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Investors appear to be disappointed exit tax is not announced

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THIS week's fall is the Kuala Lumpur Composite Index's (KLCI) most severe in terms of points since exchange controls were introduced by the Government on September 1 1998.

The 100-stock benchmark KLCI lost 27.11 points or 4.38 per cent to 591.43 on lack of follow-through buying after the much publicised exit-tax sort by investors failed to materialise. The last occasion this index lost more in one week was in the week ending August 14 last year when the KLCI gave up 36.07 points.

With this week's least expected fall, will the market be resilient enough to overcome the extraordinary selling pressure to continue with its climb towards the 660 and 733-739 target that we had envisaged would be achieved by February 11. We had said in our previous columns that based on perfect time symmetry, the KLCI should test 733-739 by mid-February.

But with this week's dramatic pull-back after the much-hyped meeting of foreign fund managers and bank investors with the Prime Minister, many investors must have been caught buying into the rally of last Thursday and Friday.

And given this weekend's close of 591.43, investors are now even worst-off than before the Raya holidays. The KLCI had closed at 590.97 on January 15, just before it took break for the three-day holidays.

What were the main factors responsible for the pull-back this week?

The main factor that had a major influence on market participants of the local bourse this week was investors' disappointment over the lack of an announcement of an exit tax after Datuk Seri Dr Mahathir Mohamad's meeting with the 28 foreign fund managers.

"There is no news today (Monday)... People are hoping for news of an exit-tax," said a dealer at Mayban Securities. For the next four sessions, the KLCI continued to slump over the same reason - lack of an announcement over the easing of capital controls.

Next week will be a crucial one. Will there be an eventual announcement of an exit-tax or will the market be kept guessing? Some form of positive news is urgently needed to shore up buying interest, for otherwise, continued liquidation of key index stocks will trigger a trend change. Telekom, Tenaga Nasional Bhd and Maybank is on the verge of reverting into a bearish trend. To save them, they have to rebound to close higher than this weekend's close.

The weekly KLCI chart had traced out a bearish 'engulfing bearish' pattern. This is a bad omen. Let us hope that this bearish pattern will be nullified by a market recovery next week. Otherwise, the market could see further falls. In such a scenario, our time symmetry count will be derailed. It will then be difficult to see the KLCI rising to the 739 point level as we had forecast.

There is, however, still one last hurdle for the bears to cross before it can completely dominate the market and trigger a reversal in trend. The one last bastion of defence will be the moving average support at the 583 level (see chart). If this crucial 583 level collapses in the face of further bearish assaults, our upside targets will indeed have to be reviewed.

If the 583 level holds and triggers a market rebound, then the "V" formation we had forecast all along may still be achievable. A look at the monthly chart will reveal this perfect symmetry so far. There were 6

`down' months from March to August which is followed by 6 up-months so far (from September to January).

One can see from this chart that despite the weak finish, January is still higher than December by 5.3 points. This makes for five continuous months of higher closes.

For the index to achieve perfect time symmetry and hit the target of 733-739, it looks like the KLCI must move back to super-trending mode to make up for lost time. At this point (at 591.43), this looks remote.

Investors should therefore prepare for the worst, i.e. the possibility that a premature reversal may take place. Look for a rebound next week, otherwise, prepare for long liquidations at 583 or lower.

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