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# Market appears to have room for further rally

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AT LAST, the 600 psychological barrier is now behind us.

After at least five failed attempts at breaching the 600 mark since January 17, the benchmark 100-stock Kuala Lumpur Composite Index (KLCI) finally succeeded.

As for those fund managers who took profits "big time" around the 600 level, they now realise that the market is much bigger than they thought. While it's true that "one will never go broke taking a profit", it sure hurts to see the market moving higher after what you thought was a "very good sell".

This week's rise was unexpected. Observers had expected things to be quiet as many investors were thought to be still on holidays.

In this short two-session week, the KLCI rose by a credible 19.67 points or 3.27 per cent to close at 618.54. The Deputy Prime Minister can now sit back and relish the thought that his appointment did make a difference to the market after all! (Last week we had mentioned that the KLSE performed even better in the week of the US-Britain led attack on Iraq when it rose 16.53 points or 3.1 per cent).

It's amazing that when one least expect the market to rise, it'll do exactly the opposite. A case in point was the devaluation of the Brazilian real. Just last Thursday, when news of the Brazilian currency crisis broke, analysts and market players had expressed concerns over whether Brazil's currency fallout would trigger another round of financial instability that had brought Asia to its knees in 1997.

Another example when the market will do the unexpected was on September 1, when the Malaysian Government instituted exchange controls and other measures to protect its stock market and economy from further speculative attacks.

Instead of failing further as many had anticipated, the KLCI rebounded strongly from the 262 level - and it never looked back. Yet another example was during the uncertain days and weeks following the ex-deputy prime minister's dismissal from office.

Few were willing to commit for fear of reprisals and political instability from Anwar's arrest. But for those who dared, the market have given them their due reward.

Many a times we are asked the question "what does it take to become a successful investor?" The answer must undoubtedly be "guts". Some investors just have it - the gut feeling as to when to enter or exit the market. Needless to say, being courageous alone is insufficient, but it is no doubt an important quality to possess to succeed.

The following excerpt was taken from a book `The Fountain of Gold' written by a Japanese trader in 1755. He wrote `when all are bearish, there is cause for the market to rise. When everyone is bullish, there is cause for the price to fall.'

This surely sounds like a market's unusual behaviour as reflected by the examples we just described. Some people call it `contrary opinion'. And our `PI Market Sentiment Index' (MSI) which we had introduced to this column last week is an indicator to measure this `opinion of the crowd'.

If for example, 50 out of 100 respondents are bullish, then the corresponding MSI percentage is 50 per cent. If 20 out of 100 respondents are bullish, then the MSI is 20 per cent and so on. But once this Indicator gets too extreme, the market would behave otherwise. Our MSI can thus be used as an indicator of `contrary opinion' as well. In the US they also name it as `bullish consensus'.

On January 15, we mentioned in this column that we had expected the market to be bullish this Thursday (January 21) because the MSI was on the rise (from 62 per cent to 73.6 per cent). Sure enough. The KLCI rose from 15.55 points from 598.97 to 614.52.

As at Thursday, the MSI for next Monday (January 25) shows a 87.5 per cent bullish response. Our reading of this percentage implies a continuation of market strength on Monday. But once it gets overly bullish, we would be cautious of an overbought market. Hence, monitoring the MSI indicator can assist in determining the psychology of the players.

The bullish close this week could be due to a number of bullish market factors. Besides the market's belief that the Brazilian currency fallout is good for Malaysian stocks, news that Prime Minister Datuk Seri Dr Mahathir Mohamad's meeting with foreign fund managers and bond investors next Monday to take up government bonds as well as to discuss replacing the one-year bar on foreign portfolio investors who want to repatriate funds is helping to shore up market confidence.

Malaysia may emulate Talwan's model of a rating scale of "most favoured investors" where long-term qualified financial institutions are favoured over short-term hedge funds through a graduated scale of incentives and exit taxes.

"If Malaysia is able to prove to the world that you can differentiate the types of capital flow you pick for economic development, other countries might look at it and follow suit," said a head of Asian fixed-income research at Nomura Securities Pte Ltd, Singapore.

Technically, one can see from the chart that it is tracing out a perfect "V" formation. It took the KLCI an exact 20 weeks to fall from the 620 level to 262 as it is to rise back to the 620 level (see bottom chart). This is uncanny. Who says history does not repeat itself? It is on this basis that technical analysis works!

If things remain just as symmetrically perfect in terms of time, then it would take another three market weeks for the index to rise back to the 733-739 level. Based on this assumption then at 618.64 this week there is still room for the market to rally.

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