THE JOHANNESBURG STOCK EXCHANGE

* What it is
* How it works

An information booklet for workers

T.U.R.P.

TRADE UNION RESEARCH PROJECT

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Contents:

Introduction

This booklet is about the Johannesburg Stock Exchange (JSE). Workers are directly or indirectly affected by what happens at the JSE. There are many workers at companies which are listed on the Johannesburg Stock Exchange. The bosses of some of these companies are encouraging workers to own shares in these companies. Some workers already own shares in the companies where they work. Workers' pension and provident funds are being invested on the stock exchange.

These issues have raised questions among workers about what shares are, how they make money and where they are traded. This pamphlet addresses some of these questions. It focuses mainly on what the stock exchange is, how it works and what role it plays in the economy. Because workers are also thinking about how the present South African economy can be restructured, the pamphlet also raises a few questions for discussion on the role of the JSE in a future economy.

Information on shares

In order to understand what happens at a stock exchange, we first have to understand what shares are and what share ownership means.

In a capitalist system, the ownership of all companies is based on a share ownership system. When a company gets started, one of the ways that it can raise money is through shares. The people setting up a company decide how much money they wish to raise. On this basis, they decide how many shares they should issue and at what price they should sell these shares. For example, a company may decide that it needs R100 000 to start with. It then decides to issue 100 000 shares and sell them at R1.00 per share.

If someone buys **shares** in that company, it means that the person owns a piece of the company and that she or he is entitled to a share of the **profits** of that company. Because companies sometimes make low profits or even losses, owning shares involves taking a risk because it also means sharing in the losses of companies.

The person who owns the share is called a **shareholder**. The more shares a person owns, the bigger share of the profits that person will get. When people buy shares, they get a **share certificate** which states how many shares they own in a company. In the example above, a person who bought 50 000 shares would own half of the company.

Some companies sell their shares publicly which means that ordinary people and other companies can buy shares in these companies. Such companies are called **public companies.** Those companies that do not sell their shares publicly, and that can choose which individuals or companies can own shares in the companies, are called **private companies.**

Making money through shares

Shareholders can also be called **investors**. Investors are people who invest their money in different ways. They can deposit their money in a bank where the money will gain interest; they can buy a piece of property; they can buy government bonds; or they can buy shares.

Shareholders can make money from shares in two ways:

1. **By collecting dividends**

   At the end of every financial year of a company, the directors decide how much of the company's profits is going to be distributed to the shareholders. Profits distributed to shareholders are called **dividends.** They are usually paid out in cents per share. So, if you own 100 shares and the dividend per share is 10 cents, then your total dividend will be 100 x 10c = 1000 cents = R10.00. This is one of the ways many people make money from shares. Thus, the more shares one owns, the more money one may get through dividends.

   There are two kinds of shares: **ordinary shares** and **preference shares**. Ordinary shares are shares which receive dividends depending on whether the company makes a profit or loss. Another name for ordinary shares is **equity**. If the company makes a loss, then shareholders may not be paid any dividends. Preference shares are shares which have a fixed dividend which must be paid to shareholders whether the company makes a profit or not.

2. By selling shares at higher prices than they were bought for

If the price of a share rises, then selling it at a high price can make a shareholder richer. For instance if a shareholder bought shares at Company X for 100 cents (R1.00) per share and the share price increases to 300 cents (R3.00) per share, then the shareholder can make a profit by selling her or his shares. Only profits that are made higher than the inflation rate, are considered to be real profits.

Shareholders can actually make a lot of money just through buying shares and selling them at higher prices. Sometimes however, shareholders can lose a lot of money if the price of their shares drops. The buying and selling of shares is also sometimes called **speculating.** There is more of this on page 9.

Why do share prices rise and fall?

Different companies have different share prices. For example, in September 1993, the share price of Anglo American was R131.00 per share whereas the share price of Putco was R4.00. The price of the share is also determined by the number of shares that are issued.

Share prices of companies rise and fall all the time. The rise and fall of share prices is based on the principle of **supply** and **demand**. Share prices tend to rise when they are in high demand and when the supply is low. In other words, if more shareholders wish to buy shares in a particular company and there are few of those shares available for sale, then the share price will tend to rise.

An increase in the demand for shares may occur under the following circumstances:

- If the company concerned consistently makes profits.
- If the South African economy or the world economy grows.
- If the political environment is "stable", that is , if there are no strikes boycotts, mass action and violence taking place.
- If the world political situation is stable; if there are no wars and conflicts taking place between different countries.

