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10-year-old nightmare comes a-visiting again

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"I wish this is just a nightmare," a local stock market trader lamented following "Black Monday" 10 years ago on the Kuala Lumpur Stock Exchange.

"Black Monday", on Oct 19, 1987, sparked by the Wall Street crash, saw RM16 billion being wiped off the KLSE's market capitalisation within two trading days, or 15.3 per cent against the previous Friday's total market value of RM105 billion.

There was panic in the country's stockbroking offices on Tuesday as traders scrambled to liquidate their positions.

Small investors tempted into investing their hard-earned money in the stock market, were inconsolable after the crash.

The local stock market as measured by the KLSE Composite Index, lost 104.25 points to close the week at 305.03 against 409.28 points in the previous week.

The fall was in line with the plunge at other global bourses in the worst selling blitz to hit the world's stock markets since 1929.

The shock waves from Wall Street's Black Monday, which accelerated to an all-time record drop of 508 points, reverberated through the globe, as Europe, Australia and Asia were in turn engulfed by the disaster.

In Hong Kong, the stock market was closed for a week after a historic dive of 420 points. Most major bourses had similar tales of spectacular collapses to tell.

Japan's Nikkei Stock Average plunged to a record 3,836 points the next day on Tuesday, while Australian share prices lost nearly 25 per cent with the all Ordinaries Index recording a fall of 515.6 points.

Specifically, Wall Street collapsed that fateful Monday as investors bailed out over fears of higher interest rates, deficits in the US economy and mounting tension in the Gulf.

"The Wall Street crash is largely due to public listed companies borrowing heavily from banks," said a Kuwaiti businessman, Abdulla Ali Mutawa, then director of a renowned trading firm, Ali Abdul Wahab Sons Co, during a trade visit to Malaysia at the height of the crash.

He conceded that instead of borrowing that would result in hefty loans and high interest, the companies should go into profit-sharing basis with the banks.

Ten years have passed and yesterday was the 10th anniversary of the event.

Almost on the anniversary, the KLSE seems to be experiencing a "Black Monday" of its own as uncertainties in the equity and forex markets over the past several months have led to a plunge in share prices and depreciation in the local currency.

If the "original" Black Monday caused a loss of RM16 billion, the recent troubles saw the KLSE lose well over RM600 billion in market capitalisation by early September.

The KLSE's CI fell to 675.15 on Sept 2 on massive selling pressure by foreign investors. It prompted the Government to announce several measures including trading curbs on KLSE's weighted 100 stocks to calm the panic which was said to be spearheaded by currency manipulators.

According to an economist, the KLSE's market capitalisation fell to RM511.27 billion on Sept 4 from RM943.75 billion before the end of February.

The total loss in market capitalisation was RM432.48 billion or 45.8 per

cent, 7.1 times Bank Negara's reserves, he stated.

As stock prices have fallen to attractive levels at above 900 points, there has been no lack of calls from the Prime Minister and his deputy on local investors to take the lead to buy.

Datuk Seri Dr Mahathir Mohamad strongly urged local investors and fund managers to make sure the local bourse stays healthy.

Instead of being mere followers and letting the foreign fund managers take the lead, they should be influencing the trading trends to cushion the effects of foreign fund movements, he said.

Analysts said that the big lesson to be learnt from the market turmoil is that even an economy with such good fundamentals like Malaysia could become "so vulnerable and fragile", as was reflected by the sharp falls in the ringgit.

"All this shows that factors like fundamentals are just one aspect of the economic barometer," they added.

"There are other factors as well and these are mostly beyond our control.

"One thing which is important is to send the right signals to foreign investors who have huge funds at their disposal and whose decisions to enter or stay away from our market are crucial to our economic well-being," analysts stated.

Acknowledging the need to come up with remedies to counter the stock and forex markets issues, a market player recently has called for the implementation of "circuit breakers" for stock indices to prevent extreme volatility on the KLSE.

In mootng the suggestion, Malaysian Investors Association president Dr PHS Lim said that the country should practise such a system because our stock market is extremely volatile in nature.

"When an index plummets too steeply within a trading session, the circuit breaker is automatically applied to stop trading for a stipulated time and resume thereafter," he said.

A circuit breaker is meant to prevent extreme volatility when the index is over shooting down the limit as experienced by the KLSE, which lost 47.14 per cent or 602 points in terms of the Composite Index.

Dr Lim urged regulatory authorities in the country to think of the concept, which was introduced after the October 19, 1987 crash and was used on the New York Stock Exchange.

He said the volatility was propelled by the herd instinct, overreacting and psychological panic.

The country may need some serious economic and social reforms and adjustments under present changing times and fortunes.

"There could be no perpetual uninterrupted economic expansion. All economic miracles have to take a rest," he said.

Dr Lim said after the changing times, Malaysia could re-emerge more dynamically in her economic expansion into the next millineum.

After closing the week - amid the 1998 Budget announcement by Deputy Prime Minister and Finance Minsiter Datuk Seri Anwar Ibrahim - at 794.80 points from the previous week's close of 834.01, how will the KLSE fare in days to come, and today in particular, the day when the world's stock markets crashed 10 years ago.

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