21/11/1998

Further accumulation of blue chips still recommended

Fred Tam

INDEX-linked stocks on the Kuala Lumpur Stock Exchange (KLSE) continued to drift lower this week on a mixture of profit-taking and over a diplomatic row with Washington this Monday.

Fortunately, stock market players were calm enough not to allow an ill-mannered speech by US Vice-President Al Gore to trigger a sell-off on Malaysian stocks which could well have happened had currency rate exchange controls were not implemented by our Government.

At a dinner on Monday night, Gore, attending the Asia Pacific Economic Forum (Apec) in Kuala Lumpur on behalf of President Bill Clinton, had endorsed a reform movement dubbed "reformasi", bent on overthrowing Prime Minister Datuk Seri Dr Mahathir Mohamad.

In his dinner speech, he told the business gathering where several Apec leaders including Dr Mahathir were present that democracy and reform were essential for economic progress and praised the "brave people of Malaysia" demanding reform.

The uproar and condemnation that followed, from Malaysian people to that of Apec leaders, could have spilled over the stock market pits the very next day and trigger a dive on Malaysian stocks. But to many an investor delight, the local bourse remained sturdy, unfazed by Gore's remarks. His rhetoric had fallen on deaf ears.

Week-on-wek, the KLSE composite index (KLCI) merely shaved off 3.52 points or 0.76 per cent to close at 461.56. The second board index was even in a more buoyant mood, bursting into rotational activity as investors scoured the market place for attractive buys, brushing aside the US Vice-President's misplaced and ill-advised remarks.

According to Reuters, stock dealers said Gore might have overdone a campaign backing scked former Prime Minister Datuk Seri Anwar Ibrahim.

"I would have to confess some of Gore's points are valid and that he has the right to express them, but he should have made them on another platform," said a local dealer. "It has angered a lot of people locally," he said.

"The US is trying to send a very strong message to Malaysia, but I do think they could have chosen a better forum," said another dealer. "This could have the effect of creating a lot of new support at home for Dr Mahathir," he said.

Gore had said: "Democracy confers a stamp of legitimacy that reforms must have in order to be effective. And so among nations suffering economic crises, we continue to hear calls for democracy, calls for reform in many languages - people's power, `Doi Moi', `reformasi'. We hear them today - right here, right now - among the brave people of Malaysia".

What do we think of Mr Gore's remarks? We think they are downright rude, arrogant and abhorrent. Gore's remarks tantamount to inciting lawless elements to overthrow our Government.

He is, in other words, stirring us to go into the streets and riot, burn vehicles, damage properties and throw molotov cocktails to effect a change of government.

But the majority of Malaysians are more civilised than that. We are unlike our neighbour which is the product of US interference. Every four to five years, Malaysians go to the polls to elect our representatives just like in the US.

And should we be unhappy over government policies, should we feel that it is not practising the kind of democracy we are happy with, we voice our displeasure through the ballot box and not by running amok through the streets as what Gore is advocating. Enough said about his total lack of sensitivity and sensibility towards others.

This week's consolidation on the main board, besides being Gore-inflicted, is due to force-selling activities by brokers on shares bought but not taken up on the high volume day of November 11.

Wednesday's and Thursday's market weakness were the culmination of force-selling, representing T+5 days and T+6 days.

It is no wonder that Malaysian stocks rose across-the-board yesterday just as we had correctly mentioned in our daily newsletter.

With yesterday's rebound the KLCI,as well as the second board index, have completed its Fibonacci retracement objective of 38 per cent from its prior rally which commenced from November 2 to November from the 405 level to the 482 level on the main board index and from 98 to 145 on the Second Board Index.

The Dow Theory states that if a market recovers after a 38 per cent correction, it can be construed as a "strong" bull market. If it rebounds after a 50 per cent correction, it is termed an "average" bull market and if it recovers only after a 62 per cent correction, it is considered a "weak" bull market.

With this definition in mind, one can see from the chart that the KLCI's rallies are getting stronger by the day since September 2.

Note that immediately after the Government's imposition of currency exchange rate controls, the rally from September 2 to September 7 (Quadrant A) corrected 62 per cent, implying that investors were still uncertain about the long-term effect of the controls.

But note that the second rally from October 6 to October 21 (Quadrant B) took on a stronger form as it corrected a mere 38 per cent before rebounding to make a new high.

In the most recent rally from November 2 to November 11 (Quadrant C), its pull-back represented 38 per cent of its prior upmove - a sign of a strong bull market.

Unless the KLCI can violate its support of 451 registerd on Thursday, the uptrend that commenced on September 2 is not threatened at all.

Based on the above observation, we would continue to advocate further accumulation of blue chips for we expect the KLCI to test its immediate target of 560 - this being the 100 per cent of Wave 1 (262 on September 1 to 473 on September 7).

Next week, we are looking favourably at second board stocks which are poised for further advances.

Their individual stock price and volume charts and that of its index revealed that players' confidence ahve returned to the local bourse.

After a rest of seven sessions the second board index is seen resuming on another round of rally via a wedge breakout pattern (see chart).

We are expecting the second board index to test its immediate target of 150 and thereafter, to 170.

Given the strong market sentiments as reflected in the charts, investors should remain invested for the charts are saying that Gore's utterances have been discounted by the market.

(END)