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£500m shares change hands in a single day

by Malcolm Surry

Hongkong is probably the only place in the world where an army of stockbrokers created a large and viable stock market, rather than the other way around.

To understand why, it is necessary to examine the sequence of events which, in less than three years, has transformed the British colony from a sleepy backwater to the home of one of the world's most exciting stock markets—one which frequently boasts a daily turnover rivalling that of London and Tokyo.

Until late 1969 the 82-year-old Hongkong stock exchange was the only share market in the colony. It had less than 80 actively traded securities on its boards and about 70 members.

Since the dealing departments of the three major "Hong" trading companies —Jardine Matheson, Wheelock Marden and Hutchison International — effectively made the market with a little bit of help from their friends, business was conducted at a more leisurely pace.

But pressures were building up around the cosy colonial cartel which it failed to identify and react to swiftly enough. An ever growing queue of Chinese stockbrokers were pounding on the door of the Hongkong Stock Exchange in Ice House Street eager to buy seats there.

Almost to a man they were turned away for a variety of reasons—some of them genuine such as a lack of physical space. Then someone realized that there was no law in Hongkong to prevent virtually anyone setting up their own stock market. The rather archaic regulations in the company law covering the subject said that an exchange had to be actively trading and accounting for 10 per cent of the daily turnover in the colony before it could apply to the Government for recognition.

So the Far East Stock Exchange, affectionately referred to as "the fishbowl", was born.

The new exchange was exclusively for Chinese and in a matter of months it had picked up 150 members trading in shares copied from the listing boards of the Hongkong Stock Exchange.

A commision war swiftly broke out with the rate dropping to ¼ per cent, or nothing at all in some cases, to attract the customers they needed—wealthy company directors with inside information and innate dealing skill.

Within a few months of the Far East move, the Chinese Gold and Silver Association formed a market of its own called the Kam Ngan. Last year the colony got its fourth market when a local entrepreneur, Mr Peter P. F. Chan, opened the Kowloon Exchange amid criticism and hostility from its rivals. The Kowloon won official recognition a few months ago, shortly before the authorities rushed through emergency legislation to block the setting up of yet a fifth market.

Today Hongkong has over 1,000 stockbrokers—more than 10 times the number operating at the start of the decade—and they are dealing in some 280 quoted stocks.

The scramble to get membership on a stock exchange, which at one stage drove the price of a seat on the Far East up to £35,000, would never have taken place but for a virtually non-stop two-and-a-half year boom in share prices.

The Chinese seem to carry off successfully the curious paradox of being among the shrewdest savers in the world as well as the most fearless gamblers. This new game called the stock exchange was tailor-made, and as the 40 local newspapers began to spread the gospel by publishing share prices, the man in the street piled in to raise the number of investors in the colony to the current estimate of 500,000.

By dealing among themselves, and actively encouraging customers to run positions on margin and borrowed money, the stockbrokers played an enormous part in forcing up turnover to the point earlier this year where shares valued at £500m a day were changing hands and broking in Hongkong had become a licence to print money.

At first Hongkong companies were slow to realize the benefits of raising funds from the stock market by floating their shares in public issue. Then dozens discovered that it was possible to avoid the time and expense of a public offer for sale by means of a private placement. Under this system a percentage of the company's issued capital, usually 25 per cent, is parcelled out to stockbrokers at the offer price—which is frequently $HK1. Because a few million shares are spread among hundreds of brokers, an artificial supply and demand situation builds up.

A stockbroker with an allotment of 5,000 shares in an issue could not hope to meet the demands of customers even if he wisl to.

So he sits tight ε watches the shares soar anything from two to times their face value in t first few days of tradi When the price looks ri he releases them, and t genuine investor at last g the opportunity to parti pate in the company goi public. Certain stockbrok have made fortunes in t manner and now frequen crop up on the boards companies about to ma their market debut.

There are genuine firn however. Sun Hung Kai h grown from scratch become the biggest stoc broking company in Hor kong and it handles over fifth of the daily volum The firm was among t first to staff a research d partment and begin circula izing clients with fundame tal information abo shares—something virtual unheard of in Hongkor where the average invest is told: "don't ask why, ju buy". Later this year Su Hung Kai plans to go publ itself to become the fir stockbrokers to do so o British soil.

There is no doubt that th Hongkong market ha become, at least temporarily an all-Chinese affair. Ove seas funds, a good deal fro London, helped to underpi the upsurge in prices whic saw the Hang Seng barome ter of the Hongkong Stoc Exchange soar from aroun 350 points two years ago to a peak in the region of 1,775 in March. But foreign investors took their profits early—too early it seems—and they watched on the sidelines as the market went into a rapid decline which halved the share prices of some of the leaders.

United Kingdom stockbrokers with offices in the colony have been watching events with ill-concealed amazement.

W. I. Carr was the first established in Hongkong in 1968, followed by Astaire and Co, Vickers Da Costa, Myers, and Hoare and Co Govett.

These four have seats on the Hongkong Stock Exchange together with the Japanese firms Daiwa, Nomura, Nikko and Yamachi, and Richardson Securities of Canada. All opened their offices with the idea of tapping the wash of funds in Hongkong for investment in their home markets. But some, particularly Carr and Vickers Da Costa, have become more closely involved with the local scene than they would have dreamt a few years ago.