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Market has been in bearish phase for six months

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SHARE prices on the Kuala Lumpur Stock Exchange (KLSE) continued to trend lower across the board last Monday.

Follow-through weakness on the local bourse caused the KLSE Composite Index (KLCI) to plunge 27.96 points on Tuesday, ending the day at 856.0 points.

The KLSE experienced another bad day on Wednesday as investors continued to liquidate their portfolio.

The surprise move by the KLSE to impose delivery before sale for the 100 index component stocks to check the plunge on the KLSE Cl backfired.

The announcement by Datuk Seri Dr Mahathir Mohamad that local funds will enter the market in a big way together with other with new rules failed to have the desired effect on the stock market.

The KLSE current major correction started innocently and has since grown into a major correction. In 1994 there were two major corrections; the first correction, on June 4, brought down the KLSE Cl from 1,314.46 points to a low of 928.33 points on April 4. The duration of the correction lasted for three months and The KLSE Cl dropped 386.13 points or 29.4 per cent.

The second major correction, peaked on September 21, 1994, at 1,191.14 points and bottomed out on January 24, 1995 at 840.87 points. The bearish period lasted four months and the KLCI dropped 350.3 points during that period and by coincidence also recorded a 29.4 per cent fall.

The technical correction during 1995 and 1996 were relatively minor when compared with those in 1994.

The present major correction peaked on February 25, 1997 with the KLCI standing at 1,271.57 points; up to date the KLSE has been in a bearish phase for six months, dropping 467.17 points or 36.7 per cent.

Up till now the KLCI has broken through its major support levels at 1,000.0, 880.0 and 840.0 points support level. The breaching through of the 840.0-point support level is seen as very critical as there are no established support levels until the 650.0 point level. Having said that it is only fair to say that the behaviour of the KLSE has been highly abnormal, in that it has been subjected to speculative attacks in an already frail market.

Incentives and new rules implemented to support the market have so far not been successful. The battle to suppress and support the market is bound to cause volatile moves on the KLSE, up till now, the bears are riding high and bulls will have to work doubly hard to push the KLCI back to above the 900.0 point level.

On the technical front our Timing Device has touched a low of -495.6 points last Friday, the descending rate has started to slow down slightly. It is therefore possible for us to see a pullback correction this week. For this to be sustainable the Timing Device must continue to trend up with increasing confidence, any slackening will be a sign of weakness that may lead it going back to its old ways.

Over at our O/O/ Indicator the trending down momentum has increased and this together with the substantial increase in trading volume for the week does not augur too well for our market. The O/O/ Indicator is now in a highly oversold position and the next support level is at about the -260.0 point level.