Grant, 2010

Stock market

by David Grant

Gold-mining companies wanting capital for expansion really got New Zealand's stock market going. In the 1890s there were several stock exchanges around the country. By the 2000s there was one national stock exchange, NZX, and trading was done via computer.

First stock exchanges

Stock exchanges are organisations where securities (company shares and bonds) are bought and sold by individuals and institutions.

- Public and private enterprises sell stocks to bring in money (capital).
- Investors buy stocks to influence an institution's direction and as an investment to increase their assets and income.

The prices of shares on the stock market are determined by what buyers are willing to pay for them. A person who owns a share owns a small part of the company or enterprise. If the enterprise makes a profit, the investor may receive dividends. Investors can make a profit, or a loss, depending on whether the value of the enterprise (and therefore the shares) has increased or decreased when they come to sell them.

People who own bonds and debentures do not own part of the company, and receive a fixed rate of interest.

First share trading

Stockbroking evolved in New Zealand from private buying and selling of shares in early businesses – especially banks – among their promoters, associates and friends in order to raise capital to establish or expand their operations.

The first New Zealand bank was the New Zealand Banking Company, founded by influential settlers in 1840 at Kororāreka (later Russell) with 5,000 shares of £10 each. In later decades other banks were established, with head offices in Great Britain or Australia in which it was possible to buy shares. Most directors were based overseas and shares were generally expensive, ranging from £5 to £100. Insurance companies also began selling shares in themselves from 1859.

Most investors were based in the UK, partly because the lists of shares were published there. This changed after 1860 when the Joint Stock Companies Act enabled seven or more people to float a public company by issuing shares to the New Zealand public. The Sharebrokers' Act 1871 required those who sold shares to pay a £25 licence fee, securities of £1,000 and sureties to cover potential misappropriation of investors' money.

Otago and West Coast gold

The gold rushes of the 1860s led to wider participation in stock trading. Once alluvial deposits (which were worked on a small scale, usually by individual workers) were exhausted in Otago and on the West Coast, quartz-mining companies were established, and needed to attract capital. The first such venture was the Otago Pioneer Quartz Mining Company of 1864, formed to work a reef at Waipori. Its available shares totalled £12,000; all were sold.

Stockbrokers buy and sell stocks on behalf of investors, earning commission. The burgeoning investment business led two Dunedin land agents, Connell and Moodie, to set up as the country's first full-time stockbrokers in 1866. The next year they helped establish the first stock exchange, the Dunedin Brokers' Association – a group of 12 men who met once a week to trade in mining stocks and non-mining stocks such as banks, insurance, shipping or government debentures. A more formal Otago Brokers' Association formed in 1868.

Thames gold

In 1868, after a rich lode of gold was discovered at the Manukau mine north of Thames, a stock market boom began. The adjacent Caledonian mine struck the richest seam of gold in New Zealand history. In 1870–71, 3.9 tonnes of gold was extracted and the share price rocketed from £10 to £212. Brokers traded shares in around 320 mining companies both locally and in Auckland. An informal association of Thames brokers worked together to share the profits and offer a standard brokerage charge. Business was huge, but by 1873 the boom had faded.

Scrip Corner

At Thames, brokers met on 'Scrip Corner' – the intersection of Albert and Brown streets – and stood on the verandahs and muddy streets calling out the changing share prices to passers-by. Settlement concluded in offices close to the corner. Auckland had its own 'Scrip Corner' on the intersection of Queen and Shortland streets, under the verandah of the post office, where brokers and their agents waited for telegrams from the goldfields.

Auckland Brokers' Association

The Auckland Brokers' Association started in 1872. It adopted rules largely based on those of the London Stock Exchange, and established an 'official' market. Changing share prices were posted on a bulletin board outside and given to the press.

This association set the standard for stock broking for decades. The cost for a 'seat' (membership) was expensive at £25, rising to £200 by 1880. Members of gentlemen's clubs took precedence; the association aimed to be considered respectable. Disputes were referred to a disciplinary committee, which could impose fines, suspension or expulsion. As well as gold shares, the association traded pastoral, shipping, timber, gas, coal, banks, insurance and loan-company stocks.

Auckland developed a 'call-over' system of trading, which was dominant until the 1960s. It was a form of auction: each security was called in order, and brokers would bid on them. Although cumbersome, the system generally worked efficiently and gave every member present an opportunity to trade in all stocks listed.

White wash?

In order to determine whether applicants to the exchange were acceptable, both the Dunedin and Auckland brokers' associations had members vote by tossing a black or white ball into a ballot box. If more than two-thirds of the balls were white, the applicant was admitted – providing asset-test and morality criteria were met.

