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MONTREAL STOCK EXCHANGE

FIRST TRANSACTION STUDY

JUNE, 1962

CANADIAN STOCK EXCHANGE

Res.: Montreal Stock Exchange May 16/63

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To : Members, Member Firms, Member Corporations

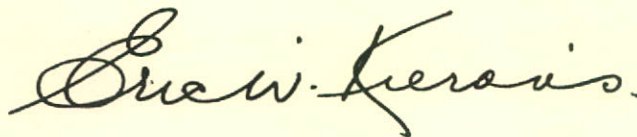
December 6, 1962

The growth of a nation, no matter how richly endowed the country may be, largely depends on the quality of the economic decisions made by the leaders of government and business. Decisions based on intuition and estimates of actual conditions are not likely to be nearly as successful as those based on solid information and knowledge of the facts.

There is no dearth of facts about the operations of our stock markets since the exchange must, by its nature, keep very exact records of all transactions and prices. However, there has been a distinct lack of interpretative analysis and this booklet represents another effort on our part to place relevant information before the public.

This transaction study is reproduced from the major submission made by the two Montreal Exchanges to the Royal Commission on Banking and Finance. We have followed the analytical procedures adopted by the New York Stock Exchange which will permit trading practices, individual preferences, etc. of Canada and the United States to be compared.

Since one sampling does not warrant definitive conclusions, we intend to continue these surveys on a twice-yearly basis. We owe a real vote of thanks to the office staffs of our member firms through whose cooperation this survey is made possible. Dleap Hall, senior Exchange statistician, carried out the study.



President
Montreal Stock Exchange
Canadian Stock Exchange

HIGHLIGHTS

This is the first transaction study conducted by the Montreal & Canadian Stock Exchanges and it is the first of its kind ever undertaken by any Exchange in Canada. The survey was taken in June of 1962. The purpose of this study was to determine the investors participation of the daily trading volume on the Montreal and Canadian Stock Exchanges. Specially designed I.B.M. cards, to gather the necessary information, were sent to members of the Montreal Stock Exchange and Canadian Stock Exchange and all their transactions were recorded for three separate days in June, these days were: June 4th, 15th and 27th. After each date the cards were collected and edited. When all the cards were collected they were processed electronically and tabulated for analysis. We received the cooperation of all the members and it was through this cooperation that we obtained a high degree of returns. The statistics, which follow, are fully representative of the transactions processed during the study period.

The significance of a study of this kind is fully apparent only after several years when a series may be developed and when a trend analyses becomes possible. Random fluctuations may be eliminated only after such a series has been accumulated and we are uncertain as to what distorting effect the severe market gyrations of May might have had upon the results of our survey.

The results of our survey can be compared with those of the 11th study of Sept. 13, 1961, conducted by the New York Stock Exchange in order to make a comparison between the Canadian & American survey.

Major Source of MSE & CSE Share Volume

The survey conducted by the MSE & CSE, in June 1962, revealed that the share volume reported by individuals was markedly larger than that represented by institutions — Table "A".

TABLE "A"

Share Volume as a Percentage of Total Volume
Montreal & Canadian Stock Exchanges — June 1962 — 100%

**Public
Individuals**

50.4%

**Institutions &
Intermediaries**

19.8%

**MSE & CSE
Members & Others**

29.8%

Institutions and Intermediaries* bought and sold a total of **315,641** shares on the study dates in June 1962, M.S.E. and C.S.E. members bought and sold 475,056 shares, and Public Individuals, the largest of the group, bought and sold 803,450 shares. It is evident from this that the Public Individuals dominate the activities by a slim 0.8%. It is premature to make any statistical comparisons of the habits of the buyers and sellers of Canadian investors. However, comparisons are made in a later section of this booklet between U.S. and Canadians and this is the only comparative measure we have to gauge the results of our survey.

* Includes non-member broker/dealers, insurance and investment companies, trust companies, and banks acting for individuals; religious and educational foundations.

