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Bourse to confirm direction it is heading this week

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SEVEN weeks ago our rising O/O Indicator gave a false signal of arrest, since then we have to continue to remind readers that the rally is aging. We had not been able to tell when the next downturn will come; readers would have noticed that our forecasts were vague and we even had to revise it.

The truth of the matter is that, forecasting of stock trends are subjected to so many factors, sometimes a single factor can alter the whole situation. In short, it is complicated and we need to be on our toes all the time.

To illustrate the above point, the current rally started when Malaysia implemented currency exchange rate control together with a host of other measures in the first week of September.

Our O/O Indicator was recorded to have bottomed out in our review on August 31; it had finally started to trend up after two failed attempts earlier. If one had bought shares based on the expectation of a reversal in the downtrend, one would be faced with the dilemma of what to do, on hearing the news of currency exchange rate control and the shocking news of the break up in partnership between Datuk Seri Dr Mahathir Mohamad and Datuk Seri Anwar Ibrahim.

The initial reaction of our stock market on September 1, was a sharp plunge in the stock market, and the Kuala Lumpur Stock Exchange Composite Index (KLCI) closing at its lowest point of 262.70. The following day saw a recovery in the KLCI, followed by a day of range trading.

On Friday, September 4, the local bourse was sharply up with volume to boot. The next ten weeks saw fluctuations in the KLCI, which ranged from 350.0 to 465.0 points. Trading opportunities were plentiful for the brave heart.

In about the second week of November until now, the KLCI moved above the 465.0-point level to about 553.0 points. In the last three weeks the KLCI has been mostly trading above the 500.0-point level and this has drawn comment from market analysts that the KLCI is likely to go as high as 600.0 points by the end of January 1999.

Technically speaking this is highly unlikely although the remarkable resilience of our market as observed by us seemed determined to at least close above the 500.0-point level by year end, by concentrating in the trading of index component stocks.

Our Timing Device has failed to find support at the zero support level and has fallen through the -200.0 support level. We expect a mild technical pullback at about the -400.0-point level.

The arrest of our rising O/O Indicator has finally come and the now falling trend needs to be confirmed this week. A bigger falling pace this week will give a strong confirmation to the downtrend, while a smaller falling pace would indicate that the bears have yet to have full control of the market. A moderate falling pace is the worst kind of scenerio you can have; it suppresses the market with the right doses by not allowing it to have any significant pullback.