Reefton

Around the same time there was a gold boom near Reefton on the West Coast. By the end of 1871, 63 quartz-mining companies had been floated. Company directors, or their agents, brokered scrips (share certificate) on the main street and, as in Thames, some brokers formed an association to facilitate 'call-overs'.

Financing the gold-dredging boom

Otago dredging boom

Companies dredging for gold in Otago rivers from the 1880s led to the first boom in New Zealand stock exchanges. By 1890, 28 dredging companies were floated in Dunedin, leading the Dunedin Brokers' Association to increase its numbers, raise seat prices to £100 and run two call-overs each day. The association became the Dunedin Stock Exchange in 1893.

In 1899, at the height of the boom, the Dunedin Stock Exchange had quadrupled in size to 48 members and held six call-overs each day (and into the night). It cost £600 to buy a seat. Two further exchanges emerged just to deal in gold-dredging shares. Hundreds of people became part-time brokers.

However, the boom did not last. In late 1900 production fell, stock prices dropped, dredging companies collapsed and shareholders deserted the market. The Equitable Exchange folded in 1901, and the next year the smaller Otago Exchange merged with the even-smaller Dunedin Stock Exchange.

Boomer

The high point of the dredging stock market boom was sparked by the Hartley and Reilly gold dredging company's dredge in the Clutha River. The dredge recovered 786 ounces 10 pennyweights of gold in seven days in August 1899. The company's share price rose from £1 to £26 in a week.

West Coast dredging boom

As the Otago boom busted, a smaller dredging boom began on the West Coast. A handful of big finds was enough to establish two stock exchanges in Christchurch in 1900: the Christchurch Stock Exchange and the Stock Exchange of Canterbury. After the boom was over in 1903, the two organisations merged.

Wellington exchanges

The dredging booms increased trade on the two Wellington exchanges by more than 200%. The first exchange, the Wellington Sharebrokers' Association, had been formed in 1882. In 1896 it became the Wellington Stock and Sharebrokers' Association. In 1900 the flood of dredging shares raised seat prices to £350, and the exchange held three call-overs each day.

The second exchange, the New Zealand Stock Exchange, lasted for several years before collapsing with the end of the dredging boom in 1903.

Quiet consolidation, 1900–1950

A secret society

Following the dredging boom, exchanges reverted to their traditional stock-in-trade: shares in banks, insurance, loan and agency, shipping, coal, brewing, timber, frozen meat companies, and miscellaneous industrial ventures. There was also some trade in local-body and government debentures.

Learning from some dubious practices that occurred during the rise and fall of mining shares, exchanges imposed stricter rules of behaviour. The exchange became like a secret society, with bans on:

- visitors in call-over rooms
- advertising (a rule that would last for nearly 70 years)
- poaching other brokers' clients
- communication with the press or brokers from outside the exchange, who were considered, often unfairly, as charlatans demeaning the profession.

Stock Association of New Zealand

In 1915 the four metropolitan exchanges plus the Thames exchange established the Stock Association of New Zealand, an umbrella organisation to promote uniformity in broking transactions and regulate the dealings of the exchanges with

Calling cards

From 1905 the only advertising allowed by stockbrokers was a small card, no more than 8.25 centimetres across, which could the public. Arthur Bate of the Wellington Exchange became the first chairman, and a head office was set up in Wellington. Taranaki joined in 1916, Invercargill in 1920 and Gisborne in 1922.

include only the broker's name, occupation and address.

In 1929 the association began the New Zealand Stock Exchange Gazette, a monthly journal to promote investment in securities and to list shares of all public companies both in New Zealand and overseas. It was replaced in 1931 by the Official Record of Stock Exchanges in New Zealand.

Early 1930s

Brokers survived the 1930s economic depression well. There was a frantic resurgence in gold stocks, and investment continued in government and local body loans. In late 1933 shares were keenly sought in a massive government float to establish the new Reserve Bank of New Zealand.

A new development was investment trusts, where small investors pooled their savings and entrepreneurs placed them in a portfolio of shares in different companies. After concerns about the safety of investors' funds, such trusts disappeared until 1960.

False hopes

In the mid-1920s engineer Edward Isles sparked another gold boom. He proposed to dam the Kawarau River in Central Otago and expose the fissures of gold on the riverbed. Investors flocked to buy shares in companies set up to lease the riverbed. But when the dam was closed in August 1926 the reverse flow from the Shotover, a down-stream tributary, prevented the river dropping more than about one metre. No gold was recovered.

