Grant D., 2010b

1987

Story: Stock market

Page 5. 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.

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 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.

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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 population owned shares. Trading levels were four times the level they had been 12 months earlier.

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 halve 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.

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