Under these circumstances, investors feel more confident about investing their money in shares. This is sometimes called **investor** confidence.

On the other hand, share prices tend to fall when they are in low demand and when the supply of shares are high. In other words, when few shareholders or investors wish to buy shares and when there are many shares available to be sold, then the share price will tend to fall.

Share prices fall because:

- companies are making less profit or they are making losses.
- there is a recession and the economy does not grow
- the country or the rest of the world is politically "unstable".

Under these circumstances, investor confidence declines.

For these reasons, share prices seldom stay the same. Sometimes they rise dramatically and sometimes they can suddenly fall. In October 1987, the share prices "crashed" on the New York Stock Exchange and this had a ripple effect on all the stock exchanges throughout the world, including the JSE.

Share prices can also be affected by perceptions. If investors hear a bad rumour about a company, or if they believe it will perform badly in the future, then they will sell their shares in that company. On the other hand, if they hear a good rumour or believe the company will show good profit performance, then investors will buy shares in that company.

The rise and fall of share prices and its link with the economic and political developments in the country is not a straight forward matter. Sometimes share prices tend to rise and become bouncy even during recessions. For instance, the period 1987 to 1990 was marked by low levels of investment but during the same period, about R27 000 million was raised through the buying and selling of shares on the JSE. The reason for this development is that investors often prefer to invest their money on the stock exchange because it is more profitable instead of productively investing in job creation or building new factories to accommodate the growing labour force in the economy.

What is a stock exchange?

A **stock exchange** is the place where shares of companies are publicly bought and sold and where new capital is raised. It plays an important role in a capitalist economy. Sometimes it is called a stock "market". This is because it has common features with a typical market such as a vegetable market. One of the common features of both is that they operate on the basis of supply and demand explained earlier. The difference between the two is that the goods being sold on the stock exchange are shares whereas fruit and vegetables are sold at a vegetable market.

The stock exchange performs many functions in the economy:-

1. **Raising money to start a business**
   People who want to set up new companies, can raise money to start their businesses by offering shares for sale on the stock exchange to those who would be willing to invest in their company.

2. **Raising money for expansion**
   If companies want to build new factories or open new stores or upgrade some of their existing buildings, they can raise money by issuing more shares to sell on the stock exchange.

3. **The use of savings**
   The president of the JSE, Mr Roy Anderson, believes that

   > "The prime role of the JSE is to gather the savings of the nation and pass them on as securely and

efficiently as possible to the users of capital, thereby creating productive capacity for the country, leading to job creation and wealth".

Some people believe however, that the stock exchange provides people who have lots of money, the opportunity to invest in shares rather than using this money in productive investment such as building factories and creating jobs.

4. **Making money through share speculation**
   The stock exchange also makes it possible for companies and individuals to make money simply by buying shares at low prices and selling them at high prices. The stock exchange is sometimes called a gambling house because buying and selling shares is based on guessing or **speculation**. Some people who buy and sell shares speculate or guess whether the shares which they are trading in will bring in profits in the short term. Investors have made huge profits in this way even though huge losses can also be made. A large number of investors are also involved in longer term investment on the stock exchange which involves less speculation compared to short term investment.

How does share speculation take place?

The following is an example of how share speculation takes place:

Ms Motlana has inherited a large sum of money. There are a number of ways to invest her money. She can bank the money or open a business. She chooses however, to invest on the JSE because she expects it to be most profitable. She reads in the Business Day that Clicks Stores Limited is probably going to make big profits at the end of its financial year in six months' *time. She then decides that it would be wise to buy shares in Clicks because they may pay out huge dividends at their year-end.*

She checks the newspapers and sees that the buying price of Clicks shares is going at 3200 cents (R32.00) per share. She phones Mr Scott, the stockbroker and instructs him that he should buy three hundred shares in Clicks Stores Limited. Mr Scott agrees that this is a good investment. He moves from his cubicle, goes on to the trading floor and shouts that he wants to buy 300 shares in Clicks. Another stockbroker, Mr Andrews, who is selling Clicks shares shouts that he is selling them at 3200 cents per share. Mr Scott then concludes a deal with Mr Andrews.

As the weeks go by Mr Andrews hears another stockbroker shouting that he wants Clicks shares, and later another. The Clicks shares are now high in demand. As a result, the price of the share rises to 3500 cents. Over the next few weeks, more stockbrokers shout that they want Clicks shares. The share price eventually rises to 4000 cents per share. As the price changes, they are written on the share prices board.