Labour government, 1935–49

The first Labour government brought many capitalist enterprises – such as the Reserve Bank and Mortgage Corporation – under direct government control and bought out any private shareholders. It imposed controls over imports and foreign currency, which resulted in a flight of capital into fixed securities or overseas stocks, especially those in Australia.

During the Second World War share trading was quiet. Only government loans, war bonds and municipal debentures kept the exchanges afloat. The country's largest ever floats were a £35 million Liberty Loan in 1943, and an even bigger £40 million Victory Loan the next year, both of which were raising money for the war effort.

Towards a national exchange, 1950–1984

Growth in 1950s and 1960s

The National government elected in 1949 repealed war regulations, introduced a more liberal import licence scheme, and removed the 33⅓% tax on income from stock holdings. These changes breathed life into stagnant exchanges. Local-body loans increased in size and frequency, and a plethora of new public companies emerged in the 1950s, reflecting booming export prices for the country's agricultural produce. The exchanges expanded, with seat prices ranging between £600 and £800. However, New Zealand's exchanges still lagged behind stock exchanges overseas. Continued state control of the economy and high company and personal tax rates restricted growth.

Through the 1950s and 1960s small numbers of large investors were replaced by large numbers of small investors. They were not interested in speculative gambling but wanted shares in well-established companies for long-term saving. Along with this egalitarianism came an increase in women investors.

In 1960 some Auckland businessmen formed a unit trust, a new term for the investment trusts of the 1930s. In that same year an act was passed requiring unit trusts to be public companies and its trustees to have held reputable positions in organisations approved by the Minister of Justice. Such ventures have been an integral component of New Zealand sharebroking ever since.

Share the wealth

In the early 1960s share clubs attracted many to the stock market. One of the first was the Friendly Investment Club in Auckland. Its members included a truck driver, mechanic, solicitor, typist, hairdresser, bank clerk, shop worker, journalist and a number of housewives. They met monthly in a restaurant, studied prospectuses and handed over their £5 for collectively decided investments.

Call-overs to chalkies

As demand increased, there was criticism of the call-over or auction system of trading. It was time-consuming and cumbersome, and created delays in investors receiving their share scrip. Brokers fell behind in their paper work. In 1962 the Wellington Exchange replaced the call-overs with a post-trading system. All the other exchanges had followed suit by 1970. At one end of the trading room a large board, or 'post', listed all the active stocks. On a raised platform women clerks, or 'chalkies', with chalk and duster in hand, moved along rubbing out the old and writing the new stock price. This was determined by brokers gathered around telephones and shouting out quotes.

The new system was a fast and accurate means of determining a true market value. Company announcements likely to affect share price were read out as soon as they were received. Many who worked the floor were not brokers but clerks, aggressive and quick-thinking, working to win a seat on their exchange. Post-trading exchanges were open to the public, and this gave impetus to a burgeoning share club phenomenon, which peaked in the 1980s.

Young radical

Six times between 1967 and 1969, the exchanges denied young entrepreneur Ron Brierley the right to list his company, Brierley Investments, on the exchange. He was believed to be a radical, whose habit of buying into sleepy businesses and transforming them would destabilise trading and confound the market. He made it in 1970 by just one vote. Brierley

National exchange

During the 1970s pressures came for a national exchange. One reason for this was because with telex services and telephones on the trading floor, many brokers conducted business nationally and sometimes overseas. Another reason was that centralisation had already begun: exchanges sold stocks from other regions and stockbroking had national rules, a national council and executive, national sales reporting and a national disciplinary council.

went on to become one of the richest men in New Zealand.

In 1976 the Stock Association of New Zealand appointed a sub-committee to investigate setting up a national exchange. Two years later the Christchurch and Invercargill exchanges merged.

This merger led to the national New Zealand Stock Exchange being set up in 1983. The Stock Exchange Council replaced the Stock Exchange Association as the profession's elected ruling body. Under the new organisation, brokers and operators still worked on their local floor and elected delegates to the council, but the national office now directed all operations.

Rise and fall, 1984–1987

Rogernomics

When a Labour government came to power in 1984, finance minister Roger Douglas embarked upon a major deregulatory programme which was welcomed by brokers. Fiscal deregulation, sustained high interest rates, a newly floated New Zealand dollar and burgeoning overseas markets were a potent recipe for a market explosion. The floating dollar and the internationalisation of securities trading were primary factors in the New Zealand Stock Exchange gaining its first-ever membership of the Fédération Internationale des Bourses de Valeurs, which later became the World Federation of Exchanges.

Bull run

To keep up with the amount of business, broking houses had to employ more staff, many of them inexperienced. There were increased scrip errors and missed transactions. Some investors sold shares before paying for their purchase, which exacerbated the paper jam. Margin trading – buying shares on credit – became common. In the proliferation of takeovers, insider trading, which was not yet a criminal offence in New Zealand, was rampant.

