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Big boys building up positions for BN victory

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TIME does fly when everyone is pre-occupied. We are talking about the country's tenth general elections, of course.

It was over two weeks ago (November 11) when Prime Minister Datuk Seri Dr Mahathir Mohamad dissolved Parliament to pave the way for the elections, yet it seemed like only yesterday.

Nomination day on November 20 came and went like a flash of lightning and come Monday, more than 1 million eligible voters will cast their votes to decide whether the ruling coalition will have the people's mandate to lead Malaysia into the new millennium.

Monday night of course will be an eventful night for all Malaysians as by midnight or by early Tuesday we should have a winner. Besides the average Malaysian, the outcome of the November 29 elections will also be a big deal for the stock market player.

Why so? Because the direction of the stock market for the immediate term will hinge on who's the victor? And if it's the ruling coalition, the next question is, will it be by more than two-thirds majority?

Whether the ruling coalition can win by a comfortable majority of more than two-thirds of course, remains to be seen. No one can be so sure as to predict an outright win even if the feedback from the ground seemed promising.

How then should a stock market player behave in such an uncertain scenario? Should you have bought this week or stay aside after the elections? As we had said last week, staying aside would be the conventional wisdom - the most rational thing to do. But we did add that our view is a "buy if you believe the Barisan Nasional line-up announced on November 20 will be the winning team.

How would you have fared if you had bought these two weeks, since dissolution of the Parliament on November 11? Answer: You would have fared well. Take the Kuala Lumpur Composite Index (KLCI) for example. The KLCI on dissolution of Parliament was 724 (see lower chart). Yesterday's close was at 745.91, or gain of about 22 points or 3 per cent.

But some investors would defer with our view to buy now, warning that even if the Barisan Nasional's wins in this general elections, the stock market could behave like that when the Barisan won in the Sabah state elections over the week-end of March 13 and 14.

On March 15, the KLCI gapped up strongly for one hour by 7 points to 535 points but subsequently fell to close the day lower by 10 points to 518.45 (see upper chart). For the next eight sessions, the KLCI plunged another 30 points to a low of 488.9 on March 25 before bottoming out for a strong rally.

Many will ask if the KLCI will meet with the same fate as on March 15?

Answer: No, the KLCI will not likely react the same way if the BN wins.

Why so?

If you would take a look at the Sabah state elections rally on March 15, you would have observed that even in spite of the bounce to 535 in the morning after the results were announced, the KLCI was still below its 24-day moving average resistance (see upper chart) which implies bearishness. Obviously a close at 518.45, which is below the 24-day moving average, showed that the market was not strong enough to lift itself out of a falling market, which have been in a falling field trend since January 22. Secondly, weakness was displayed in the weak RSI and stochastic readings

on March 15.

But in the current case, note that as at yesterday's close (just before the general elections on November 29) the KLCI at 745.91 is technically classified as "bullish", firstly because the KLCI is above its 24-day moving average support. Secondly, because its RSI is bullish and thirdly because its daily and weekly stochastic is bullish.

The KLCI's bullishness this round just before polling is very different from the BN win in the Sabah state elections on March 13-14 as in the later case, the KLCI was bearish on March 12, just before polling date. This round, players are already seen to be building up positions these two weeks as reflected by the 30-point gain since dissolution day. And if you think about it, their buying into the market ahead of the results just goes to show that the big boys are positioning themselves for a BN win. And if BN does win by a clear majority, we expect a market rally that will be the beginning of our fifth wave. It is high time we have a rally for we are already lagging far behind the Asian markets just because of our elections.

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