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Advisable to buy and hold for at least six months

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THE benchmark Kuala Lumpur Stock Exchange Composite Index (KLCI) was marginally higher by 9.16 points or 2.52 per cent to 372.22 this week. A very modest gain compared to Hong Kong's and Singapore's performance this week but given the barrage of unfair foreign media coverage on the local political scene and their lopsided views of our recent economic policies, the local bourse's resilience is commendable indeed.

Hong Kong's Hang Seng Index rose 623 points or 7.9 per cent to 8,506.79 while Singapore's ST Industrial Index was better by 76.66 points or 8.5 per cent to 976.65.

Few countries will openly admit to this but the steadfastness of Malaysian stocks this week can truly be boiled down to the success of the new economic measures taken by the Malaysian Government since September 1 to quell the effects of the growing foreign exchange turmoil that is sweeping the world.

Pegging the ringgit to 3.80 to a US dollar to prevent further speculative activities from hedge funds, derecognising share trading executed by Singapore's Clob, lowering local interest rates to realistic levels, reflating the local economy with fresh capital and barring the trading of ringgit overseas were some of the drastic measures put in place to buy the country more time to repair the damage done by the currency contagion.

A handful of positive news aided the bounce on Malaysian stocks this week. Tuesday was the most significant day with prices closing above 4 per cent driven by news that Prime Minister Datuk Seri Dri Mahathir Mohamad was poised to announce a new deputy to replace Datuk Seri Anwar Ibrahim. Announcements of further rate cuts by Bank Negara on Monday could have helped in fuelling Tuesday's buying interest.

Bank Negara on Monday cut its three-month intervention rate to 7.5 per cent from 8 per cent and had removed a 60 per cent limit on lending for residential properties of above RM150,000.

The expected announcement of a new deputy to the Prime Minister never came. Dr Mahathir decided to delay this appointment until after the next Umno general assembly.

One would have expected a sharp correction on this non-event on Tuesday. But the market lost merely 3.55 points to close at 370.90 on Wednesday. If there was any disappointment on the lack of a clear successor to the Prime Minister, it wasn't felt on the stock market. Selling, if any, was muffled, with prices remaining resolute for the rest of the week, culminating in a close on Friday at 372.22.

Announcements by Pengurusan Danaharta Nasional Bhd (Danaharta), the company set up to take over banks' non-performing loans (NPLs), and Danamodal Nasional Bhd to acquire the issue of government guaranteed bonds and to recapitalise 10 banks by investing RM3.3 billion in them provided the fundamentals to shore up market sentiment.

All said, this week's steady close is encouraging. Though the technical indicators on the KLCI are still at a crossroads, many individual stocks' technical indicators have turned positive. An interesting observation is the positive performance of the Second Board Index as well as our PI Index, which tracks second and third liners.

A scan through the charts reveals that the local bourse could see some selective plays on second board stocks as well as some second and third

liner stocks next week. Some second board stocks as well as index-linked stocks, especially from the construction, finance and property sectors, are expected to be bought up.

Investors, however, should refrain from contra trading under the present slow market conditions but should instead adopt a "buy-and-hold" strategy for the longer haul of at least six months.

We are still bullish on the Malaysian market despite near term uncertainties and thus continue to call for further accumulation for an imminent rally in the near future.

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