Public Individuals Share Volume by Investment Motivation

It is a matter of some difficulty for a member to determine the investment motivation which prompts an investor to buy or sell shares. In cases where the broker handles his client's account the duration of the investment is known but when the investor simply places a "buy" order and departs with his shares, or deposits these shares for immediate sale, the motives are not always distinguishable. Our survey contains a high percentage of unknowns and with this in mind the following, Table "B", has been prepared.

TABLE "B"

Motivation of Public Individuals Share Volume
Montreal & Canadian Stock Exchanges — June 1962 = 100%

**Long Term
Investments
(over 6 months)**

35.2%

**Short Term
Investments
(1-6 months)**

35.7%

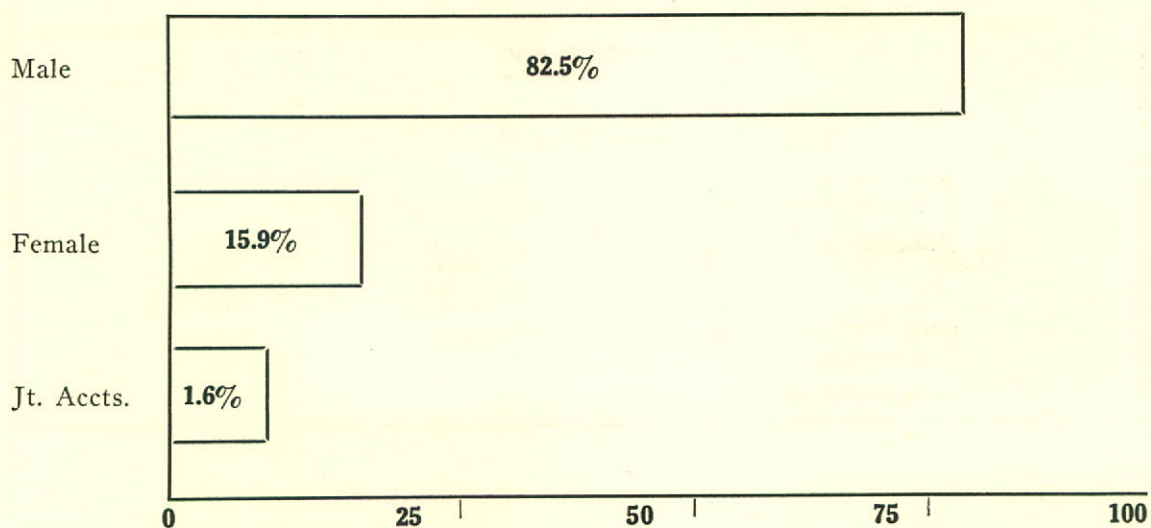
**Trading
(under 30 days)**

29.1%

Public Individuals Share Volume by Sex

The predominance of male share volume registering such a high percentage may, in part, be attributable or influenced by the Quebec Civil Code. The joint account category is negligible and it appears that after marriage most of the families share transactions are processed through the husbands name.

TABLE "C"



Public Individuals Share Volume by Age

Our first transaction survey indicates that Investors between the ages 45-64 accounted for the largest percentage of public Individuals share volume — 50.2%. A further breakdown indicates the various percentages for the different age groups.

TABLE "D"

Public Individuals Share Volume by Age
Montreal & Canadian Stock Exchanges — June 1962 = 100%

<u>Under Age 25</u>	<u>Age 25-44</u>	<u>Age 45-64</u>	<u>Age 65 and over</u>
1.2%	42.8%	50.2%	5.8%

Margin Volume of Public Individuals compared with Total Volume

Margin transactions as a percentage of total share volume on the three study dates in June 1962 showed that 20% of the volume of public individuals surveyed were on margin. The generous margin requirements of the Montreal and Canadian Stock Exchanges may be attributed to the large volume of margin accounts.

TABLE "E"

Margin Transactions of Public Individuals
as a Percent of Total Share Volume

<u>Period</u>	<u>Percent</u>	<u>MSE & CSE Margin Requirements</u>
June 1962	20.0%	50%

Margin transactions by Age Group indicates the group between 45-54 make purchases on margin to the extent of 27.0%; while the age group between 35-44 are the lowest group — 12.6%.

