

Geoff Brown: Brokers come full circle in changing landscape

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Sharebrokers have a very important role to play in the functioning of our capital markets. At their most basic, brokers are the conduit for investors buying and selling shares. However, their role is as broad as it is diverse.

Sharebrokers provide financial advice to retail investors, institutional investors and companies. They also sit at the centre of the capital-raising process for most New Zealand companies. Today, many broking firms have their own investment banking group whose primary role is to bring companies to market. Commonly referred to as equity capital markets divisions, these groups advise companies on corporate structure, valuation, mergers and acquisitions, divestment strategies and the like. They work hand-in-hand with the broking firm's secondary markets group, which is responsible for research and analysis and both wholesale and retail dealing, in buying and selling shares.

So, brokers bring the company or issue to the market, create the market for the company's shares and facilitate the buying and selling of those shares in the secondary market. In short, they are central to the health and vitality of our capital markets. Over the past few decades, the broker landscape in New Zealand has changed dramatically.

In the early 1980s the market was dominated by smaller local firms focusing on New Zealand companies. The late '80s and early '90s saw the rise of free-market economics and the subsequent rash of Government sell-downs and privatisations that went with it.

Well-known overseas financial organisations were lured into the market and, on the whole, these internationally owned organisations focused on the larger transactions. Now, with a shortage of these types of transactions, many of the larger overseas broking houses have left the New Zealand market and we are back to the regional and local ownership landscape that dominated our formative years. This is good news for our capital markets, which have outperformed many of their major international counterparts in recent years.

Local ownership centres attention on New Zealand as the primary investment market. In this environment, smaller New Zealand companies are more likely to become the focal point of our investor attention and the prime target for brokers looking for listing opportunities. What this adds up to is a wider spread of investment opportunities for both wholesale and retail investors, and greater liquidity in our domestic market. During the similar period in the '80s, 18 locally owned broking houses brought more than 100 companies to list in a three-year period.

In addition, regional and local brokers now have the freedom to develop their own strategies rather than being directed by overseas interests, and this means they can focus more heavily on the requirements of local investors.

So how can investors make the most of their local broker? Essentially, brokers act as your agent in the market. They provide expert financial advice and have a wealth of industry information at their fingertips.

There are two main types of brokers: full-service and discount brokers. The benefits of using a full-service broker are obvious - you get expert financial advice, on-going regular research and the eyes of the market at all times. Of course, you pay for it as well. Discount brokers merely facilitate trading without providing financial advice. But for well-informed, financially astute investors this is a cost-effective way to buy and sell.

Most brokers work on a commission basis: you pay fees every time shares are bought or sold. Choosing the right broker for you will depend on how you like to operate. However, finding someone you can trust is paramount. A full directory of all NZSE sharebrokers can be found on the NZSE website (www.nzse.co.nz).

Despite all the recent changes to both the domestic landscape and to their market status, NZSE sharebrokers remain governed by a strict set of rules designed to ensure "good sharebroking practice".

These regulations clearly define the qualifications and experience required to give financial advice and how the relationship between client and adviser should work. Sharebrokers are the cornerstone of our capital markets and will continue to play an integral part in its growth. They act as agent, adviser and conduit for all market participants and are a valuable resource for the New Zealand investor community.