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Market may be preparing for a trend reversal

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THE US Vice President's speech at the official Asia-Pacific Economic Cooperation (Apec) dinner last Monday praised the demonstration of the 'reformasi' movement on the streets of Kuala Lumpur.

The reaction to the speech may best be summed up by the Singapore Straits Times editorial which slammed Al Gore for having made his speech in the "wrong place, wrong time, wrong tone".

If one were to read the speech between the lines, one can come up with many agendas.

Prime Minister Datuk Seri Dr Mahathir himself referring to Malaysia's talk with Japan of the RM1.8 billion aid offer said, that his only worry is that somebody might try to disrupt Japan from disbursing the funds.

Last week's trading on the KLSE revealed that the market is still testing the KLSE CI 465.0 point support level. Trading have been confined within the spectrum of 452.0 to 465.0 points, we have not experienced any real downward pressure in the market.

This has led to many interpretation about the market. The optimistic opinion is that the current pullback correction that we are now seeing is a building of a stronger base for the next rally. To them this is an opportunity to buy into the market.

The pessimistic view is that when the KLSE CI rose from its low of 262.70 points, on September 2 to an intra day high of 481.74 points on November 11, in just eleven weeks, the percentage gain workout to be 83 per cent.

This quantum leap is far to high to be sustainable in bull market let alone for the worst bear market in the history of KLSE.

Chart Trends' view is that when the KLSE CI touched a low of 262.70 points, that was likely the lowest point for the present bear market. This was because at that time hedge funds and foreign institutions could still manipulate with our stock market.

When currency control together with other measures were put in place, currency traders and hedge funds operators could no longer instill fear and panic in our stock market.

Having said that, we would like to add that our view is that a more acceptable improvement from the low of 262.70 points would be between 20 to 30 per cent in the time frame frame of just eleven weeks.

Translated into the KLSE CI, this means between 315.24 to 341.51 points. We are not suggesting that the KLSE CI will take a nose-dive to this levels this or next week.

Our view is that the decline will be a mixed bag, at times it will move up but overall the direction is downwards until a strong enough support level is reached.

The time frame for our market to reach this level is estimated at 14 weeks from the time the O/O Indicator starts to turn down. As it is, the rising O/O Indicator is yet to be arrested.

Up until last week the O/O Indicator has continued to rise albeit on a very much reduced pace.

The drastic slowdown in its rising pace seems to suggest that it is preparing itself for a reversal trend this or next week. Two weeks ago we warned readers to be wary of the next time the O/O Indicator turns down again. The warning still holds.