Six months later, the share price starts to decline. It first drops from 4000 cents per share to 3400 cents per share. By the end of their financial year, the Clicks share price drops to 3050 cents per share. Clicks' results are released but the company made much less profit than expected. This also means that fewer dividends were paid out to the shareholders than expected. Ms Motlana and other shareholders are disappointed because they could have made more money if they had bought more shares in Pick 'n Pay who paid out a bigger dividend.

The example above shows how Ms Motlana guessed that if she buys shares in Clicks she would get more money.

Unfortunately for her, she and her stockbroker did not speculate well enough and she ended up getting fewer dividends than she expected.

It is important to note that the share price rose irrespective of whether Clicks was actually making a profit which shows that share speculation is not always in accordance with the real situation in a company but that it is based on what may happen to the company in the future.

This process takes place on the JSE every weekday. The value of shares that are traded in one year amounts to about R30 billion.

Are there Stock Exchanges in all countries?

Stock exchanges exist mainly in countries where there is private ownership for the purposes of making profits. Many capitalist countries throughout the world have a stock exchange. The only countries which would not have a stock exchange would be countries with centrally planned economies where ownership exist on a different basis. When Russia and China were complete centrally planned economies, the state owned all the industries and the state decided how the resources should be allocated. With the introduction of a market economy in Russia the system of ownership changed from **public state ownership** to **private ownership.** Part of the transformation to a market economy led to the privatisation of many of Russia's previously state-owned companies and the opening of a stock exchange in Moscow.

Countries usually only have one stock exchange and they are usually situated in a major city of that country.

A brief history of the JSE

In South Africa, the stock exchange is based in Diagonal Street, Johannesburg which is why it is called the Johannesburg Stock Exchange or JSE. The JSE is the 13th biggest stock exchange in the world and it is the oldest on the African continent.

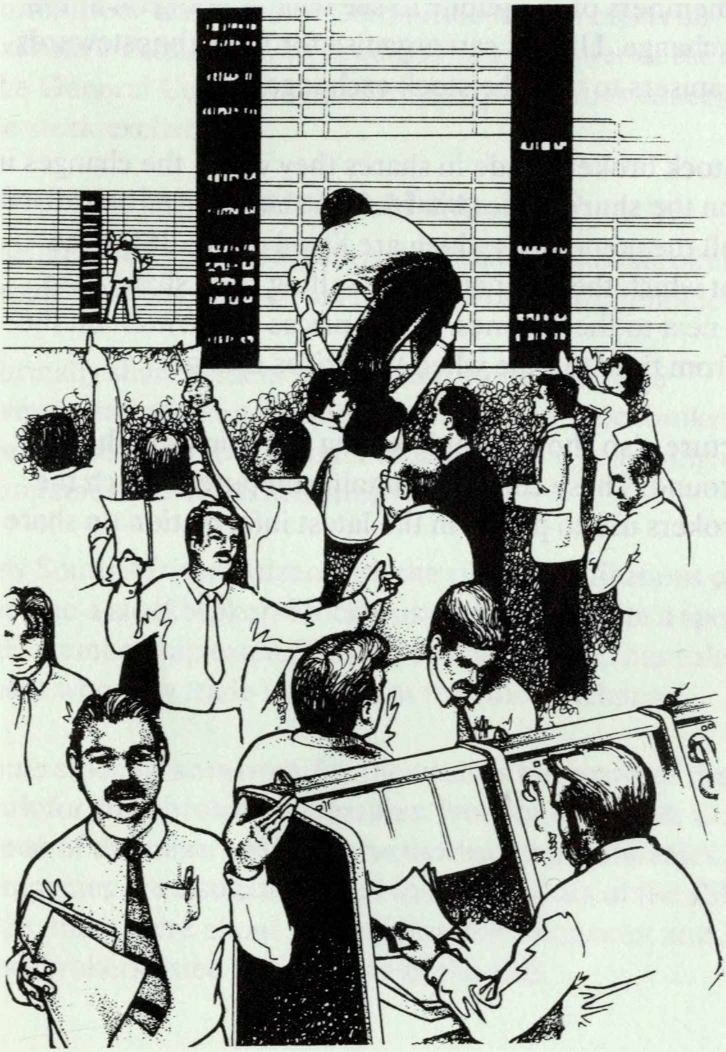
The stock exchange in South Africa was first set up in a tent in Fereira's camp in Johannesburg in 1886, shortly after gold was being mined on a large scale on the Witwatersrand. The stock exchange provided a place where mining and financial companies could sell shares and raise money to set themselves up.

