

## **JSE RETURNS, POLITICAL DEVELOPMENTS AND ECONOMIC FORCES: A HISTORICAL PERSPECTIVE**

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### **1. INTRODUCTION**

To the extent that macro economic forces and political developments influence the risk of investing in the stock market and the underlying profitability of companies listed on the stock exchange, such developments should be reflected in stock market returns. As such, a well-functioning stock market can be seen as a barometer or thermometer- a measuring instrument reflecting the health of the overall economy. The history of the JSE- in existence since 1887- include dramatic developments in domestic government policy, far reaching changes in the world-wide monetary system, fluctuations in inflation, several stock market crashes, the Great Depression, dramatic political developments and the rise and dawn of more than one world economic powerhouse, to name but a few.

Our research question is what extent were these developments reflected in JSE returns ? Or to use our earlier analogy, did the thermometer register the health condition of the patient ? This include several specific questions, for example: "Did stock market investors expect the outcome of the 1948 elections ? How did the mining strikes during 1907, 1913 and 1992 impact on JSE returns ? Developments such as Sharpeville, the sanctions era, the political developments in the early 1990's and the outcome of the 1994 elections ?

On the other hand, can major changes in stock market returns be explained by economic and political developments or can the reading on the thermometer be explained in terms of the health condition of the patient? Furthermore, if we do not observe the expected relationships, why not?

These are far-reaching questions and we offer tentative answers based on a review of the available historical data and the extensive literature on the subject.

## 2. METHOD

Event studies and econometric studies are the most obvious / widely used method for investigating the impact of economic and political factors on share returns. Due to the lack of high frequency data for the earlier years, it is not possible to use event studies to analyse the impact on share returns for a century. To a lesser extent, these data limitations also complicate the use of econometric techniques. The results of econometric studies also limited value in answering our research question, namely is it possible to identify certain periods where the JSE was a good barometer of economic and political developments and certain times when stock returns did not reflect such developments and circumstances? Can we offer explanations for this?

In order to answer these questions, we use a qualitative, descriptive approach where we compare share returns during a specific time period with economic and political events and general circumstances during that time. Such comparisons are made for both single years or specific days and for average time periods. More specifically, we supply the following broad categories of comparisons:

1. We identify single years with abnormal share returns and analyze developments during that year
2. We identify periods of extreme political and/ or economic developments and analyze share returns during those periods.
3. We identify periods of roughly similar political and economic conditions and analyze share returns during those periods (it includes both share returns for individual years and average share returns for the total period. We also analyze sub-periods, including a decade by decade analysis.
4. We analyze the role of the gold price and the profitability of gold mines during different time periods. The rationale for this approach is that this is the one factor that is identified in all econometric studies so far as a factor that has an important impact on JSE returns.

For the JSE returns, our main data source is the DMS global data base, containing real all-inclusive returns (dividend and capital gains) for the JSE and 16 other countries since 1900. We also use several other data sources, including the SARB for macro economic data.

## 3. THE ANALYSIS

We divide the history of the JSE into the following broad time periods of roughly similar economic and political developments: 1887- World War 1, World War 2 - 1960, 1960-1990/94 (the isolation years) and the return to the international arena (1990/94 to present).

### THE EARLY YEARS: 1887- WORLD WAR 1

During this period, gold mine companies and the fortunes of gold industry totally dominated the JSE. This is understandable, since the discovery of the Witwatersrand goldfields was the very reason for the establishment of the JSE in 1887. Apart from the discovery of gold, which played a fundamental role in the forming of the South African economy, macro economic developments were relatively limited during this time period. The JSE returns mirrored the fortunes of the gold mine industry, resulting in a boom in 1894/95, following technical developments that ensured the (very uncertain until then) future and viability of the Wits gold industry. A major stock market boom in the 1930's was the result of exchange rate developments that increased the sterling price of gold and buying pressure from overseas investors. On the other hand, the declining profitability of the gold mine industry from

### WORLD WAR 2- THE ISOLATION YEARS

By the end of WW2, all ingredients for an unparalleled economic boom were coming to the boil. The pent-up demand for housing, cars, tractors, mining supplies and clothing provided further stimulus to the newly developed industrial potential. SA became an industrialized country overnight and the broad economy was no longer to be based on mining.

This was the golden era of high economic growth and low inflation. With the discovery of the OFS goldfields and the resulting profits and cash flow to the mining houses, the scene was set for the growth and dominance of the mining house conglomerates, especially Anglo American. This era also saw the start of the NP government and the policy of apartheid and Afrikaner nationalism. The NP government also increased state support for industrialization, mainly via import quotas.

Some growth artificially stimulated by favorable tax concessions and "hot" money from Europe. Dramatic capital inflow during immediate post-WW2 period. This can largely be ascribed to capital flight from Britain, triggered by economic and political uncertainty which was caused in turn by factors such as the new government's nationalization program, the sterling convertibility crisis and the fears of imposition of a capital levy. In stark contrast, SA appeared at that stage as a "haven of financial security in a world of uncertainty". This situation was to change in response to the Sharpeville shootings in March 1960.

#### THE ISOLATION YEARS 1960-1990/94

The Sharpeville shootings in 1960 started an era of international isolation for South Africa and the JSE. This situation was aggravated by the Rubicon speech and the debt standstill in 1985. Government policy, especially exchange controls, strengthened this isolation.

Exchange controls effectively "trapped" investment in South Africa. This isolation also impacted on the governance structure and competitiveness of South African companies, since they were isolated from international "market realities". The isolation further encouraged the forming of conglomerates and led to the distortion of investment returns and decisions. This was particularly evident from the industrial diversification strategy followed by the mining houses at the time. The policy environment biased the mining houses away from mining and towards industrial diversification. Industrial companies were rapidly expanding behind the tariff wall and eagerly absorbed the cash surpluses of the mining houses. Isolation prevented them from following the natural path of expansion, namely pursuing mining interest abroad. Trade on the JSE was characterized by low turnover and liquidity, concentrated ownership of shares and dominance by the mining houses.

The isolation years can broadly be classified into the following sub-periods"

1960-1975: Years of high economic growth, low inflation, balance of payment surplus and initially market oriented monetary policy. From 1965-1980, monetary policy was dominated by direct controls.

1976-1985 marked the start of high inflation and balance of payments constraints necessitated restrictive policies which contributed to low economic growth.

1985-1994 is a period of political instability, huge capital withdrawal, sanctions and the debt standstill.

The need to generate Balance of payments surpluses led to even lower economic growth. This includes the Stals era (1990-1999) of monetary policy, reflecting less accommodation policy and an emphasis on real positive interest rates.

