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Govt intervention may reverse bearish trend

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IN OUR review last week we mentioned that a reversal in trend in our 0/0 Indicator is possible but it will have to be strong and accompanied by a surge in volume if it is to get us out of the rut.

Up until the trading in the second session on Thursday, a reversal in trend seemed eminent but as it turned out to be, the KLSE Composite Index (KLCI) after gaining some 25.09 points gave back 17.52 points in afternoon trading but still managed to gain 7.57 points.

Further liquidation on Friday by investors saw the KLCI losing nearly 27 points on a reduced volume of 178,0 million shares. The weak close on Friday has now put the possible reversal in trend on hold.

To be fair, the rally last Wednesday and early part of Thursday were too strong; hence, the temptation to liquidate for fear that it may not sustain was there.

The excitement of a possible reversal in trend had started on August 19, when Prime Minister Datuk Seri Dr Mahathir said that the Government might buy into the market to help arrest the current weakness in our market, brought about by short selling.

Shorties were believed to have been frightened into covering their positions, hence, the surprise strong rally accompanied with an equally strong increase in trading volume.

With the reversal in trend put on hold, the most obvious question asked by investors is how do we get it going. To do this, we need to look at how the much-talk-about rally in February started. Our research shows that the rally actually goes back some three weeks, when the KLCI closed at its lowest point of 477.57 on January 12.

From this point, it rallied to a high of 590.55 points on January 21 with some minor fluctuations. The rise in this short period worked out to be 24 per cent and it was not surprising that it took a breather the next two days, losing 32 points in the process.

Trading on January 26 saw the KLCI resuming its uptrend to gain 18.60 points and the KLCI close at 569.51 points, before it went for its long twin festival celebrations.

We observed that in addition to the 24 per cent improvement in the KLCI on January 19, it also moved above its 30 Moving Average. On the technical front, our Timing Device strongly broke through its zero resistance level.

The KLSE resumed trading from its long break with a bang; on February 3, it rocketed 131.80 points to 701.31 on a mammoth volume of 913.05 million shares. Thereafter the KLCI went on to peak at 736.78 points on March 25 and reach a low of 315.66 points on August 18 1998.

From the above study we gather that for a successful reversal in trend, we must maintain a high turnover when the market is rising.

Secondly, the KLCI must convincingly breach through its 30 Moving Average. On our Timing Device, there is a need not only to move above the zero resistance level but also to stay on the positive side of the Timing Device.

Lastly, our medium term needs to reverse itself out of its downtrend strongly on a positive market breadth. With our market being highly oversold, it is possible to meet all the above four conditions this week.