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Local solution to imported woes

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HAS the market bottomed out? This seems to be the question on everyone's mind. The Kuala Lumpur Stock Exchange's 100-stock Composite Index, the official barometer for quality stocks, ended at 804.40 points on Friday.

This was a level not seen since the days before the Super Bull Run when the CI was at 808.49 on Aug 27, 1993. It ran up to a high of 1,314.46 on Jan 5, 1994, before the bubble, as it were, burst.

This year, the CI has lost almost 500 points, or 39 per cent, from the year-high of 1,277 points in February to Thursday's intra-day low of 777.46.

Prime Minister Datuk Seri Dr Mahathir Mohamad believes that the market has been forced down by manipulative pressure - not speculative pressure as "normal" markets are commonly subjected to.

For him, to speculate means one buys or sells in the hope of making money from the difference when prices move up or down. One is not sure which way the market will move.

To manipulate is when one brings all of one's forces to bear on a market or a particular segment of the market and one is fairly certain of the outcome.

As any market player knows, if one has sufficient funds and if the opportunity is given, one can "corner" certain counters or even sectors.

What seems to irk him a lot is the fact that these market manipulators abused the Securities Borrowing and Lending regulations to depress prices. This procedure, known as regulated short-selling, is a recent addition to the Malaysian market in our eagerness, perhaps haste, to liberalise our market.

On hindsight, we should examine whether it was a good move and whether such a situation could have been avoided. Did our regulators do all they should have done before introducing SBL?

Dr Mahathir is even more irked by the fact that these foreign manipulators used the local banking system to leverage their funds by getting local banks to lend them shares to "short" the market down.

With this, the manipulators seem to have endless resources, when in fact, it is our banks which are "financing" their market operation. They only fork out perhaps one per cent of the total volume of whatever they sold short. This they recouped easily by buying back at much lower levels days later.

This they did. And repeatedly.

If Dr Mahathir did not make his strong stand known after market closed on Thursday, the slide would have seemed unstoppable. And the CI would have sunk to the low 700s on Friday.

Back to the question of bottoming out. If the local funds enter the way they are supposed to, the CI should hold firm this week and start its slow climb next week.

Again, it is a question of confidence. Dealers were wondering on Friday how much the funds could pump into the market. Considered carefully, it is a lot.

One thing's for sure. Foreign funds may seem large but many of them are under pressure to perform - quarter by quarter.

American pension funds have to assure their investors that they can return eight to 10 per cent dividends per annum and such funds were certainly in the market, directly or indirectly.

If the fund managers see the trading conditions are not conducive for them to continue their "feeding frenzy", they will leave. Several dealers have said that foreign players are pulling out.

This means it is time for all good men to come to the defence of the country. And all good money put to good use. There will be a vacuum, albeit a temporary one.

Dr Mahathir said on Thursday that local funds would buy into the market and buy for keeps. This is significant as any observer will agree that KLSE prices are now trading at a discount to their fair value.

The Prime Minister pointed out that businesses were still profitable and corporate earnings still attractive for genuine investors.

Urging self-reliance is not a new song to Malaysians. Generations of leaders since Merdeka have done so, under various circumstances.

Self-reliance also means we should make a concerted effort to redress our spending habits. Import substitution is a simple strategy which has worked for many countries. Nurturing the local services industry is another.

On the question of how deep our pockets are, let's consider this carefully. The local Big Boys are Permodalan Nasional Bhd, Employees' Provident Fund, Khazanah Nasional Bhd, Pilgrims Fund and Management Board, Armed Forces Trust Fund, Pensions Fund and Socso.

There are also lesser known funds and organisations which individually command tens of millions of ringgit. They include the various State funds and large co-operatives.

Then, there are local market-based funds and unit trust schemes which can also be roped in. Financial institutions like insurers should not be disregarded either.

Last but not least, the average Malaysian investor. These so-called retail investors can be an awesome ant army or tentera semut. They used to dominate trading to as high as 70 per cent of the volume done.

What happened when the foreign manipulators struck? First, they controlled the psyche of the retailers by spreading word in the market that the market is going in for a tailspin.

These retailers then withdrew from the market.

Next, they cornered the market without the nuisance of retailers dabbling around. The retailers then watched in horror as these "tips" turn out to be true.

As there seems to be a free-fall, retailers will believe these "market talk" to be true when, in fact, it could have been self-fulfilling prophecy.

The antidote to this will be for everyone to get involved in the market again and invest. Invest for at least the medium term of several months and not expect short-term profits in a few days.

So, the answer is that Malaysian do have a deep pocket. And genuine investors have nothing to fear over designated counters.

Being self-reliant is akin to going back to basics. Let us pool our resources together and show that Malaysia Boleh.

TALKING POINT: Buying into the market is not a sacrifice. It may prove to be a wise investment decision after the dust has settled. It has been said, and worth repeating here, that the man who wins is the man who thinks he can. And Malaysians surely can.

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