How September 11 Affected The U.S. Stock Market

By Marc Davis on September 09, 2011

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To prevent a stock market meltdown, the New York Stock Exchange (NYSE) and the Nasdaq did not open for trading on Tuesday morning, September 11, 2001. When American Airlines Flight 11 crashed into the North Tower of the World Trade Center at 8:46am, and American Airlines Flight 175 hit the South Tower at 9:03am, it was obvious that American was under attack. (For more, read *Terrorism's Effects On Wall Street*.)

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The assumption that a coordinated terrorist assault by Islamic radicals had targeted some of the country's most iconic structures and institutions was confirmed some time later that morning when a plane hit the Pentagon, and a fourth hijacked plane bound for Washington, D.C., was brought down by passengers in Shanksville, PA.

Market Reaction

Anticipating market chaos, panic selling and a disastrous loss of value in the wake of the attacks, the NYSE and the Nasdaq remained closed until September 17, the longest shutdown since 1933. Moreover, many trading, brokerage and other financial firms had offices in the World Trade Center and were unable to function in the wake of the tragic loss of life and collapse of both towers.

On the first day of NYSE trading after 9/11, the market fell 684 points, a 7.1% decline, setting a record for the biggest loss in exchange history for one trading day. At the close of trading that Friday, ending a week that saw the biggest losses in NYSE history, the Dow Jones was down almost 1,370 points, representing a loss of over 14%. The Standard and Poor's (S&P) index lost 11.6%. An estimated $1.4 trillion in value was lost in those five days of trading.

Major stock sell-offs hit the airline and insurance sectors as anticipated when trading resumed. Hardest hit were American Airlines and United Airlines, carriers whose planes were hijacked for the terrorist attacks.

The Financial Aftermath

American Airlines (NYSE:AMR) stock dropped from a $29.70 per share close of September 11 to $18.00 per share close on September 17, a 39% decline. **United Airlines** (NYSE:UAL) stock dropped from $30.82 per share close to $17.50 per share on the close on September 17, a 42% decline.

Similar steep declines hit the travel, tourism, hospitality, entertainment and financial services sectors, as a wave of temporary fear and uncertainty swept through the nation. Among the financial services giants with the steepest drops in share prices were Merrill Lynch which lost 11.5%, and Morgan Stanley which lost 13%.

Insurance firms reportedly eventually paid out some $40.2 billion in 9/11 related claims. Among the biggest losers was Warren Buffet's Berkshire Hathaway. Most insurance firms subsequently dropped terrorist coverage.

Investing in Protection

Some sectors, however, prospered as a result of the attacks. Certain technology companies as well as defense and weaponry contractors saw prices for their shares increase substantially, anticipating a boost in government business as the country prepared for the long war on terror. Stock prices also spiked upward for communications and pharmaceutical firms

On the nation's options exchanges, including the Chicago Board Options Exchange (the world's largest), put and call volume increased correspondingly. Put options, which allow an investor to profit if a specific stock declines in price, were purchased in large numbers on airline, banking and insurance shares. Call options, which allow an investor to profit on stocks which go up in price, were purchased on defense and military related companies. In the short term, investors who had purchased these options made money.

The Bottom Line
The U.S. economy is legendary for its strength and resilience, and the national character is persistently optimistic. No more than one month had elapsed before the Dow Jones, the Nasdaq and the S&P had regained its pre-9/11 price levels.

America's current economic problems may not be directly related to the 9/11 attacks, although a persuasive argument could be made that a large percentage of our national debt is attributable to the extremely expensive war on terror in Iraq, Afghanistan and elsewhere, which has increased the U.S. national debt by trillions of dollars. (To learn more about investing in these times, check out *Buy When There's Blood In The Streets*.)

by Marc Davis

Marc Davis is a veteran journalist with more than 20 years experience reporting and writing on business, finance, corporate management and legal subjects. His writing has been published online and in print by *Adweek*, Arthur Andersen, *The Chicago Tribune* , *Encyclopedia Britannica*, *Insight Magazine*, *The John Marshall Law School Magazine*, *The Journal of the American Bar Association*, *Rotarian*, and numerous other national periodicals and websites.

Marc is also a published novelist. His novel, "Dirty Money," published by Dell, was nominated for an award by the Private Eye Writers of America. He is also the author of non-fiction children's books, including a biography of Florence Nightingale and a history of the Georgia Colony. Marc's new novel "Bottom Line," a revealing look at corruption, fraud and thievery in a global management consulting firm, will be published in early 2013 by The Permanent Press. Marc was also a former licensed commodity broker at the Chicago Board of Trade.

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