#### THE RETURN TO THE INTERNATIONAL ARENA: 1990/94- PRESENT

This era is dominated by political developments between 1990 and 1994, resulting in the democratic election of April 1994 and return of South Africa to the international arena. The relaxation of exchange control and the inclusion of the JSE in the IFC emerging market index paved the way for a dramatic increase in foreign participation on the JSE. This era has also seen an increase in exchange rate and stock market volatility and the JSE became the victim of contagion and emerging market crises. This era also marked the JSE's own "Big bang" in 1995 with reforms leading to increased liquidity and turnover. It also saw the unbundling of the conglomerate mining houses. In summary, this is an era of major adjustment that posed challenges for both the corporate sector, that had to adapt to international standards with regard to corporate and governance structures and labor practices and the government, among other things, in sequencing financial liberalization.

#### 4. A SHORT OVERVIEW OF THE JSE

The earlier years: The discovery of the Witwatersrand goldfields and the establishment of the JSE

Looking back at over a century of JSE history, it is evident that several factors that characterized the JSE in the 1880's are still present/ valid in 2007, for most of the 120 years history of the JSE.. According to Bryant the first decade of the JSE was a decade of excitement and achievement not parallel anywhere else.

The JSE was established in 1887, within 13 months of the discovery of the Witwatersrand goldfields, the richest of their kind in the world at the time. Although JSE also attracted the progenitors of the gold mining industry, any man who could afford the entrance fee of five guineas could join what Bryant class" this rumbustious casino".

The stock exchange was essential part of development of gold mining industry an instrument to raise capital especially from foreign investors. Initially, 69 gold mining companies were listed on the JSE. The foreign connection was not limited to foreigners investing on the JSE- In 1887 the first attempt was made to float shares on the London stock exchange by Rhodes and Rudd under Consolidated Goldfields. Between 1887 to 1934, 200 million pound was invested in the gold industry, with 60% from foreign sources. (Nattrass 1981:144). Foreign investors also played a major role in the start- and end of the 1894/95 boom. had been introduced on most mines, confidence in the industry reborn. Financiers in Britain, France and Germany reassessed Witwatersrand goldfields after the introduction MacArthur-Forrest cyanide extraction process that fundamentally changed the viability/ sustainability of profitable mining of the Wits goldfields the and poured huge capital sums into new flotations and the capital reconstructions that were taking place.

The market value of 52 producing mines on JSE rose from 13.5 to 31.7 million pounds during 1894, 103million by July 1895. Fuelled by rising prices and a spate of new company promotions Creation of holding companies backed by powerful financial interests has led to a re-evaluation of the investment scene. "SA shares leapt into world-wide prominence trading on the major bourses of London, Paris, Berlin and Moscow and as far afield as the bourses of Vienna, Madrid, Constantinople and Cairo. Fanned by astute market placing. Foreign selling pressure, motivated by political developments, lead to collapse of boom. Boom collapsed through heavy liquidation by Paris holders who feared, quite correctly, political developments- Jameson raid and looming tension between British government and government of Transvaal Republic

Another characteristic of the early trading days on the JSE- uncertainty of the prospects of the gold industry lead to speculative buying. First boom between October 1888 and April 1889 saw prices reach levels that often bore little relation to actual mining results. For example, the price of Salisbury mine ranged from 690 to 50 shillings during 1890

As was the case in 1887, trading on the JSE is still dominated by gold mine stocks and the presence of foreign investors. Throughout the years, political factors shaped the trading environment of the JSE. Several periods of investor irrationality , greed and fear driving stock prices can be identified. Nonetheless, several changes took place during the 120 years of existence of the JSE. The JSE experienced it's own "big bang" in 1995, leading to a dramatic increase in turnover and liquidity, in stark contrast to the notoriously low trading that characterized the JSE for most of the time until 1995. The JSE also followed a world-wide trend towards increased investor protection and the rules of the exchange itself, as well as general legal framework influencing the trade environment, also changed significantly. The current situation of electronic communication is in sharp contrast to the Johannesburg of 1887, with no telegraph or telephone communications with the rest of SA (although it had communications with overseas bourses ??)

1900-1929:

This period was marked by decrease in the profitability of gold mines, the catalyst for labour strikes of

especially 1914 and 1922 that had wider repercussions/ also general protest against government, government policies dramatic political developments, 1929 Wall street crash had wider repercussions/ also general protest against government, government policies  
 This period also witnessed the birth of several large mining houses that dominated trading on the JSE until 1990. Although the mining houses were formed to exploit the Witwatersrand gold deposits, they ultimately financed the entire gold mine industry in South Africa, ingested the diamond industry, pioneered coal and platinum mining and funded the country's manufacturing base from the 1950's on. For example, Anglo American was formed in 1917 with the express purpose of raising American and British capital to finance the industry. The reputation of the mining houses was key to obtaining the capital.

The following table gives an indication of major developments during the period 1900-1929.

#### MAJOR DEVELOPMENTS THAT IMPACTED ON JSE RETURNS: 1900-1929

##### *Developments related to the mining industry*

1905 Short lived tin boom in response to reports of discovery of rich deposits

1907 Labour strike (JSE returns -11%)

Decline in gold mine profitability (1910-1919), mines in near desperate situation. Industry responded with attempts to cut labour cost resulted in widespread labour strikes in 1913 and 1914. Negative JSE returns for these 2 years

July 1919 Currency depreciation restored gold mine profitability that lasted for 6 years and in total amounted to a windfall of about 29million pounds.

1922 "Rand Revolt" Labor strike that led to widespread political unrest. Violently oppressed by Smuts government. Defeat for mine workers . JSE returns 70%

1924-28 Period of recovery for gold mine industry, reflected in relatively high average annual returns of 13.9% for the 5 year period

1927 Discovery of diamonds in Lichtenburg and Alexander bay areas

##### *Other domestic developments*

1910 Union of South Africa (JSE returns -13.8%)

1924 Pact government wins the election .

Introduced policy to promote industrial development, mainly import tariffs, resisted by mining bosses

1928 Start of ISCOR

##### *International developments*

1914-1918 World War 1

1929 Wall Street Crash

#### SOME JSE RETURNS

Decade	1900-1909	1910-1919	1920-1929
Annual average returns	10.75%	1.61%	15.9%
No of years with negative returns	3	5	3
Lowest annual return	1905: -19.6%	1911: -14.96%	1920: -52.2%
Highest annual return	1908: 41.2%	1919: 33.2%	1922: 70.2%

The fortunes of the JSE was always, and still is, closely tied to the gold price. This is evident from the dominance of mining stocks in the all share index and from the results of several econometric studies. A unique feature of gold mine industry was that price was fixed in dollar terms until the breakdown of the BWS in 1971. During this time of relatively fixed exchange rates, the profitability of the gold mines rested on keeping labour cost low. Keeping labour cost low vital to survival. Industry relied on state to assist in the supply of low cost labour. Feinstein states that during the period of 1887 to 1932, the gold mining

industry survived on exploiting black unskilled labour by paying low wages. The industry would not have survived and be able to attract foreign investments if black wages were not held below subsistence levels. The structure of legislation and the dispossession of black people contributed to the success of the mining industry.(Feinstein 2005:109-112).

