A DISSECTION OF THE AUSTRALIAN EQUITY MARKET OR HOW IMPORTANT IS THE NON-INSTITUTIONAL INVESTOR

By A.J. MacQuillan, Sydney

The conventional wisdom of the importance of the general public to the turnover of shares in Australia is that it is quite unimportant, unprofitable and certainly less of an influence than the investing institutions. This is probably as accurate as airline officers telling their passengers they are less important than the cargo, but since the mining boom many brokers have switched their attention from private clients to the local and overseas institutions. Private clients complain that they are being discouraged by the $5 order fee and by the discouraging attitudes of some brokers. On the other hand brokers have calculated that it costs about $10.00 to process a contract note and many believe everyone should pay his way in the market.

A truer picture of the relative importance of the major contributors to turnover is difficult to draw because official statistics have been more concerned with other aspects of the stockmarket. Also, the degree of overlapping and double counting between the Australian Stockmarkets makes accuracy doubtful. For starters, how large is turnover? Certainly each exchange publishes turnover figures, but how to adjust for shares purchased in Melbourne by a Sydney broker for his Brisbane agent just boggles the mind when turnover may be reported in all three centres.

contribution of overseas

The contribution by the ebbing and flowing of overseas funds is reflected in Reserve Bank returns of Exchange Control (see Schedule A) but the important section headed "Other(d)" includes on the inward side debentures and real estate, as well as shares and convertible notes. On the outward side "Other(e)" also includes unknown elements of direct investment by "enterprises in Australia which have significant foreign ownership". Fortunately, interpolation with the aid of Martin Place gnomes is possible. Real estate and debentures are believed unimportant in portfolio investment and direct divestment by "enterprises having significant foreign ownership" is mercifully rare.

To the nearest $100 million it seems that overseas capital may contribute in a normal year some $400 million of turnover, i.e. very approximately $200 million in and $200 million out.

Figures after 1971-72 have been omitted because of the large amount of currency hedging which took place which undoubtedly influenced the huge rises in activity apparent from later statistics.

SCHEDULE A
OVERSEAS CAPITAL MOVEMENTS - EXCHANGE CONTROL APPROVALS (a)
($A million)

	APPROVALS FOR INWARD CAPITAL MOVEMENTS							APPROVALS FOR WITHDRAWAL OF CAPITAL		
	direct investment(b)		portfolio investment(c)		all investments					
	loans	other (d)	loans	other (d)	loans	other (d)	total	loans	other (e)	total
1969-70	470	255	98	217	568	472	1040	185	235	420
1970-71	799	190	424	174	1222	364	1586	364	213	577
1971-72	985	248	707	144	1691	492	2183	484	222	706

(a) The statistics of Exchange Control approvals have some limitations with regard to measuring the level, and nature of capital inflow. There may be timing differences between the date of Exchange Control approval for a capital transfer and the date on which the transfer is made (to reduce such distortions it has been the practice where possible in the case of large loans, to record the approval entry at the time of drawdown of the loan, rather than at the time of approval). Furthermore, not all approvals are proceeded with. Not all approvals relate to actual flows of foreign exchange. Prior to 27 September 1972, Exchange Control approval was not required for some types of capital movements from the Sterling Area, as defined in Australia's legislation. (b) Covers approvals for investment in enterprises in Australia which have significant foreign ownership. (c) Mainly approvals for investment in companies predominantly Australian owned. (d) Acquisition of assets in Australia such as shares, debentures, convertible notes, real estate. (e) Reduction in assets of type described in (d).

contribution of the local life industry

The Life Insurance Industry had in 1972, for example, some $1,044 million invested in shares at cost or valuation. Fortunately the Insurance Commissioner publishes a range of statistics which remove some of the doubts from calculations in this area.

Whilst portfolios are not valued at market so that a comparison can be made with the comparable capitalisation of the Sydney Stock Exchange of about $15,000 million, a fairly accurate picture can nevertheless be drawn.

SCHEDULE B

31 December 1972	$ million
Increase in investments in shares during 1972	148
Less applications for new issues $40 million) Less profit/loss on Realisation or Revaluation) Nil (A))	40
	$108

(A) The total rise in net revaluation for all assets in ordinary and superannuation business in 1972 was $2.3m.

Note: Since life companies rarely sell, the $108 million should be counted on the buying side only.

contribution of other managed funds and trusts

Apart from the 29 per cent of Superannuation Business believed by superannuation industry authorities to be conducted by life insurance companies, Government Agencies (GIO's and superannuation boards) are believed to have about 37%, leaving about 34% in individual private hands in many cases managed by professionals such as AUC, Bank of New South Wales, Darling & Co., DFC, etc. (Many of these managers also cater for fixed trusts, investment companies and large private portfolios.)

The Bank of New South Wales is popularly believed to be by far the largest, contributing to total share turnover as much as half of the whole of the life insurance industry, but how to judge all the others? Some institutional brokers hold that all other corporate investors including the following estimates: Banks ($70m), Trustee Companies ($60m) and Fixed Trusts ($30m) account in toto for less than three times business received from life insurance companies making a grand total of say $320 million of commissionable turnover (i.e. $160 million x 2 to account for both sides of the transaction). It would be interesting to have this confirmed.

a bold dissection

Being a bold market modeller I would say: Sydney turns over approximately $450/$500 million in industrials annually and Melbourne is approximately equivalent; discount other exchanges* because of the

* with apologies to the various smaller exchanges

overlap with these two by other exchanges: result $1,000 million of turnover, or $2,000 million of commissionable turnover.

The break-up would then appear thus:

SCHEDULE C

estimated components of the market to nearest $100 million

	commissionable turnover	
	$ million	%
Life Insurance	100	5
Other investing corporations	300	15
Overseas	400	20
Public	1,200	60
	$2,000 million	100%

mining stocks

The major institutions do not normally invest in penny mining stocks and whilst all may be presumed to have large mining companies such as CRA, MIM, WMC and other leaders their proportional investment in mining companies is perhaps small enough to be discounted for the purposes of this exercise.

Institutional influence on the turnover of the exchanges other than Sydney and Melbourne is unknown since the majority of institutional transactions are in the two major markets thus making for difficulties in estimating the contributions of the smaller exchanges (see above).

footnote

The rudimentary research which prompted this paper was originally encouraged by the widespread speculation about the growing importance of the institutions. And indeed some extravagant claims have been made.

My conclusion is clearly that the Australian non-institutional investor still accounts for more than half the turnover. I am strengthened in this view by the work of a major institution who has pursued a route through The Reserve Bank of Australia's "Flow of Funds Supplement" to substantially the same conclusion.

In the US the institutional investor whilst holding only 30 per cent of the total of listed equities, contributes 60 per cent of the turnover of the New York Stock Exchange.

A recent article in "The Economist" from which the US figures were gleaned, shows that the UK market is ignorant of the size of its own market, and is ignorant of any worthwhile dissection, or of any trends in that dissection. The article goes on to point up some of the extreme consequences of this ignorance.

I hope that my bold attempt (some will say foolhardy) to dissect the Australian market will encourage some other views and hopefully the publication of better statistics in the near future.

-oOo-