Stewart Investors
St Andrews Partners

1969

The Poseidon adventure

History is full of bubbles, booms and busts, corporate collapses and crises, which illuminate the present financial world.

At Stewart Investors we believe that an appreciation of financial history can make us more effective investors today.

London, 1969. A shop assistant at Harrods makes a fortune from her investment in an unknown Australian mining company. A major nickel find has resulted in a speculative bubble in Australian mines. The Poseidon mining boom, as it is now known, offers a number of lessons for investors today.

The Long Boom

The rebuilding efforts that followed the Second World War spurred a period of sustained economic prosperity. By the early 1960s, global growth was averaging 5% per year, driven by an enhanced spirit of international cooperation, increased infrastructure spending and low oil prices. Demand for raw materials, including nickel, an important material for the production of hardened steel and high-grade military weaponry, was also on the rise.

Australia in particular benefited from this increased demand. Investment in mining companies more than doubled as a percentage of GDP[1] over five years and, as the volume and variety of mineral reserves expanded, so did the number of companies exploring new finds.[2] Companies that found, or were rumoured to have found, viable mining sites saw their shares rocket in value in a short space of time. Naturally, this interest spread to private investors and the local media.

A substantial nickel find in Kambalda, Western Australia, by WMC Resources Ltd in 1966 helped encourage prospecting activity. This was also supported by a strong nickel price, in part triggered by the Vietnam War and a temporary supply shortage as a leading Canadian producer was hit by industrial action. Poseidon NL (No-Liability)[3] was in the right place at the right time

Poseidon NL

Poseidon was an Adelaide-based mining exploration company setup by an investor syndicate which had come into possession of a tungsten mine named after a famous racehorse. For much of the 1960s, the company struggled in relative anonymity. Its limited number of shares in issue were valued at 3 cents each. In 1968, a deal with prospector and broker Norman Shierlaw gave the company a much needed capital injection. Poseidon purchased numerous exploration leases in Western Australia, an area well-known to prospectors, and reported new claims around Laverton which helped push its share price to 80 cents. Shierlaw became the company's largest shareholder and hired consulting geologists, Burrill & Associates, to survey the leases.

In April of that year, Burrill & Associates found 'very encouraging' nickel values on the Windarra claim.[4] Further test drilling confirmed the presence of nickel and copper sulphides, which was announced to the stock market on 29 September. Poseidon directors were also able to place new shares with friendly companies, raising close to AUD 3 million, to help fund the development of mining operations at the site and to protect their interest in the company. A large number of shares were purchased by Samin Limited despite this company not being incorporated at the time. A significant bank loan was later repaid through the proceeds of an Initial Public Offering underwritten by Shierlaw

Further public information was limited and no detailed study was available to justify the claims made at the time. However, without regard for the potential challenges of building a productive mine on the site, or indeed how long it might take, investors piled in and the share price soared. By the time the company announced mining operations would be possible at its Annual General Meeting in December 1969 the share price stood at AUD 130. Australian and British institutions fell in love with the stock, as did private investors, gambling on the prospect of future returns from an unknown asset.

Speculation Spreads

Private investors often enter markets near the peak, excited, captured even, by the apparent opportunities for riches. This episode was no different – the average Australian investor profile was a male in his 20s with a starting balance of AUD 1,000.[5] The miracle of Poseidon even reached the front page of the London Evening Standard with a report promising "Instant riches. Great wads of folding money". The Canberra Times conveyed news from London of an Australian shop assistant at the famous department store, Harrods, making AUD 140,000 from her investments, freeing her from the mundanities of a working life.[6] Tales of individual success are often a feature of booms and suck more investors into the bubble.

The few doubters were ignored, their warnings outshone by fantastical tips and broker valuations which were based on increasingly complex and unlikely assumptions. As the share price rose, interest spread to other cheaper mining companies, particularly those with land rights close to Windarra, and then to entirely new enterprises, pushing the mining index to new highs. There was a spike in listings with 241 new mining companies (some of which did not possess a mining lease) over the next couple of years, raising AUD 476 million.[7] Promotors made a fortune, although the companies themselves did not turn out to be great investments – some closed within months or years, and many others never paid a dividend. Much of this capital was spent on buying new mining claims at ever inflated values and very little went to develop productive mining operations. False or exaggerated reporting of finds during this time was common practice.

