

28/04/1997

Case for ensuring a stable stock market

Datuk Salleh Majid

IT WAS a simple yet meaningful ceremony, handing out donations to a number of charitable organisations. The Association of Stockbroking Companies felt that rather than brood over the bad market conditions, it was better to give out a bit of their good blessings to the underprivileged.

At the association's annual general meeting last year, it was the Deputy Prime Minister who graced the occasion and handed out cheques for a total of RM7 million to organisations selected by him.

Last Wednesday, the Prime Minister handed out RM4.5 million in donations to various charitable groups of his choice. Certainly the brokers, when planning the special evening, had not expected the market to be in the doldrums but the presence of Datuk Seri Dr Mahathir Mohamad and the off-the-cuff speech that he gave more than made the brokers' night.

In a very casual style the Prime Minister said he noticed that our stock market has the tendency to follow New York's - but only when Wall Street comes down, and not when it goes up.

"Sometimes," he said, "what the central bank says can also cause the market to go down," referring to Bank Negara's announcement of new lending guidelines for stock and property purchases on March 28.

He also said: "If you can tell me what to say to make the market go up then I'll say it."

Maybe the Prime Minister realises that not only what he says can move the market, but the condition of his health has also been the target of rumours to move the market in the past.

This time around, with the market already in low tide, there are rumours aplenty. I guess some reporters could not hold their breath anymore about all the wild things they heard in relation to the market's fall and finally asked Dr Mahathir whether he was going to reshuffle the Cabinet and whether there would be changes in Bank Negara's management.

The questions posed to the Prime Minister would give clues to exactly what the rumours were about. He emphasised that he was not aware of any Cabinet reshuffle or changes to Bank Negara's management. I am sure some reporters were biting their nails while waiting for the Prime Minister's to comment on the rumoured changes.

It is interesting to see how tactful the Prime Minister is in answering the curiosity of reporters.

For example, at the launching of the Malaysian sports car, TVR Chimaera, reporters asked the Prime Minister about the selection of a candidate to take over as Mentri Besar of Selangor. The Prime Minister said everyone, including the Sultan, has left it to him to decide and he mentioned each and everyone of the group who has agreed to do that.

Probably realising that he would be "hounded" until the day a candidate is named, the Prime Minister entertained all the questions from the reporters, but would not give the answer until the right time.

Coming back to last Wednesday evening's occasion, Dr Mahathir said he is pleased to see the growth of the stock exchange and that more and more companies are seeking a listing on the exchange. Bigger companies mean bigger profits and more revenue for the Government in the form of taxes. It is to the Government's interest to see companies prosper since the Government has a 30 per cent share of the profits.

In previous years, the Prime Minister said, we did not hear of companies making billions of ringgit in profits but today, there are companies

making RM2 billion profits. Companies of today also venture overseas in search of markets and what these companies do will determine whether our journey to be an industrialised country will be an easy or a difficult one.

Touching on the subject of companies aligning themselves to the nine challenges of Vision 2020, a study conducted by the Stock Exchange on the listed companies last year found out that the degree of alignment to the challenges among those companies is still very low - only three, on a scale of one to 10. This has very serious implications on the realisation of Vision 2020.

The private sector - being the engine of growth in the past and the future - definitely has an important role to play in our bid to become a developed nation. It is time for those organisations which are aware of what is required of them to lead the way in carrying out a structured programme to achieve the goals of Vision 2020.

The conference on Vision 2020 to be held tomorrow and day after is perhaps a good example of such an effort.

The Prime Minister in his speech that night also said that speculation is good and inevitable, but excessive speculation is dangerous and bad for any market.

Our market, being mostly retail-driven, is very much motivated by rumours and speculation and the tendency to swing at extremes is very high. A case in point is when it comes to correction of the market. Although the Dow has gone up and up for the last six years, inviting severe criticism from the chairman of the US Federal Reserve Board, the correction it went through when it came was much less in gravity than what our market went through in two weeks. And our market was enjoying a bull run only for a year in 1996.

This demonstrated the size of the market being dominated by retail investors in Malaysia, compared with Wall Street, even though almost 25 per cent of the population in the US is a shareholder in a company.

The wild swings of the market that we sometimes see show the need for greater participation by institutional investors. The KLSE's executive chairman, Datuk Nik Mohamed Din, stated this when delivering his speech to the Federation of Malaysian Manufacturers recently. Unfortunately, some of our fund managers are still looking to other markets for leads rather than taking the lead themselves.

This certainly needs to change. Perhaps with more foreign participation in fund management in the future, our people can learn strategies from them. I am sure there are those who will maintain that there is nothing wrong with their fund management strategy even if they are incapable of giving good returns to the shareholders.

If in times of a good market the return is mediocre, what more can be said at times when the market is bad. If retail buyers are not dependable for market stability and institutional investors also fail to live up to expectations, the whole structure will need to change if of stability is to be pursued. Otherwise, the damage can be severe and the whole basic role of the exchange may be undermined.

As the Prime Minister emphasised that night, the stock exchange is a place for companies to raise capital so that they can expand and contribute to national growth, and not just a place for investors to try their luck. The sooner the advice is heeded, the better it is for the market.

(This article reflects the writer's personal views)

(END)