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Purging the local bourse of manipulators

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THE nonsense prevailing of late on the Kuala Lumpur stock market was met with an unprecedented move by the Government last week when it stepped in to protect the heavily battered market, in the simple belief that the sharp drop in prices on the local bourse was orchestrated.

International fund manager Morgan Stanley, commenting on the Government's move, said it was "a typical xenophobia that we have become used to in Malaysia".

It went on to say that "this (the move) is going to be hugely damaging for the market on a sustainable basis".

For many fund managers, perhaps it was preferable to them that stock prices on the Kuala Lumpur Stock Exchange (KLSE) continue to fall. They had a simple reason too.

The downward trend prevailing on the market, following a massive speculative attack on the Malaysian currency on the forex market, made movements on the KLSE seemed highly predictable. The sentiments were all pointing towards a sharp drop in prices.

While genuine investors had their faces buried in cold hands watching the erosion in their investment values, there were others - investment funds and brokerage houses included - that made handsome gains.

They were selling stocks when prices were higher, knowing fully well that they would drop before buying them again, cheap. They profited from the difference.

The stocks were not even theirs when they were sold, indicating certain parties were more than willing to lend them. They were selling short, with outcomes made predictable by their weeks of painting negative sentiments on the market and the Malaysian economy in general.

When they sold short in large volumes, the market moved according to their wishes. More so, when the selling pressure was applied to blue-chip counters making up the benchmark KLSE Composite Index (KLCI).

Genuine investors, who did not "short" and were the group most welcome to invest in Malaysian stocks, were left gasping for breath, watching prices swing up from low levels offering some hope, only to hit bottom again the very next trading day.

Many had worrying thoughts of their trading account margins in their minds while those who pledged their scrip as collaterals were in no better a position. Even more worrying was the fact that towards the middle of last week, market manipulators were in full control of trends on the bourse.

The KLSE moved in last Thursday, declaring all the 100 component stocks of KLCI "designated securities". It meant that sellers must actually own the stocks before they could them, thus banning short-selling altogether. This move was the one that was commented on strongly by some, including Morgan Stanley.

One local brokerage house was quoted in an agency report as saying that the KLSE move was "one step backwards for Malaysia becoming an international financial centre".

Then on, ordinary investors and those who went into the market genuinely relying on the fundamentals of companies and the country's economy were lost in the flurry of conflicting explanations by economists, analysts and even certain local associations related to stock trading.

All these while the KLCI continued to be pressured to as low as 777

during the week from levels exceeding 1,000 points just some three months ago.

The Government, however, had its own ideas. A step backwards means letting the KLCI drop like a rock without any apparent reason, not in preventing such to happen. To the Government, someone had to take charge.

Several brokerage houses, even local ones, said the move was regressive as the KLSE tends to change its rules once too often. The fact is when rules permitting short-selling were relaxed, they were on the basis of the practice being regulated.

It means that when a certain degree of freedom is given, an equal level of responsibility is expected. The level of short-selling in recent weeks indicated that the latter part of the equation was not fulfilled.

"I can accept speculation. But I cannot accept manipulation," Prime Minister Datuk Seri Dr Mahathir Mohamad said last Thursday, in explaining why the Government had to step in.

In one sweeping move, he announced that all investment funds in Malaysia will now be prepared to pick up stocks dumped by sellers on the market. In other words, when the operation ends, the market should be purged of manipulators.

Last Friday, there were indications that several local funds were already lending buying support on the local market when prices recovered towards the end of the day's trading.

It will, however, take some time for the market to return to the sentiments before the manipulation started. For many, the recovery process would perhaps be painful.

However, it would have been more disastrous had the Government and the authorities not stepped in - the entire economy could face the possibility of collapse and the whole country could suffer.

Already, word has it that the amount lost on the local bourse can translate into the slashing of some five years in advancement Malaysians had made on their per-capita income.

If the figure is correct, Malaysians have suffered much at the hands of manipulators who do not know how to honour trust. These are not the type of investors Malaysia welcome.

For the genuine players, including direct investors from overseas, the Government's move is an indication that the very economic foundation that has attracted them to invest here will be protected at all cost. They can be assured that only true economic principles will determine the future direction of the country and thus its investment climate.

For the manipulators who came in disguised as genuine investors, their acts have been discovered. The door is still open for them, but only to leave.

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