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It's not wise to be a seller right now

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THE local bourse tested the Kuala Lumpur Composite Index's (KLCI) downside support of 312 on this week - twice!

Once on Monday and the other, on Friday. The KLCI failed to violate 312 on its first attempt but sliced through with ease on the second attempt.

The market reeled yesterday in reaction to Prime Minister Datuk Seri Dr Mahathir Mohamad's announcement that the Malaysian economy had shrunk by a worse-than-expected 7 per cent in its second quarter, triggering its first recession in 13 years.

By the close of trading this week, the KLCI had registered a new 10 year low of 302.91. Week-on-week, the KLCI is down by 21.15 points or 6.63 per cent.

This is, however, not the only piece of negative news responsible for the KLCI's decline. Earlier this week, the announcement of a drastic 90 per cent fall in the net profits of Maybank, from RM1,322 billion last year to RM129.6 million, had already shook market participants.

Though Maybank's share price did not slump further following the announcement, its problems highlighted two investor concerns about other Malaysian banking stocks - that of poor earnings and more bad debts.

In late week, investors' uncertainties were further deepened by news of the resignations of Bank Negara governor Tan Sri Ahmad Mohd Don and his deputy, Datuk Fong Weng Phak.

Adding the gloom was the worry of stock and currency market meltdown in world financial markets following the devaluation of Russian ruble and South American currencies.

Wall Street reacted adversely to the Russian financial crisis - bringing the Dow down by 446 points or 5.2 per cent to close at 8,165.99 on Thursday. The Dow lost a hefty 357 points on Thursday alone, making its worst one-day decline since the 554-point plunge on October 27 last year.

With this week's string of negative news bearing down on market bulls, it is not difficult to understand the current weakness experienced by the local bourse.

But what we observed was the surprising lack of volatility this week, even in spite of the dearth of bad news.

For example, market players did not sell-down Maybank's shares any further despite its results announcement Tuesday. Week-on-week, Maybank's share price remained relatively unchanged, at RM2.95 as compared to RM2.94 last Friday.

Neither did our market react to the adverse falls on the Dow (of 357 points) on Thursday. Nor did it react badly to news of Malaysia's negative growth of 7 per cent for the second quarter or the news of Ahmad Don resignation.

The KLCI lost a mere 10.6 points yesterday despite these negative news and on a small volume of 122 million shares.

We observed that the market's one-day fall last Friday, of 26.98 points or 7.69 per cent, was even more drastic.

The low volatility this week, both in terms of volume and price ranges is in fact telling us that though the picture is one of doom and gloom, much of these have already reflected or discounted by the market.

If much of the bad news was already reflected by the charts, then investors could even look to a market rebound next week.

Do not forget that Bank Negara has also made some positive announcements

this week which include measures to ease liquidity and the lowering of SRR of financial institutions from 8 per cent to 6 per cent effective from September 1. This is besides the reduction of the intervention rate from 10 per cent to 9.5 per cent with immediate effect.

All said, the "dojis" and spinning tops registered by the charts on Friday may well turn out to be "morning stars" in the making.

We therefore suggest not to be too bearish at this point. Many will be selling into the market right now in view of the Dow's fall, not knowing that the Dow's continuing fall, if any, would already have been discounted by the Asian markets. It is not wise to be a seller right now.

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