I can not tell you that prices over the short term will not go lower, because you are dealing with human emotion during panics like these. But I can tell you that over a six-month period rationality will prevail and the prices you see now will be looked at as great buying opportunities for the long-term investor.” He followed up with a few specific examples of how some select companies were then trading near their net financial assets, leaving the brand name, tangible assets, et cetera, all as a free bonus to those that would buy into this selling.

Any doubt we had was reconfirmed after my conversation with Sir John. That was the most important part of the experience to me: Stick to your disciplines and take advantage of those using emotions in their investment decision-making process.  By the end of the week, the local newspaper asked me for an interview. I respectfully declined because I wanted to concentrate on what to buy, while keeping clients informed as to what I was doing. We were told that many area investors were worried about their retirement plans and life savings and that we owed it to the community, so we agreed to go in Saturday for a Sunday investment feature.

We were positioned as a bull buying into this panic, while they asked a local financial guy his strategy -- and it was to sell all stocks and buy bonds and gold. After reading his advice, I was glad I did the interview. Later that week, I was asked by CNN to appear for an interview, which was surprising because we had never done national television and did not know they were even aware of us. We flew to Chicago to do a show with three experts – one from New York, me representing the Midwest and one gentleman from California. When we arrived at the studio after the limo ride from the airport, my ego was in high gear as I met the show's producer. He immediately thanked me for taking the time and quickly deflated all the good thoughts of how smart I thought I was with his follow-up statement – "You don't know how many advisers I had to call before I found someone that was actually buying into all of this!"

During the show, I was the last to go on. We were answering the question "**IS THIS ANOTHER 1929**"? I could hear the first expert's comments while I rehearsed what I was going to say (why we were buying – the Fed making the right moves, valuations went from too expensive to attractive, et cetera). His answer was "yes" it could be another 1929, and then he elaborated. The second guest was being introduced so I was nervous because my national television debut at the tender age of 29 was on deck. To my dismay, the next expert answered the question with a resounding "no;" I almost went into panic mode. I was the guest that thought it was a buying opportunity, and now this guy was going to steal my thunder. Suddenly, in my national television debut, I would have 2-3 minutes to fill with the same answer as the preceding expert! He followed up his "no" with the statement, which I could hardly believe (but greatly welcomed): "No, this is not another 1929; it will be much worse," then went on to say that 1929 will look like a financial picnic compared to what was in store for investors in 1987 and beyond.

Needless to say, that inspired me because those types of irresponsible comments forced many innocent and unsophisticated investors to panic out of stocks, just before one of the greatest bull markets ever. So, that is what this financial expert was doing 20 years ago. By the way, later this month we will be back in California -- you guessed it -- researching some new investment opportunities.

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**"TWENTY YEARS LATER"**

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