A notorious example was Tasminex where an unsubstantiated rumour of a nickel find "bigger than Poseidon" pushed shares from AUD 2.8 to AUD 75 in a week, before falling back when it became clear there was no find.[8] Tasminex's Chairman, who had helped spread this rumour, was one of the major beneficiaries and sold most of his shares at the top.

Investors were able to buy into the excitement by purchasing partly-paid shares.[9] They also took advantage of the relatively long two-to-three week settlement period which allowed them to buy and sell without putting cash on the table. Some brokers tried to limit this form of gambling on credit as they were worried about default risk.[10] However, as historian Trevor Sykes notes, clients just sought brokers who would allow such transactions.[11] The party was in full swing based on the self-perpetuating idea that any shares would increase in value. Those late to the party would ultimately suffer most when the band stopped playing.

A Hasty Collapse

Poseidon's share price peaked at AUD 280 in February 1970 valuing it at AUD 700 million - a company with one prospect mine was worth a third of Australia's largest company. However, it fell rapidly as confidence in the quality of the Windarra find was diminished by the exposure of dishonest practices and false rumours in the wider market. The assumptions that all Western Australia was rich in high-quality, easy to mine, nickel and that the price of nickel would remain elevated soon proved incorrect.

As the market collapsed, many investors lost their paper fortune. Greed soon turned to anger, particularly as it became known that insiders had purchased shares prior to the September announcement. Those selling at a large profit included the owners of Burrill & Associates, who also owned a brokerage firm, the Chairman of the Perth Stock Exchange, who benefitted from inside knowledge, and the owner of the pastoral lease[12] who had apparently 'punted big' on 'a rumour that the drillers had been seen in Laverton with sulphides on their boots.'[13] The public outcry and an Australian Parliament Senate Committee enquiry would ultimately lead to tighter regulation of the Australian stock market.

Poseidon was not able to develop a working mine until 1974. By this time, nickel supply had normalised and the market price of nickel had fallen. As a result, the company was unprofitable.Poseidon delisted in 1976 with the mine transferring to another company. The mine continued to operate until 1991.

Lessons for Investors

The 'Poseidon Adventure' reminds us of the risks of investing in company shares during a short-term cyclical boom or fad, similar to the tech boom of 1999, or, perhaps, the more recent Bitcoin bubble.

Permanent loss of capital is the ultimate risk to an investor. Investors should be wary of complicated valuation techniques and unsubstantiated reporting. If a rise in share price is front-page news, it is often a signal that it is time to sell the shares.

When looking at a potential investment, at Stewart Investors we focus on predictable cash flows and real assets. The track record of a company, particularly the historical actions of owners and managers, offers insights into its governance and stewardship.

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1 Gross Domestic Product (GDP) is a measure of the productive capacity of an economy.

2 Ellis Connolly and David Orsmond, The Mining Industry: From Bust to Boom, 150: https://www.rba.gov.au/publications/confs/2011/pdf/connolly-orsmond.pdf.

3 No-Liability is a company structure used by Australian mining companies. No-Liability companies are differentiated from other companies as their shareholders are not liable to pay calls on unpaid shares.

4 The Parliament of the Commonwealth of Australia, AUSTRALIAN SECURITIES MARKETS AND THEIR REGULATION: PART I Report from the Senate Select Committee on Securities and Exchange Volume 1 Report 1974, 2.7.

5 Trevor Sykes, The Money Miners (1995 Edition), 116.

6 Canberra Times, Monday 22 December 1969, 18.

7 Terry Ord, Diggers, Dreamers and Lady Luck, JASSA Autumn 1998.

8 Reported comments of Tasminex Chairman Mr. Singline. Canberra Times, Wednesday 28 January 1970, 1.

9 Partly-paid shares are ones where only a partial payment has been make with the understanding more calls for cash will be made.

10 Default risk is the risk that an investor will not have enough money to make a payment.

11 Trevor Sykes, The Money Miners (1995 Edition), 159.

12 A pastoral lease is an Australian lease that allows for the use of Crown Land.

13 The Parliament of the Commonwealth of Australia, AUSTRALIAN SECURITIES MARKETS AND THEIR REGULATION: PART I Report from the Senate Select Committee on Securities and Exchange Volume 1 Report 1974, 2.62.

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