



What's the story?

Encyclopedia of New Zealand

1840

Stock market

Grant D., 2010a

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.

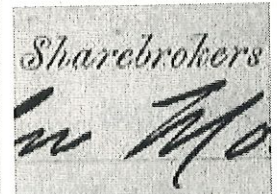
Most investors were based in the UK, partly because the lists of shares were published there. This changed after 1860 when the Joint Stock Companies Act enabled seven or more people to float a public company by issuing shares to the New Zealand public. The Sharebrokers' Act 1871 required those who sold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

and West Coast gold

Gold rushes of the 1860s led to wider participation in stock trading. Alluvial deposits (which were worked on a small scale, usually by

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New Zealand
Banking Company



Sharebroker's
licence, 1872



Invincible quartz
mine



'Scrip Corner',
Thames



Reefton exchange
rooms, late 1870s

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.

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.

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.

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.

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.

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.

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'.

Biographies



James Benn Bradshaigh Bradshaw, 1832–1886



Thomas Russell, 1830–1904



William Arthur Satchell, 1861–1942



Frederick Whitaker, 1812–1891

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