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Market has seen bottom, better 4th quarter expected

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THOSE who had followed our daily newsletter would have bought into the market yesterday. This was due to the presence of a long black hammer pattern on the KLCI daily chart after Thursday's trading activity.

A "hammer" pattern seen after a sharp downtrend hints of a possible market bottom. This pattern was etched out after the KLCI was hammered down to 675, another of our supports registered on June 25 1993, before recovering sharply to close a mere 19.64 points down, at 731.12.

There must have been some very bullish news to be able to achieve that kind of a rebound! Yet, only a handful of investors knew the reason for the rebound. Out of that handful who knew what was going on, only a tiny fraction believed it. What was that information, at that time merely a rumour, that gave them the confidence to buy up shares on Thursday afternoon?

It's not the market boosting measures announced by our Prime Minister Datuk Seri Dr Mahathir Mohamad on Tuesday. Tuesday's announcements of the suspension of securities borrowing and lending facilities to speculators, the new ruling that Malaysian companies can now buy back its own shares or a directive to banks to refrain from implementing margin calls did little to change market sentiment. Though there was a brief flutter of 36 points on Tuesday to a high of 840.42, that quickly fizzled out by 10.00am, to close lower by 8.67 points to 795.73. Neither was there a sentiment change from his announcements of Khazanah Holdings' proposal to make a bond issue of RM30 billion and local institutions' readiness to defend the stock market with another RM30 billion truncheon and to buy back shares from locals at premium prices and foreigners at market prices. The market's fall in the morning of Thursday is a testimony to investors' indifferent attitude towards these proposals.

The measures, we feel, that brought a change, and a complete one indeed, to the market's sentiment yesterday was no doubt our Prime Minister's announcement of a lifting of a week-old restriction on trading in the KLCI's shares plus his call to halt work on several multi-billion ringgit construction projects.

This is truly one of his most impressive, if not his most impressive financial move he has made. His announcement made after market hours on Thursday night was greeted with unbelievable ecstasy yesterday morning. The KLCI gapped an unprecedented 35 points while the Kloffie index futures pulled away on first trade by 53 points and never to see this level again for the rest of the day!

Now, this is truly a remarkable achievement by our Prime Minister indeed and his announcement was very significant for an uncovered "gap" or a "window" in Japanese technical jargon implies extreme bullishness. In yesterday's powerful surge, this gap was not even threatened, let alone covered. This implies that buyers possessed extremely strong buying power to thwart off any bear attempts at depressing prices. In fact, there was some correction just after lunch when the KLCI fell to from its pre-lunch close of 811.02 to 788.07, but buying power lifted the index to close at 821.59, above its resistance of 811.02 clocked in the morning session.

The beauty of it all is, the hammer pattern recorded on the chart on Thursday had already hinted of sentiment change when it fell to 675 and rebounded significantly to close at 731.12. The reason for this hammer was market rumours (rumours at that time) that a meeting was being held

between the Government and some stockbrokers which lasted several hours to receive feedback about the stock market's recent problems.

Among other things, brokers had complained about the new rule where the KLSE has designated 100 stocks. A lifting of trading restrictions was imminent and that prompted buying after the index tested 675, thus etching out a hammer pattern.

Sure enough, the Prime Minister's announcement was reported yesterday and the rest is history. Yesterday's rebound was historical indeed. The KLCI registered its largest one-day rise in the KLSE's history in percentage terms with 12.37 percentage or 90.47 points to close at 821.59. This rise even superceded the KLCI's 104.97 points rise or 10.2 per cent from 1,029 to 1,134 on January 14 1994 in percentage terms. In numerical terms, yesterday's rise would rank second to January 14 1994's rise.

All said, we strongly believe that this rebound represents a genuine change in investors' sentiments towards our bourse. There is a saying that "once beaten, twice shy, twice beaten, never try". And for this reason, many investors still do not believe that yesterday's 90.47-point rise is the turning point for our bourse. The sooner our investors believe that we have seen a major bottom and start buying, the lower will be their purchasing price.

From this point on, we hope the Government will come forth with more concrete measures to address the problems of our country's trade deficit by postponing several huge infrastructure projects, slow down our projects which will make it easier for our cashflow and so on. All this will allay foreign fears that we are going the way of Thailand, which we are not. It is also important that institutions continue to support Malaysian stocks by continuing to buy or at least not sell, for any lull would renew market bears' urge to sell. But this would not be easy now after yesterday's record 813 million shares turnover. The only way now is "up" and it would pay for fund managers to continue to accumulate blue chips, or else, they may not see these prices again.

Technically, the chart is telling the same story - that of a trend reversal, a classic V-type reversal pattern is in the making. The "hammer confirmation", F. Tam's bullish pattern and Gert Strubbe's TCBR techniques have given us busy signals. Other indicators which confirm bullishness are the high number of stocks with RSIs above 30. We have 52 stocks that have crossed above the level of 30 as compared with only 16 yesterday. We now have 630 stocks trending from 30 to 50 as opposed to only 162. There are now 324 stocks with MACD hook-ups as compared to 21 yesterday.

We need not say more but to view Dr Mahathir's announcement last night as a gem of a move! He is truly a market chameleon, one which knows when to change tactics when they are proven ineffective.

Next week, we expect strong recoveries in most stocks, inclusive of second boards and even if there is profit-taking, we would advocate a buy-on-dips. Our Feng Shui chart, which had proven its worth in all of eight months this year except for June, is proving to be right once again. According to Feng Shui, September is slated as an excellent month for the stock market. In fact, our bourse is expected to stay buoyant for the rest of the year. Expect a much better fourth quarter.

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