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Market uptrend should continue into next week

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THE market is stabilising. And this is because after a tumultuous one-and-a-half months - since foreign funds cashed out of Malaysian stocks on a whole spectrum of market fears, the local bourse just could not drum up any more bad news that would cause further deterioration to the already-numbed sentiments of the Malaysian investor.

On the contrary, some stabilising factors surfaced this week that have in one way or another brought some semblance of confidence back to the market.

Reflecting the market's response to these factors, stock prices climbed across the board in this holiday-shortened week.

Week on week, the KLCI was higher by 36.29 points or 3.5 per cent to close at 1,078.20 but the Second Board Index's performance was even more boisterous, rallying strongly in a V-pattern to close 49.64 points or 9.6 per cent higher, at 565.71.

Thus, my views in Market Trek last week that second board stocks would experience a much stronger rally than index-linked stocks this week have come true.

What are the factors that could have triggered this week's strong rebound? Regional currency fears have simmered down, thanks to the successful pre-emptive actions of the region's central banks in quelling currency speculators.

Bank Negara's announcement last Friday of a trade surplus of RM1.75 billion for March can be viewed as a contributory factor to our stock market's rebound.

Low inflation figures announced the previous Friday and last Thursday's report of an increase in Malaysia's gold and foreign exchange reserves to RM71.12 billion as at May 15 against RM70.93 billion a fortnight ago also helped.

New factors this week that could be viewed as having a positive impact on fund managers' and Malaysian investors' psyche are:

Firstly, the decision of the US Federal Reserve on Tuesday to leave interest rates unchanged.

A sharp rally of 74.58 points on Wall Street greeted this decision and the Dow's rise was enough reason for regional fund managers not to sell down Malaysian stocks any further.

Looking at it in another way, these funds cannot now use higher interest rates in the US as an excuse to sell.

Secondly, whatever market imaginations of an early retirement of our Prime Minister Datuk Seri Dr Mahathir Mohamad, that could have had investors sidelined, would have been quashed when he candidly answered questions about his succession posed by reporters in London. He is now in London to promote Malaysia's Multimedia Super Corridor project.

Market speculation about his health can be brushed off as mere rumours after he told a British television journalist: "You are taking pictures of me, you can see ... (that I am in good health)."

It is good that the British reporter had posed this question to the Prime Minister because if a Malaysian had mentioned this, it would have gone unheard. But coming from a British reporter, whose report was subsequently aired on British television, London fund managers would have taken notice.

Misplaced fears of our Prime Minister's health have exacerbated a sell-

off in Malaysian stocks this past month and a half, but after seeing a cheerful and relaxed Dr Mahathir on television, these fears should now be put to rest.

Thirdly, the market has also heard clarifications from Dr Mahathir on why Bank Negara decided to issue guidelines on loans to the property and share sector.

Surely few would fault the Malaysian Government for taking pre-emptive steps to avoid a property bubble that burst, as occurred in Thailand and in the 1980s in Tokyo.

Clarification by Dr Mahathir on this subject was welcome as put to rest some of the negative preceptions investors harboured about the Malaysian economy after Bank Negara's announcement on March 28.

All these factors played a part in bringing back some confidence to market players. This is what helped to turn around our market this week. These "market-boosting news" I spoke about in my previous column has helped to change the perception of fund managers and syndicates back to neutral and even positive and this change in sentiment is reflected in this week's prices.

As a result, many stocks have rebounded substantially to the extent of even exceeding their previous resistance.

Psychologically speaking, if the price of a stock can breach its previous resistance, it means a renewal of market confidence, a change in perception.

In other words, breaking a resistance is the yardstick to measure a change in players' psychology from a negative to a positive perception of stocks and about the economy.

However, a violation of a support means a change in players' perception from positive to negative. This was what happened when a major support broke down for the KLCI at 1,208 on March 31 and for the second board index at 630 on April 3. Thereafter, both indices plunged to a low of 1,018 by May 16 and 490 by May 15.

Now, psychology and technical analysis are one and the same thing. Technical analysis is really a misnomer. It should aptly be called "Players' Psychology Analysis" or "Perception Analysis" or "Sentiment Analysis" simply because the chart records the endless battles between the bulls and the bears and their outcome is reflected in prices and volumes.

If the psychology is bearish, prices will fall under the weight of strong sellers and this will be reflected in the chart as a down line.

Thus chartists sell on a violation of a major support for otherwise the bulls will be slaughtered by market bears. Chartists have an appropriate market adage: Never stand in front of a freight train.

A word about volume. Though the change in sentiment was reflected in prices, it was not reflected in volumes. The low level of participants speaks of a cautious stand taken by them, but this is normal after a sell-off.

Because weak bulls would have been weeded out in the ensuing downtrend, the vacuum created after a sell-off is quickly and easily filled by a few daring bulls, thus little volume is required to drive stocks up after a sell-off.

Low volume rises, especially in second boards, will be the order of next week and there is a change of seeing a V-pattern being completed for second board stocks back to or near pre-plunge prices.

This week, many stocks have travelled higher to the extent of breaking their immediate resistance, we call "fractal resistance". Psychologically, it would imply strength and a chartist would buy.

Other technical indicators are also emitting bullish signals resulting in a "confluence" of them pointing to a market reversal. This confluence

is rare and is therefore worth noting. Next week, I am seeing a continuation of the uptrend that we saw this week.

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