How labor cost was used to support the profitability of the gold mine industry is evident from the fact that the cost of black labour for gold mines dropped between 1911 and 1931. Once risen back to the 1911 level, labour cost stayed constant in real terms until 1969. Black employment levels doubled during this period(Nattrass 1981:139).

An analysis by Feinstein (2004:106) of the profitability and working cost of the South African mines also illustrates the importance of labor cost during this period.

#### Average annual working profit in sterling per ton

1902-1904	0.82
1905-1909	0.7
Average 1910-1932	between 0.44 and 0.58
1933/34 boom	0.89

#### Working cost in sterling per ton mined

1910-1914	0.98
1920/21	1.42
1922	1.30
1939	1.05

It is evident from the tables that there was a significant fall in profitability from 1910-1932. Significant during the 1920 is the changes in working costs.

Low wages and working conditions led to several major strikes in the gold mine industry, and some of these strikes had wider repercussions, culminating in general protest against government and government policies. Strikes in 1907, 1913, 1914 and 1922. Latter two major political undertones/ general protest against government.

The police could not contain the riots and the British troops were called upon to restore order. (Muller, et al 1990:402).

The 1922 revolt started with a strike and escalated into a resistance against the government.

The strike took place against the background of an economic downturn after World War I. The depression which started from 1920 to 1923 led to decreasing prices of commodities, lower profits, budget deficits, unemployment and wage reductions. The gold mines also suffered due to the fall in the gold price from 130/- in February 1920 to 95/- in December 1921, The proposal to lower mine workers wages, to increase the number of blacks to the labour force and the reduction of coal miners wages triggered the strike. Gold miners joined in on the 1 of January 1922. The strikers formed commandos and accepted a proposal to overthrow the government by force. Smuts declared martial law in March 1922. With the help of the Air Force the strike was ended on the 14<sup>th</sup> of March 1922. The strike was a loss for the mine workers. More blacks were employed and white miners wages were reduced. (Muller, et al 1990:413,414). The Pact-government reinstated the privileges of the workers lost in the 1922 strike.

Although some of the strikes had impact on country- 1922 lasted 3 months, none resulted in fundamental change in government policy or fundamental impact on labour policy, profitability of the gold mine

industry.

A major international development during this time was the Wall street crash of 1929. Although this crash was inscribed forever in the minds of those who experienced it and is never likely to be erased from economic records, it had a limited impact on the JSE The JSE, still essentially a mining market, remained relatively stable and recorded a negative return of only 1.06 % in 1929..

The decade of the twenties, and especially 1924 mark a critical turning point in the history of manufacturing in SA. The Pact government of the National and Labour parties introduced a policy designed to promote industrial development. A central element in the policy of industrial development was tariff protection to promote import substitution. Failure to impose such duties earlier can mainly be ascribed to opposition from the mining companies. The new government also attached considerable importance to reduce SA's dependence on imported steel through establishment of ISCOR. One powerful motive was growing scale of poverty among white families with no prospects in rural areas. Sovereign and independent SA was one of the highest priorities of prime minister, General Hertzog. Believed that a robust, self-sufficient industrial base would promote this and help to weaken the position of the mining companies, whose directors and shareholder she suspected to being more sympathetic to foreign interests.

### **THE THIRTIES: JSE RETURNS MIRROR THE PROSPERITY IN THE GOLD MINE INDUSTRY**

Developments relating to the JSE in this decade was dominated by the great gold boom and, to a lesser extent, the world wide Great Depression.

The following table gives an indication of major developments during the period 1900-1929.

#### *MAJOR DEVELOPMENTS THAT IMPACTED ON JSE RETURNS: 1930-1939*

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1930-32 Impact of Great Depression. Fall in commodity prices. Hardship for farmers, but working costs of gold mines reduce  
September 1931: 15 countries abandon gold standard, devaluation of sterling. SA's decision not to devalue increased hardship  
December 1932: Devaluation increased sterling gold price by 50%. Start of great gold boom  
Buying orders flooded in from overseas  
1936 JSE extremely active, especially in shares of developing mines of Far East Rand  
Spectacular growth of SA gold industry. Relative prosperity in sharp contrast to the rest of the world  
9 April 1937: Black Friday Rumors about decrease in gold prices start increase selling on JSE, dramatic fall in share prices  
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These developments impact on the JSE returns for the decade as follows:

#### **JSE RETURNS DURING THE 1930's**

No of years of negative returns	4
Highest annual returns	102% in 1933
Lowest annual returns	-22% in 1937
Average returns for the decade	18.1

The start of the 1930's marked economic hardship and also difficult times on the JSE, with negative returns for three consecutive years (1929-1931) The world-wide desperate economic situation at the time was partly caused by catastrophically reduced prices of primary products reduced during years of

overproduction and farm crises at the beginning of the Great Depression.

The impact of the worldwide decline in output, employment and prices was aggravated during 15 months when Union remained on gold standard after depreciation of sterling and other currencies in September 1931. Min Havenga, Min of Finance argued that to abandon gold standard would bring rising costs and unmanageable inflation. Shares prices on the JSE plummeted and arbitrage transactions with London virtually ceased. The country's overall economic situation deteriorated sharply in the next 15 months. Jobs disappeared, queues of unemployed grew longer and taxes had to be raised along with import duties. Political opposition eventually forced the government to go off the gold standard at the end of 1932.

This corresponded with an increase of almost 50% in sterling price of gold between 1932 and 1933, leading to the great gold boom of the 1930's. The relative prosperity of the gold industry benefitting from a stable and rising price of gold and lower working costs due to a general decline in raw material prices laid the foundation for this boom. Manufacturing was also swept forward by the boom in mining and SA made a rapid escape from the great Depression (Feinstein p. 123)

Twenty years has been added to the life of low-grade mines which were on the point of closing and abundant capital was now available to exploit the promise of the far West Rand goldfields. Fourteen new mines were to be created within the next 10 years. Share prices soared and buy orders flooded in from London and Paris. Within a few months the market capitalization of gold and financial shares listed on the JSE rose from about 125mil to 350mil, as the realization spread of what the new dispensation really meant for the gold industry. No wonder JSE went into orbit, with many South Africans who had never before owned a share flocking to the JSE. Some great fortunes were made on the market and crowds flooded into the Public Gallery of the JSE. The general aura of speculation was fueled by rumors of new gold discoveries. One example was an unfounded rumor of a new reef discovered on the property of Doornhoek Platinum mines (later resulting in criminal prosecution).

