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Market in ideal position for strong rebound

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PRIME Minister Datuk Seri Dr Mahathir's call on local funds to buy into the market and the desirable effect of pushing the KLSE Composite Index to a high of 840.42 points in early trading on Tuesday; thereafter it was slowly cut back to a low of 795.73 points.

Follow through selling on the local bourse on Wednesday caused the KLSE CI to loose 44.97 points. Negative rumours circulating in the market was just like adding coal to fire.

The KLCI hit a new low of 675.15 points for the year on Thursday but managed to close the day at 731.12 points. Market observer said that at its worst period the KLSE CI was down as much as 75.0 points on Friday.

In reaction to lifting the new ruling on designated securities for the 100 index component stocks, the KLSE CI soared 90.47 points on a high volume of 725.6 million shares.

In the last two weeks the KLSE together with the Government have drawn up new rules in an effort to prop up the fast failing KLSE CI. One of the new rules, which backfired was to declare the 100 index component stocks for the KLSE CI as designated securities.

The implementation of this rule together with speculative attacks by rouge speculators caused the index to loose as much as 170 points at its worst period in just five trading days.

When it was announced that the designated status of 100 index component stock was lifted, it helped the KLSE CI to recover as much as 90.47 points in just one day. In our opinion, it would be better if the 90.47 points gained were spread out over a larger number of days so as not to attract selling into a rising market.

On the technical front our Timing Device hit a new low of -531.3 point on Tuesday. It started to inch up on negative market breadths on Wednesday and Thursday but did a quantum leap on Friday by moving up 97.7 points. An extremely high trading volume of 725.6 million shares supported the quantum leap. After this fantastic show of strength by the bulls, the question everybody is asking, can the bulls maintain a positive market breadth this week to keep the Timing Device trending up.

Our medium term 0/0 Indicator has continue to trend down but at a slower pace, it has also moved to a new low level of 252.2 points. The chances of it going for a reversal in trend is good as it only needs a small positive market breadth to turn it up.

The KLSE is in an ideal position for a strong rebound: the Timing Device has just turned up from a highly oversold position of -531.3 points. The 0/0 Indicator is also in a highly oversold position with its latest trending down pace slowing down, indicating the possibility of a reversal in trend. If a strong reversal takes place this week, those that sold short will have to cover their positions, resulting in a round of volatile trading, this time in favour of the bulls.