TABLE "F"

Percentage Distribution of Public Individuals Margin Volume
By Age Group — June 1962

<u>Age Code</u>	<u>Margin Volume</u>	<u>Total Volume</u>	<u>% of Total Volume</u>
Under 25	2,300	12,134	19.0%
25-34	25,480	102,350	24.9
35-44	41,387	328,881	12.6
45-54	90,993	337,092	27.0
55-64	38,419	168,908	22.7
65 & Over	14,000	57,859	24.2
Unknown	44,863	275,652	
TOTALS	257,442	1,282,876	20.0%

Geographic Distribution of Public Share Volume

TABLE "G"

Geographic Distribution of Public Share Volume
By Provinces, U.S., U.K. — June 1962

<u>Geographic Code</u>	<u>Individuals (%)</u>	<u>Institutions (%)</u>
Alberta	2.03	.14
British Columbia	1.91	1.12
Manitoba	0.38	1.10
New Brunswick	1.60	.50
Newfoundland	0.02	.04
Nova Scotia	3.10	1.13
Ontario	30.50	25.02
P. E. I.	0.19	.19
Quebec	53.30	60.43
Saskatchewan	0.17	.56
U. S.	6.40	3.50
U. K.	0.04	2.04
Others	0.36	4.23

NOTES

A: Public transactions are constituted according to the following:

1. Public Individuals — are those individuals who are not members nor partners in a member organization of the Montreal or Canadian Stock Exchange.
2. Institutions — these include religious organizations, banks, educational institutions, insurance companies, investments clubs, mutual funds, trust companies.
3. Intermediaries — These are organizations or firms through which orders from public individuals and intermediaries are processed. These take the form of banks, trust companies and non-member broker/dealers.

B: Definitions

1. Investing — encompasses all transactions except those of trading. Investing is classified into two categories — short term and long term.

Short term — transactions are closed out in less than 6 months.

Long term — transactions which will not be closed out for at least 6 months.

2. Trading — involves the closing out or the potential closing out of all transactions within thirty days.
3. Cash — covers all cash account transactions including those transactions on margin accounts having a free credit balance before and after the transaction.
4. Margin — covers all margin accounts where credit was used.

C: Returns on Survey — the completeness of this survey is based upon 95% of all transactions which were reported.

COMPARATIVE ANALYSIS

A comparison between the New York Exchange's Eleventh Public Transaction Study conducted on September 13, 1961 and the Montreal & Canadian Stock Exchanges First Transaction Study conducted in June 1962.

Major Source of Share Volume

The accompanying table compares the sources of volume on a percentage basis for Canada and the United States. It is interesting to note the divergent relationships contrast themselves in two areas.

TABLE 1

Share Volume as a Percentage of Total Volume,
Montreal and Canadian Stock Exchanges — June 1962

Institutions and Exchange Members

Public Individuals Share Volume by Investment Motivation

It is difficult to determine the investment motivation which prompts an investor to buy or sell shares. In light of this, only where the customers account is held for him by a broker can the duration of the investment be accurately reported. In cases where an investor "buys" shares and then departs with them or places them for sale the exact nature of this motivation cannot be accurately determined. The Montreal and Canadian Stock Exchanges survey contains a high percentage of unknowns and its departure from the U.S. study is striking.

<p>TABLE 2</p>

<u>Public Individuals</u>	<u>Intermediaries</u>	<u>Exchange Members and Others</u>
50.4%	19.8%	29.8%
<u>New York Stock Exchange — September 13, 1961</u>		
51.4%	26.2%	22.4%

The substantial percentage of total transactions represented by Exchange members and a small percentage accredited to institutions is a departure from the relationship exhibited for the U.S. results. Public Individuals transactions, on the other hand, are almost identical. The higher percentage shown for members and unknown traders for the Montreal and Canadian exchanges can be attributed, to a large degree, to the substantial arbitrage transaction.