A new mining house, Anglovaal formed during this time. When it floated Rand Leases gold mining company and set aside 800 000 shares for public subscription, the Post Office had to employ special delivery vans to carry the applications to the transfer office. It was the first of the hugely over-subscribed issues which were to become a feature for the future.

In 1934 with the local economy booming, political developments also seemed favourable. The alliance of Hertzog and Smuts, United party led to hopes that past political differences between whites will be settled. Roosevelt's increase in the \$ price of gold in 1934 further increased the prosperity, though much of the potential gain from this was lost because sterling had by that time appreciated against the dollar, leaving a relatively small increase in the price of gold received by SA mines.

Within a short time the mining industry was highly concentrated and under the control of six giant mining and finance houses.

By 1936 their contribution to gold production were as follows:

Rand mines	34%
JHB Consolidated Investments Company	24%
Anglo American	14%
Consolidated Gold Fields	11%
Union Corporation	8%
General Mining and Finance Corporation	5%

*Source: Feinstein 2005:104*

This decade also marked the 50<sup>th</sup> jubilee of the South African gold industry, in 1936. In this year, Barclays Bank issued a report that emphasized the spectacular growth of SA gold mine industry in the 1930's: invested capital increased by 173% and annual dividends almost doubled in the period 1932-1936 and gold mine dividends offered return of 23.5% in 1936.

Most of the frenzied dealings concentrated around Wes Wits, the parent company of several of rich new

mines. The price increased from 35s in September 1935 to 218s on June 22 1936, only to reach 400 s eight months later. Price rises of this magnitude was unheard of in the period between two world wars. The JSE was hard pressed to keep up with mountains of scrip changing hands daily between brokers.

During the late 1930's, South Africa's prosperity was in sharp contrast with the rest of the world. In 1938 the country had the largest per capita ownership of motor cars in the world. Largely due to prosperity in gold mine industry. The JSE, dominated by mining companies at that stage, mirrored this prosperity. The average annual return rate for the decade was 18.1%, the highest for the century 1900-2000. This high average for the decade was realized despite "Black Friday 1937" and the consequent negative annual returns recorded in 1937 and 1939. The highest single real return figure for the century was also recorded during this decade, namely 102% in 1933. The JSE could be regarded as good barometer of domestic economic events during this decade.

However, the decade of the 1930's was not only positive for the JSE. "Black Friday, 9 April was one of most catastrophic days in the history of the JSE. Prices began to recede slowly in 1937, following the 1936 boom. The political situation deteriorated in Europe and rumor had it that France was about to experience currency collapse and Britain and the USA was in serious economic difficulties. An obscure US senator, Wagner suggested that "in view of USA's plight, it could no longer afford to pay fixed price for gold and urged an undertaking for the fixed gold price to be scrapped." There was a tense atmosphere on JSE trading floor and brokers gathered around 4 telephone booths to find out "what London was doing". London turned out to be a big seller. Investors all over the world threw shares on market in avalanche and buyers withdrew bids or lowered prices. More and more selling orders flooded in. Position compounded by heavy buying on margin the previous year. Developer Western Reefs fell from 84 to 55 on that day. Wes Wits down from 325 to 180 in less than a month. The chaotic trading was temporarily halted when Pres Roosevelt announced USA had n plans to revalue the price of gold, but market already demoralized

**THE FORTIES AND FIFTIES: RAPID INDUSTRIALIZATION, DISCOVERY OF FREE STATE GOLDFIELDS, ECONOMIC PROSPERITY BUT RELATIVELY LOW JSE AVERAGE RETURNS FOR THE DECADE**

By the beginning of post-war, following boom of 1930s and further strong expansion during war years, foundation had been laid for the development of a mature, well-capitalized industrial sector. These were years of spectacular growth, structural change and modernization (fenstein p 172) Period of sustained innovation and modernization on the supply side and expanding markets on the demand side. There seemed to be no limits to what might be achieved. Businesspeople, policy makers and academics were enthusiastic, confidence was high.

In 1972, Hobart Houghton reflected on "long period of almost uninterrupted prosperity" that had started in 1933

Despite this prosperity, the JSE recorded relatively low average annual returns during the decades of the 1940's and 1950's. This is all the more surprising, given that these decades also saw the discovery and start of production of the OFS goldfields.

One possible explanation is the unexpected election victory of the National Party in 1948 election. Their strategy to fee Afrikaners from foreign capitalism and to solve the problem of poor white Afrikaners initially included the idea of nationalising the gold mines. This led to panic within the English establishment. It later turned out that the panic was unfounded.(Terreblanche1986:302). The uncertainty created by this , and the fact that the OFS goldfields initially required huge capital outlays, might be a possible reason for the relatively low average JSE returns, reflected in the following table:

**JSE RETURNS DURING THE 1940's**

NO of years of negative returns	5
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Highest annual returns	24.7% in 1949
Lowest annual returns	-12.8% in 1947
Average returns for the decade	5..98

These relatively low average return figures should be seen against the background of days of tremendous excitement and frantic trading on the JSE and “dealers shouting themselves hoarse as they battled to fulfil orders flooding in from London and all over SA” as described by Bryant in response to announcement came over the ticker of an incredibly rich strike in the Geduld no 1 borehole in OFS 16 April 1946.

Although the discovery of the OFS goldfields and the process of industrialization did not impact favourably on JSE returns immediately, it did lay the foundation for the start of the conglomerate mining house, that was to dominate trading on the JSE until 1990, but especially in the 60's, 70's and 80's.

The impact of the rapid industrialization of South Africa during this time period on the structure of the economy can be seen from the following table.

#### MINING AND INDUSTRY :Contribution of commodity production to GDP

Year	Mining	Manufacturing
1911	27.3	5.9
1928	15.7	12.4
1948	10	23.3

The major catalyst for this process was World War 2. Manufacturers responded vigorously to opportunities created by wartime shortages of imported goods and new demands made by SA's war efforts. Volume of output (constant prices) almost doubled from 1939 to 1949. From 1939, the industry was transformed and mass production techniques- which until then successfully opposed by white unions- were introduced. Armoured vehicles, weapons, shells and trucks produced, using high-grade steel mad by ISCOR.

Government policy also played a major role in the expansion of the manufacturing sector. New administration under Smuts continued predecessors policy of strong industrial expansion. Industrial Development Corporation established by government in 1940 with the prime function to “facilitate, promote, guide and assist” the development of industry by private enterprise. Willingness to extend tariff protection. the Scientific and Industrial Research Council and the South African Bureau of Standards were established to compliment industrial development(Muller et al 1990:458,459).

