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Coming months will be bullish for KL bourse

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SO FAR, November has not been promising. Diverging from our view and bucking the regional uptrend, the benchmark Kuala Lumpur Stock Exchange Composite Index (KLCI) slipped 21.52 points or 2.9 per cent in a flaccid week to close at 721.35.

Many short-term traders must have been caught on the wrong foot again for jumping in last Thursday and Friday, in anticipation of a post-Budget rally. It was difficult to stand by the wayside and not buy when you are in the middle of a rally which saw the KLCI rise 18.5 points over two days, from 738 to 756.

But the lack of follow-through buying this week forced the unwinding of contra positions leading to yet another round of losses for the contra traders.

It has been a very disappointing week to say the least, giving that the local bourse was stone dead even in the face of the many potentially bullish news. The widely expected post-Budget rally is a case in point. Anticipated early polls is another. Malaysia's strong September trade surplus of RM6 billion is yet another, not to mention strong Asian bourses' recoveries.

Week-on-week, the Singapore bourse rose by 64 points or 3.1 per cent to 2,111, the Hong Kong bourse by 353 points or 2.6 per cent to 13,610 while Japan's bourse was higher by 412 points or 2.3 per cent to 18,354.

But true to the contrarian theory, the market did not respond when the majority most expect it to. Then again, it is possible that the market chose to respond to a strangely timed piece of negative news - and that is, Morgan Stanley's delayed inclusion of Malaysian stocks into its indices.

The Morgan Stanley factor could well have been a major cause of this week's downtrend given that the KLCI fell sharply from Monday after Morgan Stanley's announcement over last weekend citing potential computer problems due to next February's leap year.

But why some investors chose to react to Morgan Stanley's announcement is baffling. Have they questioned the possible motive behind the preposterous reason given for its postponement? Surely Morgan Stanley's management are not morons not to have done their homework as to whether next February is a leap year before announcing Malaysia's reinstatement on August 13?

How can a reputable establishment like Morgan Stanley then come out with such a silly excuse to rationalise the delay in Malaysia's reinstatement and expect us investors to believe them? If they are truly so short-sighted, then maybe they should wear spectacles suitable for 2020 vision. If it was truly an oversight, we would say they are morons indeed. But we are quite sure some people knew what they were doing. Heard of a simple money-making strategy called "buy low and sell high"? In our view that is what last weekend's announcement of a delay in inclusion of Malaysia into its emerging indices was supposed to do - to get us out so others can get back in. This is the exact opposite when, on August 13, certain people got out and everyone else got in.

We noticed that the low of the candle at 688 on August 12, the day before Morgan Stanley's announcement of Malaysia's reinstatement, is still not challenged even after last weekend's delay announcement. This implies that buyers are still lurking to accumulate stocks. Why shouldn't they?

These people know full well that Malaysia's fundamentals are still strong. Mr Clyde Prestowitz, president of Economic Strategy Institute in Washington D.C., drove this point home about Malaysia's prospects in an article in London's Financial Times last Tuesday. He said: "While the Prime Minister's critics might be `crazy' and the Malaysian Government has been criticised in the US for harassing political opponents, it is hard to dismiss Malaysia's economic achievements. In fact, not only is Malaysia recovering nicely, it is arguably doing better than any other Asian country, with the possible exception of Singapore and Taiwan."

"Others can point to higher growth rates and higher trade surpluses. But what sets Malaysia apart is the greater speed and extent of its reforms, and the strength of its economic structure.

Prestowitz said Dr Mahathir, in rejecting the remedy of the International Monetary Fund (IMF), detected a fundamental flaw; which is the potential for social disintegration and ethnic unrest in Malaysia.

"The example of Indonesia - where a financial crisis eventually led to unrest and political instability - supports Dr Mahathir's scepticism about IMF policies," said Prestowitz.

Our other reason for being bullish about Malaysia's prospects is our expectations of a continuing strong Dow. It has been said that as long as the US economy stays strong, Asia will export their way out of its recession. It has been also said that for Asia to recover, Japan must recover first.

Both statements stand true to date. Technically we are of the view, and has been all along, that the Dow is tracing out an "expanding triangle" - and we are right so far. We have been and still are projecting the Dow to make new highs in the months to come, with a first target of 12,375 and the second of 13,800.

As for Japan's Nikkei 225 issues, we are projecting its index to test 20,230 as a first target and possibly 22,400 later. Our targets for the Hang Seng Index are 17,330 and 20,300 respectively, both targets being new historic highs while Singapore's Index could make historic highs of 2,820 and 3,370. Asian bourses' rallies will lift the Malaysian index (KLCI) along with them to test targets of 1,020 and 1,260.

In conclusion, we expect the coming months to be bullish. This despite fears of the Y2K bug, despite delays in the inclusion of Malaysia into the Morgan Stanley's indices, despite uncertainties over when the national elections will be held, despite uncertainties over whether the Government will garner two-thirds majority in the coming polls, despite uncertainties over how the CLOB issue will be resolved, despite fears of a crash on Wall Street, etc. This is because markets have their ways of sorting themselves out when the time comes.

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