'No frills' brokers emerged such as Stephen Lunn and his Counter Share Trading Company, and Bill Garlick's Access Brokerage. They introduced cut-price fees to undercut established brokers who gave advice as well as trading shares. By July 1987 more than 40% of the country's adult

Bulls and bears

When stocks are rising, it's called a 'bull' market. In contrast, a market on a downward spiral is known as a 'bear' market. The origins of those terms are uncertain, but they were in use in Europe by 1720.

Auckland high-rise

In March 1986, reflecting the confidence of a bull market, the Auckland exchange moved to new population owned shares. Trading levels were four times the level they had been 12 months earlier.

state-of-the-art premises on a prime site on the city's busiest intersection, the corner of Queen and Victoria streets. Within a few months most major broking firms were within walking distance of the new floor. This reflected the fact that more business was now conducted through Auckland as the country's leading financial centre.

Crash

Share prices reached an all-time high on 18 September 1987. The exchange had 309 listed companies, far more than ever before. From 1982, when the international bull market began, the New Zealand market rose about 600% (compared with 250% in the US and 400% in Australia). Spooked by a dramatic fall on Wall Street, the New Zealand stock market collapsed on 20 October, which became known as 'Black Tuesday.' Share values dropped by $5.7 billion – 4.3% – in four hours, as thousands of investors fled the market. Values halved over the next 10 months. In the following years, New Zealand's recovery lagged far behind those of its chief trading partners. By 1993 only 140 companies remained listed.

Most broking firms drastically downsized and many fell over. To survive, many companies merged or were taken over – some by overseas firms. This boosted their capital and attracted more off-shore investors. By 1996 over half of New Zealand broking firms had overseas connections.

Institutional reform and technological change

Capital adequacy

* LW has advised that this is not accurate

The 1987 crash changed practices in the stock market. The Securities Commission tightened company law. From 1988 the exchange enforced new rules to ensure that brokers were fiscally and personally responsible for their performances:

- The minimum capital required for a member firm doubled from $500,000 to $1,000,000.
- The net assets of a firm had to exceed their gross liabilities by 5%.
- New capital adequacy measures were based on the level of a firm's business, not on its fixed assets.
- The system of regional inspectors was replaced by accountants Deloitte Haskins & Sells, who demanded monthly reports from broking firms and had the power to exact fines.

Efficiency and centralisation

The stock exchange also persuaded the government to abandon the stamp duty (tax) on share transfers, which had been in place since 1903. To broaden its range of professional expertise, it appointed outsiders to its board for the very first time. In June 1988 the final stage of a new stock-trading computer system was activated. The new technology was a godsend. Within months, the chaos had gone and transactions were completed within 15 days.

With the computer system in place, smaller floors became redundant. Dunedin's trading floor closed in 1988, and only four brokers remained on the Christchurch floor. By mid-1988 national daily trading turnover was down 75% on pre-crash figures.

In 1989 the system of entry into the exchange changed. The secret election, where family connection and personal wealth were key criteria, was replaced by entry based solely on qualifications and experience. In March that year the exchange changed its corporate structure, with the two-tier executive and council structure disappearing, and a board of directors assuming responsibility for the exchange's direction and control. Bill Foster became the exchange's first managing director.

The three regional exchanges were finally merged in 1989. The trading floors were still managed locally, but within a national structure from Wellington's head office.

Leading the world?

In the year after the 1987 crash the New Zealand market's performance was the worst in the world. While the market in New Zealand was 50% below its peak, the Sydney market was 32.7% down, the New York market 21.6% down, and Tokyo only 3.6% down. Shares in Judge Corporation was trading at 6 cents, compared with $9.20 at its height, and Brierleys had dropped almost $4 to $1.35.

Cleaning up the market

In 1988 the government passed the Securities Amendment Act, which allowed for civil action against insider trading and required that major shareholders declare their interests of 5% or more in any listed company. In 1989 the exchange board established a Market Surveillance Panel to gather more comprehensive information from listed companies and help clean up the market's tarnished image.

The exchange instituted a new takeover code in 1994. It included controls for shareholding protection, tighter disclosure requirements and stronger provisions for company acquisition. However, it was less regulatory than overseas codes and many believed it did not offer enough protection for minority shareholders.

Electronic trading

In June 1991 trading floors closed forever as the exchange moved to screen trading (trading via computer). It adapted an Australian-developed system to local conditions. The new system proved quicker and more competitive internationally. Some broking firms installed large screens in their offices linked to the exchange computer system, so investors could track individual stock movements.

Last post