The giant mining houses made a crucial contribution to the industrial transformation in 50s and 60s (Feinstein p. 174) Massive program of diversification of their investments was a major force behind the modernization and mechanization of industry. Substantial source of funds, technical expertise and managerial skills for manufacturing and other sectors. Before 1950s, industrial interest of mining houses primarily confined to manufacture of products required for their own operations, for example, AECI produced chemicals for blasting and extracting gold from crushed rock. From the late 1950s the mining houses began to expand the scope of their industrial activity, and this process of diversification accelerated in the 1960s. The key to this increased involvement was the success of the Free State goldfields: new gold mines were no longer absorbing all their vast resources, instead were starting to create surplus capital which could be invested outside mining.

This was especially the case with Anglo American, the dominant mining house in new Free state goldfields and thus the country as a whole. Anglo's share of SA's total gold output climbed from 14% in 1936 to 41% in 1969, but this figure actually understates its full influence because it also held (or later acquired) significant shareholdings in other mining houses. Economic power further enhanced by steady diversification into industry.

Anglo group access to most advanced scientific, technical info and most modern capital equipment through links with foreign concerns. Anglo had substantial interest in civil engineering and construction, property, cement, timber and printing and publishing. Other mining groups owned broadly similar portfolios of industrial companies, though not on the same scale as Anglo.

Anglo also played significant role in the development of a more comprehensive financial system in South Africa. By 1940, the country had a very unsophisticated financial system. It consisted basically of the JSE and commercial banks dominated by foreign concerns, namely Standard bank of SA and Barclays bank. Sanlam, established in 1918 to sell life insurance over time developed into massive concern, was also one of the early players in the South African financial system. The government-sponsored National Finance Corporation was established in 1949 accepted call money that was previously placed in London by mining houses.

Next few year Anglo, working in close relationship with firms in London, cautiously established a number of private discount houses and merchant banks. Short-term liquidity greatly increased, temporarily idle funds mobilized, etc In this period insurance companies and pension funds start to broaden their portfolios to include industrial equities. Volkskas was registered as commercial bank in 1941 and build up branch network across country (Feinstein 2005.: 178)

The gold boom of the 1930's transformed the finances of the mining houses and revived their zest for new ventures. Exploration in the Free State started in 1936, but the reef which was to become the basis of the country's richest goldfields was not discovered until 1939. When development started, it was a long, costly process and the prospects were very uncertain. The deeper reefs required additional costs on ventilation and refrigeration and revolutionary advances in methods of exploration, shaft sinking and mining.

Shaft sinking in this region commenced in 1946.

The first gold was produced at the St Helena and Welkom mines in 1951. The mining companies and government partnered in providing the huge capital outlays required to provide necessary transport, electricity, water and other infrastructure. By the end of the 1950's, 22 new mines begun production and produced 60% of gold output and 79% of the working profit. Further mines were started in these areas during the early 1960's.

The steady development of industrial sector barely discernible among glitter of the OFS gold flotations. This development changed the character of the JSE. Before WW2, only 50 industrial companies listed were listed on the JSE. This increased to 178 by 1946 and 348 by 1948, reflecting the growing range of secondary industry.

On 16 April 1946 announcement came over the ticker of an incredibly rich strike in the Geduld no 1 borehole in OFS. The result were so far in advance of anything that had been known that experts suspected a fault in transmission. But it was right and triggered off the great Free State boom that according to Bryant (1987) "was to eclipse all others". The next morning dealers were shouting themselves hoarse as they battled to fulfil orders flooding in from London and all over South Africa.. The price increase in the share of Blinkpoorts in ten minutes from 32 to 80s illustrate the extent of the excitement on the trading floor at the time.

The discovery and value of newly discovered OFS goldfields at that stage was largely dependant on

borehole results (Bryant 1987: 59). Consequently, the dissemination of unconfirmed reports of rich borehole strikes that later proved to be false by SAPA from an “usually highly reliable source” on 7 June 1949 led to some of the most hysterical trading on JSE. Suspicion of tampering with the Erfdeel cores contributed to a feeling of uneasiness about the genuineness of newly discovered OFS goldfields. This might be another explanation for the relatively low JSE returns during this time, despite the general economic prosperity and exciting developments in mining.

One possible explanation is the relatively low profitability of SA gold mines in general during the early years of the discovery and production of the OFS goldfields, as evident for the following tables:

Table: Annual averages : profits of SA gold mines

1945-1948	1.01
1950-1954	1.53
1955-1959	1.95
1960-1964	3.74
1965-1969	4.33
1970	3.90

A dramatic increase in gold mine profitability only started in 1955 and profits in the 1965-1969 period was much higher than during the late forties and early fifties. Favourable developments in ore grade and labour productivity, combined with resistance to any significant improvement in real wages for African workers, meant that working revenues per ton milled rose markedly more rapidly than working costs.

The start of uranium mining was another factor that boosted gold mine profitability during the fifties. Although it has long been known that uranium could be obtained from the residues of some of the ores mined for gold, but little demand for it. During WW2 and subsequent cold war, need for uranium for nuclear weapons became urgent. Willing to pay high prices. First pilot plant came into operation in 1947, full plant completed in 1952. 17 functioning mines by 1958. In 1958 working profit from gold was R123 mil and an additional R75mil from uranium..

## THE FIFTIES

### JSE RETURNS DURING THE 1950's

NO of years of negative returns	6
Highest annual returns	35.9% in 1959
Lowest annual returns	-7.2% in 1955
Average returns for the decade	3.8

In terms of macro economic and political developments, the decade of the 1950's was relatively uneventful and characterized by general economic prosperity and ongoing industrialization. The NP government continued the segregation policies of previous governments and started to formulate the master plan of apartheid. As previously mentioned, JSE average returns were relatively low, especially given the favourable economic circumstances.

The strong and profitable position of the diamond industry and De Beers in particular during this time, when there was an unprecedented demand for gemstones, is worth mentioning. Sir Ernest Oppenheimer explained in 1953 to De Beers shareholders that a large quantity of unsaleable diamonds had been acquired at very low prices during Depression of the 1930's and the company carried these stones for many years. They could dispose of this stock in the midst of the greatest boom the diamond trade has seen, with prices benefitting from the devaluations of sterling. This was an exceptional, once-off profit that was partly used to finance development of the Free State goldfields.

### **The Sixties – the start of the isolation years**

Referred to as the golden decade, the sixties experienced high economic growth, low inflation and a manufacturing boom. Economic growth and development started low in 1960, after Sharpsville. But were followed by economic growth rates of 8,1% in 1963, 6,7% in 1964 and 6,6% in 1965(Muller et al., 1990:557).