Motivation of Public Individuals' Share Volume
Montreal and Canadian Stock Exchanges — June, 1962

<u>Long Term Investment</u> <u>(Over 6 months)</u>	<u>Short Term Investments</u> <u>(1 to 6 months)</u>	<u>Trading</u> <u>(Under 30 days)</u>
35.2%	35.7%	29.1%

New York Stock Exchange — September 13, 1961

62.0%	28.5%	9.5%
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Perhaps the best answer to this divergence on short term trading transactions in Canada would be the absence of "Capital Gains" tax here.

It must not escape notice that the assessment of motivation requires a good deal of subjective reasoning on the part of the broker.

Public Share Volume by Sex

The Montreal and Canadian Stock Exchanges study is somewhat more comprehensive than the U.S. study in this area. Our study compares the relationship between male and female at varying ages. The far larger percentage represented by females at the very young ages is significant. The joint account category is negligible and it appears that after marriage most of the families' share transactions are processed through the husband's name.

The results show the Canadian total relationship to be 82.5% male and 15.9% female. The U.S. produce a much higher percentage of female investors — 28.3% with the males still predominating with 71.7%.

The influence of the Quebec Civil Code in our trading region no doubt plays an important part in the reduced female percentage. However, sociological studies continually reveal that the U.S. woman enjoys a greater independence than her Canadian counterpart in many areas.

TABLE 3

**Percentage Distribution of Shares Bought and Sold for
Public Individuals by Sex**

Montreal & Canadian Stock Exchanges — June 1962

<u>Period</u>	<u>Male</u>	<u>Female</u>
June 1962	82.5%	15.9%

New York Stock Exchange — September 1961

Sept. 1961	71.7%	28.3%
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Public Individuals Share by Age

Our Exhibit below is intended to segregate shareownership into categories based upon age. The results obtained from the NewYork Stock Exchange study and those of the Montreal and Canadian Stock Exchanges are summarized and compared in Table 4.

<u>TABLE 4</u>			
<u>Public Individuals' Share Volume by Age</u>			
<u>Montreal and Canadian Stock Exchanges — June 1962</u>			
<u>Under Age</u> <u>25</u>	<u>Age</u> <u>25 - 44</u>	<u>Age</u> <u>45 - 64</u>	<u>Age</u> <u>65 and Over</u>
1.2%	42.8%	50.2%	5.8%
<u>New York Stock Exchange — September 13, 1961</u>			
1.4%	29.4%	54.4%	14.8%

The percentage of Canadians in the 25-44 age bracket dealing in shares in the trading area of our Exchanges was notably higher than the similar group in the U.S.A. However, the 65 and over group did not trade to the same extent as the group surveyed in the U.S.A. The other two groups are represented by similar percentages in either country. In both countries investors over 45 accounted for the largest percentage of Public Individuals' Share Volume.

Margin Volume of Public Individuals compared with Total Volume

Margin transactions as percentage of total Share Volume may be compared between the Montreal and Canadian Stock Exchanges and the New York Stock Exchange Study.

In the U.S.A. 16.3% of the transactions were on margin, the lowest for any date since the original study in September 1952. Our survey showed that 20% of the volume of public individuals surveyed were on margin. The larger figure may be accounted for by the more generous margin requirements prevailing here as compared with the American regulations in force during September of 1961. The recent relaxing of margin requirements in the U.S.A. will probably alter this relationship.

TABLE 5

**Margin Transactions of Public Individuals as a
Percent of Total Share Volume
Montreal & Canadian Stock Exchange**

<u>Period</u>	<u>Percent</u>	<u>Margin Requirements</u>
June 1962	20.0%	50%

New York Stock Exchange

Sept. 1961	16.3%	70%
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Conclusions

It is far too early to attempt to draw final conclusions with respect to variations between trading patterns occurring on our Exchanges and those reflecting the volume of transactions recorded by the New York Stock Exchange.

At this stage we are intrigued by variations in the motivation and margin patterns, since these resemble what one could expect because of differences in the laws of both countries at the time the surveys were conducted. Nevertheless the trading segment represented by short term traders in Canada was uncomfortably large. Perhaps present economic uncertainties might account for this, and our next survey may reveal a larger “investing” group of public individuals.