During the first 50 years, mining companies were the main companies that were listed on the JSE. After the Second World War ended in 1945, industrial development in South Africa led to the growth of many manufacturing companies. This led to the listing of many manufacturing companies on the stock exchange. By the 1960s there were three times as many manufacturing companies listed as mining companies.

Financial companies also grew during this period to meet the needs of the expanding South African economy. Many insurance companies, banks and building societies were listed on the JSE. So, as the size of the economy grew, the JSE grew as well. Today there are many companies from different economic sectors listed on the JSE.

Inside the Johannesburg Stock Exchange

The pictures of the JSE below shows what it looks like inside.



The people who are standing around on the open floor space, some of them with their hands in the air, some of them look as if they are shouting something, are the stockbrokers and the floor space which they are occupying is called the **trading floor.** The buying and selling of shares takes place on the trading floor. Stockbrokers are the only people who are allowed on the trading floor. Members of the public are not allowed on the trading floor. There is a special gallery which allows members of the public to see what is going on at the stock exchange. Unions can organise for their shopstewards and organisers to visit the stock exchange.

When stock brokers trade in shares they watch the changes in prices on the **share prices board**. The share prices board shows all the companies which are listed on the JSE. The prices at which the companies are selling their shares, are written next to their names. These prices are written on the board from time to time when the prices change.

The picture also shows people sitting in cubicles in the back-ground. These cubicles contain computers which the stockbrokers use to punch in the latest information on share prices.

How the JSE is structured

The JSE is a legal body. This means that it can take people to court and it can be taken to court by others. It can sue people and companies and it can be sued by others. It functions like an organisation. It consists of members who elect a General Committee. The General Committee in turn elects an Executive President who need not be a member of the JSE. The General Committee makes policy decisions concerning the stock exchange.

Who can be a member of the JSE?

The members of the JSE are **stockbrokers.** Stockbrokers are people who buy and sell shares on behalf of shareholders.

Normally shareholders spread their stock exchange investments across a number of companies. Stockbrokers spend a considerable amount of their time researching which companies are worth investing in.

Any South African citizen with the right qualifications can become a stockbroker. Stockbrokers have to write a special JSE membership exam. This is because the JSE has rules about who may trade in shares at the stock exchange.

Some stockbrokers work for themselves but many of them work for stockbroking companies. Ivor Jones, Roy & Co. Inc. is one of the more well-known stockbroking companies. These companies are also considered to be members of the JSE. In 1988, there were about 50 stockbroking companies and 323 stockbrokers listed as members of the JSE.

Ownership, financing and control of the JSE

The JSE is owned by its members. This means that the assets of the JSE such as the equipment and computers are owned by the members. This is because the operating expenses of the JSE are paid by contributions made by the members. Members pay an annual subscription as well as a general administration fee based on a percentage of their total income. Stock-broking companies pay rent on their offices that are based in the JSE building. Companies that are listed on the stock exchange also pay an initial listing fee and thereafter, they pay an annual fee. However, most of the income of the JSE comes from the membership.

The rules of the JSE are contained in a constitution which sets out the aims, objectives and powers of the JSE. It also allows the JSE to own property and it gives the General Committee authority to manage and control operations. The activities of the stock exchange are regulated by the government through an Act of Parliament known as the Stock Exchange Control Act. This Act outlines the legal framework within which a stock exchange may operate in South Africa.

The government has the authority to close the JSE in times of crisis. In 1985, for example, the JSE was closed for business for three days because the economy faced a financial crisis due to world opposition to Apartheid. The South African government was told that loans made to the country had to be repaid.

Listing on the JSE

A company has to meet certain listing requirements before being accepted on the JSE. The profit history of companies and their length of existence are important factors which are considered before a company's listing is accepted. A certain percentage of the shares of a listed company must also be owned by the public. There are presently about 670 companies listed on the JSE.

Sometimes companies decide to **delist** from the JSE. On the other hand, other companies which are not listed, decide to get listed on the stock exchange. For example, in 1990, Federale Volksbeleggings delisted from the JSE whilst in 1992, Prefcor Holdings decided to be listed on the JSE. When companies are listed it means that their financial results must be made available to the public and that individuals and companies can buy shares in the company.

