T R O P - X

The History of Securities Exchanges

When we talk about stocks we are generally talking about the buying and selling of company

shares that are listed on exchanges, like the Trop-X Securities Exchange, the Seychelles first Exchange which opened its doors in November last year.

A key question is why did stock exchanges start and how did they grow to become so established and massively effect the global economics. Understanding the origins of anything can help us understand their relevance and benefits today.

There are many stories about where and how stock exchanges started; most of these stories have certain common threads. One such story originates from Europe in the 1600's with the charted voyages to the East Indies for Spice, one of the most expensive ventures undertaken at the time. These ventures had significant risk of not succeeding but if successful they were hugely profitable.

Realizing that few explorers could afford to conduct an overseas trade voyage, companies were formed to raise money from investors. Investors were people willing to put money toward these high risks, high reward ventures. Once money had been put toward a venture, people would gather under a tree overlooking the harbour to keep an eye on the departing vessel. As the vessel was leaving the harbour the investor's expectation of receiving his share of the profit would be at its lowest and therefore the "share price" would be at its lowest as well. Once out of the harbour and on its way the "share price" would start to climb, especially when buoyed on by good reports from other ships that had seen your ship move closer and closer to its destination. The closer your ship got to complete its journey the higher the "share price" or value would get. The excitement of a successful venture would create a sudden flutter of buying and selling, people trying to sell their shares of non-successful ventures and people increasing the price of their 'shares' in successful ventures and selling them on.

There are many such stories regarding the makings of an exchange. The concept of investing in order to finance expensive, risky ventures has always been the inspiration behind the establishment of the original exchanges. The first Stock Exchange was established in Amsterdam in 1602 and traded in the shares of the Dutch East India Company (VOC), which was the first Joint Stock Company ever to be started and it was started by issuing shares to the public (the first Initial Public Offering or IPO). This was the precursor to today's Listed Public Companies.

The Joint Stock Company concept became very popular very quickly, for the first time it allowed for the spreading of risk. Stockholders could share in the profits and losses of the company (hence the word: share). The risk did not sit with just one shareholder. An investor could purchase shares in several companies so they could begin managing their own risk.

The London Stock Exchange for example was formed in 1688 to fund two companies; the East India Company and the Muscovy Company's which attempted to reach China by sailing above Russia. Thesecompanies also issued Joint Stocks. Within 7 years 140 Joint Stock Companies where listed on the London stock Exchange.

The establishment of an exchange was born out of a necessity to expand and explore various new markets as the world developed. Today exchanges remain very close to the original concept giving opportunity for growth, investment and the spreading of risk.