The dramatic events at the start of 1960, Sharpsville, the first assassination attempt on prime minister HF Verwoerd and the Coalbrook Colliery mining disaster, led to an outflow of capital. A capital amount of R200 million left the country and market values dropped by 1 227 million pound. The government responded by introducing exchange controls on non-residents and the financial rand. Gold mining shares continued to draw interest from European investors, despite the political turmoil(Bell 2001:34). At the end of 1960 a total of 622 companies were listed on the JSE. The stock exchange was still dominated by gold mining companies, 77 mining companies were listed. The market value of industrial shares, with a market capitalization of R300 million, was not much more than half of the gold mining shares, and financial shares a minimum. Growth in the sixties changed the situation, putting industrial shares ahead of gold mining. In 1979 the gold mining section regained the dominant position due to the increase in the gold price(Jones 1990:50). The JSE moved to a new building in Hollard street during November 1960.

In 1963 the JSE experienced the most attractive year in its history yet. A bull market begun, led by industrial shares. The bull market lasted until the stock market crash in 1969, reflecting the prosperous economic conditions that prevailed during the period. Mutual funds started operating in 1965. Listings increased dramatically, during the bull market. During 1968, 86 companies were listed and 63 during 1969. The Financial Mail reported that 45 families reached millionaire status through listing on the JSE in 1969. The market continued to climb until May 1969. Industrial shares collapsed and a low turnover led to depressed prices. Within six months South African Breweries went down from 700c to 169c, OK Bazaars from 2350c to 1375c and Trust Bank from 1010c to 360c(Bryant 1987:86,100,103).

### **JSE RETURNS DURING THE SIXTIES**

No of years of negative returns	2
Highest annual returns	48% in 1968
Lowest annual returns	-30% in 1969
Average returns for the decade	14.2

### **The Seventies**

The JSE recovered slowly after the stock market crash of 1969. The JSE was characterized by a decrease in the number of listed companies and a low turnover. Ownership on the JSE became concentrated in the hands of conglomerates. In contrast with the sixties, the seventies experienced a significant decrease in economic growth, with real growth rates of 1,3% in 1976, 0% in 1977 and 2,8% in 1978. Inflation accelerated and was very volatile. The decade was characterized by slow growth and high inflation. Stagflation was experienced throughout the world. South Africa's annual inflation rate for 1970 - 1971 was 6,5% and 13,4% for 1973 – 1974, it reduced for the next three years, but increased to 13,8% in 1979 -1980(Simkins 1999:13).

The world recession, high inflation, the increase in oil prices and the oil embargo, by Arabic countries on South Africa, showed its effect on the South African economy. Other world events that occurred during the seventies were the coming to power of Margaret Thatcher in the United Kingdom, and Ronald

Reagan in the United States. The collapse of the Bretton Woods system in 1971. Countries had to experiment with new exchange rate systems. The gold price nearly doubled to \$90 in 1971. And the gold index rose from 10,3 to 152,4(1972). The gold price rose throughout the decade(Simkins 1999:14,26).

Fundamental changes in three factors that influenced gold mine profits developed during the seventies. The gold price was determined by market forces from the late sixties. Real wages for black mine workers increased dramatically. And market forces determined the rand exchange rate. The oil-price shock in 1973 led to the increase in the price of gold from \$90 to \$170. South Africa was protected from the oil-price shock by increases in the gold price.

In 1975, 42 companies went of the board through mergers and take-overs. By 1976 economic and market conditions continued to deteriorate. The Soweto-riots of June 1976 attributed to the political unrest and uncertainty that persisted in the country. Listed companied continued to decline, 39 companies delisted during 1977. In 1979 the second oil-price crisis, the subsequent increase in the gold price, an improved economic climate, lower interest rates and financial rand investment, led to an increase in the value of securities. The JSE recorded a better performance than ever, the gold board rose 110% and industrials by 81,9%. The Kruger rand was listed on the JSE in 1979(Bryant 1987:130,140).

#### JSE RETURNS DURING THE SEVENTIES

No of years of negative returns	4 years
Highest annual returns	70% in 1979
Lowest annual returns	-30% in 1970
Average returns for the decade	14.3

#### The Eighties – a lost decade

The slow economic growth of the seventies continued during the 1980's. The slow economic growth could be attributed to the low gold price, high inflation and excessive spending by the government, under PW Botha. The government's uncontrolled spending to sustain its military apparatus, subsidizing the homeland governments and projects such as Mossgass, led to South Africa being one of the world's highly taxed countries. The economy only recorded positive growth during three years(81,84, 88) of the eighties. The increase in the population growth contributed to the decline in per capita income(Jones and Inggs n.d:1,2).

The eighties were characterized by a reverse in policies of the previous decade. Policies of import substitution, inward industrialization and regional industrial development were replaced by export promotion. Monetary policy based on credit limits, price control, import control and exchange control were replaced by a market approach. The implementation of a market approach, as recommended by the De Kock commission, was discouraged by political circumstances(Jones and Inggs n.d:14,15). The mining industry had to contend with a falling gold price, from a record high of \$850/oz in 1980, and high domestic inflation. The role of gold kept on declining. Gold's contribution to Gross Domestic Product halved during the eighties. Gold mines contribution to tax declined, its contribution fell from 38% in 1980 to 6% in 1990. Ring-fencing was introduced in 1984, which implied that cost of one mine could not be offset against another mine to minimize the tax burden. The mining industry remained profitable during the eighties. The profitability could be attributed to an increase in production of coal, aluminum, ferro chrome, iron, manganese and titanium(Jones and Inngs n.d:8,9).

From 1977 the upward trend in share prices peaked in September 1980. Mining shares showed the highest increase during 1980 and could be contributed to the high gold price. New share capital raised during 1980 amounted to R486 million in comparison to R294 million during 1979. Share prices declined downward during 1981. The decline in the share prices coincided with the increase in interest rates and a fall in the gold price(SARB 1981:22,23).

During the early 1980's high interest rates in developed countries, declining capital flows from developed countries to developing countries, the fall in exports of developing countries, led to several countries including Mexico, Argentina, Chile and Morocco experiencing debt crises. South Africa became more

attractive as a lender to foreign bankers in the early 1980's, with a high gold price to boost the confidence. The funds invested in South Africa were short term funds. The funds were withdrawn when the gold price started to drop and campaigns against apartheid increased. The pessimism was enforced by the decline in gold mining, increased political violence and unrest within South Africa(Feinstein 2005:228,229).

On the 7<sup>th</sup> of February 1983 exchange controls on non-residents and the dual exchange rate were abolished. The stock market did not respond to net sales by non-residents after the abolishment of the exchange controls. Net sales of securities by foreigners amounted to R576 million in the first quarter and R296 million in the second quarter of 1983. The decline in share prices were attributed to the lower gold price, rather than to the sales by non-residents(SARB 1983:16,17).