Suspension of share trading

The JSE can suspend share trading of any listed company. This can take place when a company does not satisfy the mininum listing requirements or when a company ignores JSE regulations. In 1988, twenty five companies were suspended from the JSE for a number of different reasons. In some cases companies faced financial difficulties.

Different markets on the JSE

The JSE has a **Main Board** on which all the main companies are listed. There are minimum requirements for companies to be listed on the Main Board. These include a profit history of three years, a minimum of 300 shareholders and 30% of the company's first million shares must be held by members of the public. The companies listed on the Main Board have proven profit histories and they are relatively well established.

In 1984 the JSE established a special market to assist smaller companies to raise additional finance. This special market is called the **Development Capital Market (DCM)**. The president of the JSE believes that the DCM will be attractive largely to black small business people. In order to be listed on the DCM, a company should have shown good profit for two years and have made a profit of at least R500 000 before tax. 10% of the shares must be held by the public. Sometimes the DCM is also called the Junior Board of the JSE.

The JSE has another special market called the **Venture Capital Market (VCM)**. Companies which specialise in raising money for new ventures, are listed on the VCM. These companies do not require a profit history but must have over R2 million worth of assets. 5% of the shares of a VCM listed company, must be held by the public.

Who owns the shares traded on the JSE?

The shareholders on the JSE include individuals, companies and financial institutions, both from South Africa and overseas. At the moment however, the vast majority of shares on the stock exchange are ultimately owned by a few huge businesses called **conglomerates.** Through a network of controlling structures, these conglomerates own shares in companies which operate in different sectors of the economy. These controlling structures include **nominee companies** which are special companies set up by conglomerates whose function is just to own shares. Nominee companies are set up to disguise the real owners of the shares in a company. For example, Sanlam Trust Nom P/L is the name of a nominee company set up by Sanlam which owns shares in Keeley, Suncrush, Metropolitan Life and others.

In addition, **holding companies** are also set up to own the shares in companies on behalf of conglomerates. For example, the Hersov and Menell Families have set up Anglovaal Holdings Limited which holds shares in Anglovaal Limited. Furthermore, financial institutions such as the AECI Pension Fund, are also ultimately owned by one or other conglomerate. In this way, the conglomerates indirectly own shares in many different companies.

Today, six conglomerates still own more than 80% of the shares on the JSE and Anglo American Corporation is the JSE's biggest shareholder. The domination of the JSE by a few conglomerates shows the high concentration of ownership in South Africa.

Some of these big companies like Gencor, are beginning to address the concentration of share ownership through **unbundling**. Unbundling involves a process of dissolving the network of holding companies and encouraging direct share ownership.

Employee Share Ownership Schemes (ESOPS)

A number of listed companies in South Africa are encouraging their workers to buy shares in their company. In some cases huge companies like Anglo American have paid for the shares and handed them out to workers. Such schemes are called Employee Share Ownership Schemes (ESOPS). In June 1987 about 100 listed companies were offering ESOPS to their workers. These companies included Anglo American Corporation and Pick 'n Pay.

Most ESOPS were introduced on the basis that workers should be full-time employees and that they should have served the company over an uninterrupted period of between 5 and 10 years. Many companies also limited the shares issued under the scheme to less than 5% of the total amount of issued shares. On this basis, it would be difficult for employees to control the company.

Some of the reasons why management has recently introduced ESOPS include the following:

- to try to increase productivity. If workers own a portion of the company, then they will have an incentive to work better.
- to promote relations between management and unions. This was because unions were always confronting management over wages and working conditions.
- to give workers a stake in the company.

- to encourage "free enterprise": this means that management want to show workers that they can also benefit from the capitalist system because they will also get some of the profits. When Margaret Thatcher was Prime Minister of Britain, she used the slogan: "Every worker a shareholder" to rally workers in support of capitalism and the "free enterprise system".

There has been much debate about ESOPS amongst workers. Some have argued that they may lead to extra income for them as well as some ownership in their companies whilst others argue that ESOPS are a management strategy to undermine the unions and are being put forward as a substitute for paying a living wage. The debate continues...

Where to find information on share trading and the JSE

Newspapers like Business Day, business magazines such as Finance Week and the Financial Mail and radio and TV broadcasts regularly report on the level of share trading. Also, stock brokers' reports and annual company reports give information on share trading. This information is usually found in the back section of the newspaper.

