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Possible start of a new bearish trend from technical point

Raymond

PRIME Minister Datuk Seri Dr Mahathir Mohamad presented his first budget as First Finance Minister on October 23. The budget, designed to revive the battered economy, won approval from his critics but market dabblers are baffled as to why the KLSE Composite Index has since lost some 14 points.

It is possible that the Prime Minister's warning - that while the economy can be expected to recover soon, volatility in regional and global markets could foil it - has instilled some caution among investors.

Secondly, the street demonstrations in Kuala Lumpur are not good for confidence-building in our market.

Lastly, the pre-budget rally was overdone, hence, the need to pull back to a more realistic level.

In view of the presentation of the 1999 budget the week before last, we feel that this will be a good time to look at our market from a technical point.

Where our Timing Device is concerned it has fallen through the -200.0 point support level last week and is currently standing at -248.0 point.

It is also true that since last Tuesday the falling pace has been slowing down and we sense this will lead to a reversal in trend, sometime early this week.

Readers should take this opportunity to further cut back on their portfolio. Our view is that the reversal in trend is likely to be weak and would soon revert to the falling trend.

On our medium-term 0/0 Indicator, the nine weeks of a rising trend has just been arrested.

Can this be the start of a new bear trend from a technical point?

A study of our 0/0 Indicator chart shows that in the last two years we have had three prominent peaks.

The first peak at +77.7 points was on February 28 1997. This downturn happened just before our economic slowdown, which ultimately expanded into a recession.

The second peak at +71.6 points by coincidence was almost exactly a year later on February 27 1998.

The present and third peak was on October 23 1998 and the reading was at +23.0 points.

It is interesting to note that the reversal to the downtrend from the first peak was at -326.6 points on December 5 1997. There were two previous failed attempts in reversing the downtrend.

Although the second reversal point was at -265.3 points on May 15 1998, it was followed by another 15 weeks of uncertain trading, before it was successful in taking off on August 28 1998.

The real take off point from the base of the second peak took place just before the announcement of our currency control measures.

The first peak took 41 weeks to reach its bottom before it took off, while the second peak took 26 weeks.

We anticipate that the present and third peak will take 16 weeks to reach bottom before taking off.

If our assessment is correct, the rally from the base of the third peak is likely to take place near the lunar New Year in 1999.