Activity on the JSE increased remarkably during the first two months of 1985, due to the interest from non-residents, institutional demand for shares and a moderate recovery of the gold price. From March 1985, the trend was reversed because of the disinvestment sentiment sales by non-residents(SARB 1985:15,16). The debt crisis followed after PW Botha's Rubicon speech on the 15<sup>th</sup> of August 1985. The announcement of significant political reforms was expected, but the speech did not contain any worthy announcements. The disappointment in the slow rate of political transformation and the uncertainty of the political situation resulted in South Africa becoming a capital exporter. In August 1985, the Chase Manhattan Bank of New York , announced that no further loans would be granted to South Africa. The South African government retaliated by declaring a debt repayment standstill in September 1985. The financial rand was reintroduced, to increase the cost of foreigners withdrawing their funds from South Africa(Feinstein 2005:229).

In contrast with the slack economic activity and net selling of securities by non-residents, the capital market was buoyant. Share prices rose constantly from 1985 to 1987. The demand for shares was maintained by local institutions buying shares disposed by foreigners, investors seeking a hedge against inflation, a decline in interest rates and the upward trend in the dollar price of gold. Share prices increased 133% from 1985 to August 1987(SARB 1986:15,16).

All the world's major stock exchanges crashed on the 19<sup>th</sup> of October 1987. Within 13 days from the 20<sup>th</sup> of October 1987 the average level of all shares, on the JSE, fell back by 40%. The drop exceeded that of overseas stock exchanges. And was even larger than the decline in the early stages of the crash in May 1969. The failure of the gold price to rise during the turbulent conditions, contributed to the drop in gold mining shares which exceeded the drop in average share prices. The JSE trading hours were reduced by 2 hours on the 21<sup>st</sup> and 22<sup>nd</sup> of October 1987, due to the heavy volume of share trading(SARB 1987:17,18).

Share prices began to recover in the second quarter of 1988. All classes of shares in February 1989 were still lower than in September 1987. The reasons for this slow recovery were attributed to the rising trend in interest rates, uncertainty regarding the future movement of precious metals and the rand exchange rate. In 1989, FW de Klerk became president of South Africa and Dr C Stals became governor of the South African Reserve Bank. The economy showed symptoms of large capital outflows, intensified financial sanctions and low gold and foreign reserves(SARB 1988:17).

#### JSE RETURNS DURING THE EIGHTIES

No of years of negative returns	3
Highest annual returns	35% in 1989
Lowest annual returns	-17% in 1987
Average returns for the decade	10.2

#### **The Nineties – return to the international arena**

The decade of the nineties marked South Africa's return to the international arena and integration into the world's capital markets. South Africa's economy became more vulnerable to the ups and downs of the global economy. And the JSE more vulnerable to international contagion affects. The unbanning of all political parties and the release of political prisoners were announced by FW de Klerk in February 1990.

The stage was set for a new political dispensation within South Africa and policy changes within South Africa as well as policy changes towards South Africa.

The initial uncertainty about the ANC's economic policies, the fear of applying an interventionist approach and nationalizing the mines, banks and monopolies, created nervousness in the markets. Nelson Mandela moderated his stance, regarding the ANC's future economic policy, after being confronted by world economic leaders, in Davos Switzerland(Mohr 2003:21).

During the early years of the decade, the economic performance was characterized by negative economic growth and high inflation rates. Agriculture output was volatile due to droughts, mining output declined from 1990 to 1999. And manufacturing declined from 1990 to 1994. Manufacturing recovered, after 1994, due to the increase in exports. The only real growth occurred within the tertiary sector and specifically the financial sector(Mohr 2003:17).

All share prices peaked in February 1990. Trading and prices continued the upward trend from the recovery in the third quarter of 1989. The price level of all shares increased by 5% from January to February 1990. The increase resulted from increases in financial and gold mining shares. Prices of industrial and commercial shares dropped. Due to the gold price being above \$400 in November 1989, the bullish sentiment was sustained. The issue of ordinary shares rose from R2,1 billion in the third quarter to R5,3 billion in the fourth quarter, mainly due to the privatization issue by Iscor Ltd. Iscor Ltd listed on the 8<sup>th</sup> of November 1989. In April 1990 the average monthly value of shares traded fell back to the lowest level in twelve months, the result of a lower gold price and uncertainty with the political dispensation. Gold mining shares recovered in July and August 1990, due to Iraq's invasion of Kuwait. Share prices fell back from September 1990, in reaction to world market's reaction to developments in the Persian Gulf. Industrial and commercial shares, however gained 6% in the same period. From an all share high in February 1990, share prices declined 18% to January 1991(SARB 1990:25,26,30-32).

The price level of all shares increased with 32% from January 1991 to January 1992. Industrial shares increased by 51,6% and commercial shares increased by 40,3%, despite poor international demand for raw materials. The excellent performance of JSE-shares during the economic downturn were attributed to the demand for prime equities by institutions, the sharp rise in world stock markets due to positive expectations of world economic conditions and an expected decrease in the local bank rate and short-term interest rates(SARB 1992:19,20). From a record high in June 1992, a contraction in the value of shares traded was experienced. The price level decreased until December 1992, when an upward trend started marked by increases in industrial, commercial and financial shares. Gold mining shares recovered in January 1993, but fell back because of negative investor sentiment from the announcement by European central banks resolution to sell gold. Average price levels of shares were 5,8% lower in January 1993 than in January 1992(SARB 1993:21).

In the first quarter of 1993, R8 billion shares were traded. The result of a decline in short-term interest rates, a higher price of gold and net purchases by non-residents. Because of the fear of higher inflation in the United States, shares increased further in May 1993, due to the higher demand for gold and rise in the gold price. The value of shares traded rose to R10,8 billion in the second quarter of 1993 from R8,0 billion in the first quarter. The increase in the value of shares traded was due to a weaker financial rand, a higher gold price and non-residents purchases. From August 1993 a sluggish international economic recovery and weaker commodity prices, brought about a decline in all share prices(SARB 1993:17,18,19). Through-out 1993 the positive activity on the JSE was the result of a decline in local inflation, increase in economic activity and non-resident purchases, which contributed to the bull market of all shares. The price level of shares rose by 27,2% from September 1993 to January 1994. Due to the improved political climate, the lifting of sanctions, stronger trading on world stock markets and investor's interest in emerging markets(SARB 1994:18,19).