The news reports will include information on:

1. **The number of shares traded.** Sometimes this is called the volume of shares traded on that particular day. This is usually compared to the previous day.
2. **The value of the shares traded compared to the previous day.** This is often calculated by taking into account the price of the shares at the end of the day.
3. The **price** at which shares were bought or sold for each individual company. Workers who work at listed companies can check the share prices of their companies in this way.
4. **Shares traded by sector.** For example, the shares traded among companies in the gold mining industry, or the paper industry etc. Sometimes, this information is given in the form of an index which economists use as an indicator of good or bad performance of share prices in each sector. One example of such an index would be the All Gold Index which measures the shares traded in the gold mining companies.

Questions for discussion

Discuss the system of ownership of companies through shares. What other forms of ownership are there? If there was no selling of shares, how can capital be raised to start a company? Should profit be distributed in the form of dividends?

How should the JSE fit in, in the restructuring of the South African economy?

Is the JSE entirely a capitalist institution?

Can the JSE be used to promote economic development?

Glossary of terms

conglomerates: conglomerates are business organisations which own many companies operating in different sectors of the economy. p19

delist: this involves a process of removing shares of a company from the JSE board. p17

demand: when there is a willingness and ability to pay a sum of money for a particular good then that good is in demand. p5

development capital market: this is a special market created by the JSE to assist smaller companies and businesses with raising money. p18

dividends: dividends are part of the profits that are paid out to shareholders. They are usually paid in cents per share. p3

equity: equity is another name for ordinary shares. It is called equity because the shareholders participate in the risks as well as the profits of the businesses listed on the JSE. p3

ESOPS: ESOPS stands for Employee Share Ownership Schemes and they are schemes which were drawn up by management which allow workers to own shares in the company. p21

holding company: this is a company that holds more than 50% of the shares in another company. Its only function is to own the shares. p19

investor: an investor is someone who has money and wishes to use it to make more money. They usually do this by either putting their money in a bank where it can gain interest or buying property or buying shares. p3

investor confidence: this refers to the confidence that investors have to invest their money in shares. Investor confidence is influenced by general political and economic development in the country. p5

listing: when companies decide to sell their shares publicly, they do so by listing the company on the JSE. p17

main board: the main board of the JSE is the board on which all the major companies are listed. These are companies that have a good profit history and that have been in existence for many years. p17

nominee company: nominee companies are set up by conglomerates for the purposes of owning shares only. p19

ordinary shares: these are the most common and riskiest form of shares. The owners of ordinary shares are entitled to recieve a dividend but if the company makes a loss then she or he will not receive a dividend. p3

preference shares: shares which have a fixed dividend which must be paid out regardless of whether the company made a profit or not. p3

private companies: A company which is not listed on the JSE and whose owners can choose which shareholders can own shares in the company. p2

private ownership: when individuals are able to own companies for the purposes of making profits, the ownership of the company is based on private ownership. p11

profit: this is the amount of money left after all expenses have been met. p1

public companies: these are companies which are listed on the JSE where members of the public can invest in them through buying shares in these companies. p2

public ownership: when companies are owned by the state, the ownership system is referred to as public ownership. p11

share: a share represents ownership in a company. People who own shares in a company are owners of that company. p1

share certificate: this is a certificate which is given to shareholders which indicates how many shares the shareholder owns. p1

shareholder: someone who owns shares is called a shareholder. A shareholder buys shares in a company and in return, has a right to a share of the profits. p1

share prices board: this is the board inside the JSE where the prices of the shares of companies are written up and when these prices rise or fall, then the changes in price are recorded on the share prices board. p14

speculation: speculation on the JSE involves guessing when and whether the shares that one is buying or selling will reap good profits for the shareholder concerned. p9 and p4

stock exchange: the stock exchange is the place where shares of public companies are bought and sold. p8

stockbroker: this is a person who buys and sells shares on behalf of shareholders. p15

supply: this is an economic term which refers to the number of goods which sellers are prepared to sell at a profit. For example the supply of shares refers to the amount of shares that are available to be sold. p5

trading floor: this is the area of space inside the JSE building where shareholders can buy and sell shares. p14

unbundling: unbundling refers to a process where the concentration of share ownership is broken down. p20

venture capital market: this is a special market in the JSE which small companies can use to raise money on the JSE but their listing requirements are more lenient than for companies which are listed on the main board of the JSE. p18

This booklet is put out by the Trade Union Research Project (TURP). TURP is a service organisation that assists trade unions with economic research and education. It also produces publications for workers and shop stewards and has a well equipped resource room.

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