In contrast with the decline in share prices on most of the world's stock markets, the JSE continued to rise from the beginning of 1994. The value of shares receded in April 1994, due to the uncertainty regarding the political developments in South Africa. Non-residents became net sellers of shares in April and May 1994. Non-residents remained important operators on the stock market and accounted for 31%

of turnover of listed shares. International investors regarded South Africa's equity market as being expensive in relation to growth prospects. Historically high price/earnings ratio and real interest rates, low dividend yields of only 2,18%(October 1994), the low level of liquidity and the dual exchange rate system were regarded as barriers for non-resident investment. South Africa's price/earnings ratio was still low in comparison with other emerging markets. A positive factor was that South Africa was included in key stock market indices. In the first nine months of 1994, South Africa's share price increases outperformed those of emerging markets. The price level rose 52% from September 1993 to September 1994. The growth was underpinned by a stronger gold price and the economic recovery in South Africa(SARB 1994:19,20). From December 1994 and the beginning of 1995 share prices plunged, in reaction to a lower Wall street, a lower gold price, the Mexican crisis, the earth quake in Japan and the anticipation of the abolishment of the financial rand(SARB 1995:20, 21).

By 1995 the JSE was the 10<sup>th</sup> largest in the world, the largest emerging market , but its turnover of 6,5% made it the least liquid of all but one of the 27 emerging markets. Tracked by the International Finance Corporation, only Nigeria recorded lower liquidity. Reforms and deregulations on the JSE were implemented to improve the liquidity and price formation on the JSE. The reforms were also driven by the relaxing of exchange controls on non-residents. In March 1996 the new automated Johannesburg Equity Trading system(JET) replaced the open outcry system that was in use for 109 years. Reforms enhanced transparency, improved price discovery and removed discrimination between large and small investors. A further improvement was the breakup of large conglomerates, which dominated the stock exchange. The five largest conglomerates, Anglo American, Sanlam, the Rembrandt group, SA Mutual and Liberty, controlled 80% of the market capitalization on the JSE until 1994. The break-down was caused by Black Economic Empowerment(BEE) transactions, changes in the mining sector, globalization and South Africa's integration into the world capital markets. Ownership of the five largest conglomerates dropped to 67,2% in April 1997(SARB 1995:20,21).

In the first quarter of 1995 poor performances were recorded on most stock markets world-wide. In South Africa, domestic investors were responsible for the lower turn-over. Non-residents were hesitant in anticipating the abolishment of the financial rand. But, South Africa's inclusion in the International Finance Corporation's Emerging Market Index, boosted foreign investor's confidence. The removal of exchange control on non-residents also led to increased purchases from non-residents(SARB 1995:19). The Stock Exchange Control Amendment Act of 1995 was passed by parliament on the 13<sup>th</sup> of September 1995 to facilitate the restructuring of the stock exchange. The Act led to the following changes:

- corporate membership, with the option of limited liability;
- the opening of membership to non-residents(foreign banks and securities firms) and domestic financial institutions;
- the establishment of the South African Institute of Stockbrokers;
- the introduction of new capital adequacy requirements based on the European Union standard with electronic surveillance and the revision of the JSE Guarantee Fund rules(SARB 1996:50).

Mkhize and Mswell-Mbanga(2006:81,82,83) argued that prior to 1994, factors such as the concentration of ownership on the JSE, thin trading, illiquidity, the dominance of trading by financial institutions and single capacity trading, led to the restructuring of the JSE. The concentration of ownership, was the result of exchange controls. South African conglomerates were not able to invest abroad and resulted in the buying up of South African companies. Financial institutions dominated trading on the JSE because of the increase in insurance and pension funds. Trades of financial institutions were concentrated on a few top shares and this trading contributed to illiquidity on the JSE. Before 1994 member stockbrokers were permitted to only act in a single capacity and to trade equities on the JSE. The high cost of investing in relation to small investment amounts barred small investors from investing on the JSE. The implementation of the dual capacity trading implied that stockbrokers could act as agent and principle. And hold packages of shares in which they could deal.

Capital raised on the primary equity market more than doubled from R10 billion in 1994 to 21,4 billion in 1995. The largest part of the funds was obtained for the industrial sector(52%) and the financial sector(27%). The importance of the stock market as a source of finance was reflected in the increase of

listings on the JSE. Non-residents became net buyers of equity on the JSE from 1993. From 1995 non-residents purchases of shares on the JSE were boosted by the removal of the financial rand and the inclusion of the JSE in the International Finance Corporation's Emerging Market Index(SARB 1996:55,56).

New listing requirements were introduced to improve investor protection and to enhance access for emerging companies. The automated trading system was extended by the implementation of the electronic scrip registry(STRATE) and rolling settlement(SARB 1996:51). Continuous modernization and improved financial markets contributed to the reduction in risk. The JSE in its ongoing process of modernization developed an electronic settlement system which replaced the weekly account settlement and a central security depository to enable the dematerialization of equity certification. The JSE thus came in line with international best practice and conforming to the G-30 recommendation for electronic settlement. On the 15<sup>th</sup> of October 1997 a news service was started to provide the market with company specific information and announcements(SARB 1998:1).

New listings more than doubled from 1997(54) to 1998(101). New listings included the demutualization of Sanlam in November 1998. The value of capital raised on the JSE amounted to R88,4 billion in 1998(SARB 1999:35,36). The Asian financial crisis of 1998 affected share prices in most emerging markets. Share prices on the JSE fell by 39% from May to September 1998. Once international conditions settled down the average monthly value increased by 41% from September 1998 to June 1999. Announcements of gold sales by the IMF and the United Kingdom resulted in downward pressure on the gold price and gave an indication of the future role of gold in the world economy. On the 26<sup>th</sup> of September 1999 the European Central Bank(ECB) and central banks of 14 European countries announced that gold would remain an important reserve investment. The announcement caused the price of gold to increase to above \$300/oz and provided positive sentiment to the JSE(SARB 1996:50).

#### JSE RETURNS DURING THE NINETIES

No of years of negative returns	4
Highest annual returns	60% in 1999
Lowest annual returns	-18% in 1998
Average returns for the decade	7.88

## 5. Reflection

A stock market is regarded as a leading indicator of economic activity. As a barometer of economic sentiment, stock markets should respond to economic and political developments and events. Historical returns should therefore not be ignored.

The South African stock market has been on a long-term upward trend ever since its inception, despite several crashes and dips. Our study revealed that the JSE did reflect dramatic macro economic conditions, policy changes and political events on share returns in some periods. South Africa's position within the international community can influence capital flows, foreign buying of shares and affect the mood on the JSE. Political factors resulted in international isolation, which led to the domination of the JSE by the mining houses, for more than 40 years. The dominant position of gold mine companies could be the reason that the JSE did not reflect overall economic and political conditions, such as mining strikes(1922) and political turmoil(1985,1986). During the isolation years, good economic conditions in the sixties were reflected in the returns of the JSE, as well as political events such as Sharpville. After 1994, and integration into the international markets, the JSE returns became increasingly vulnerable to local economic, political developments and international developments.

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