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Need for less heart, more mind

SENTIMENT feeds on itself. On the stock market, it swings from one extreme to another, often without reason or warning. The most sudden and violent changes of heart in share trading, the world over, had tended to have no basis in fact. Take Wall Street, for example. Does a 0.25 per cent rise in interest rates, speculation on which was sparked by US Federal Reserve chairman Alan Greenspan himself, justify re-rating share prices 10 per cent lower? In Kuala Lumpur, investors have of late been taken on a roller-coaster ride, and no one is quite sure why. Some analysts have attributed the volatility to the possibility of foreign funds pulling out en masse come September 1, that is when the one-year moratorium on portfolio capital repatriation expires. It does not appear to matter to these market watchers that funds which intended to leave would have left long ago; or that the inflow of portfolio capital through external accounts had in fact surged to RM4.7 billion as at July 16 from a mere RM18.53 million on March 10.

If indeed foreign funds are withdrawing from the Kuala Lumpur stock market, for reasons known only to their managers, its real impact would logically be only marginal, even in a worst case scenario. As noted by Second Finance Minister Datuk Mustapa Mohamed last month, between February 15 and end-June, there was an inflow of RM3.9 billion in foreign funds, but this formed only 2.4 per cent of the RM162 billion increase in the capitalisation of the Kuala Lumpur bourse during the period. The figures show that unlike on markets elsewhere in the region, the run-up in Malaysian share prices since the beginning of the year, until recent days, have been largely supported by domestic investors. The question that begs to be asked, therefore, is: how can such a tiny portion of the stock investing community hold so much sway over the market? The answer is Malaysians allow it.

The country's international reserves have continued to rise, the 20th consecutive month of trade surplus has just been posted, progress all round has been achieved in restructuring the financial sector, and indications abound that economic activities are on the uptick. Even foreign analysts cannot help but take notice, one after another revising upwards their forecast of the country's gross domestic growth for this year. Yet, the Malaysian retail investor elects to be led rather than lead, and worse, relegating their thinking to those who can hardly be expected to have any regard for the well-being of the nation. Where is the confidence in his own country and himself? Prime Minister Datuk Seri Dr Mahathir Mohamad had appealed to the people not to waste this second chance to build up the economy, a chance created virtually out of nothing during one of the bleakest hours in the country's history; when its currency and stock market came under wave upon wave of merciless attacks. He had noted that it is about safeguarding the independence and sovereignty of the nation as much it is recovering from the trauma of the region's economic crisis.

Headway has obviously been made in putting the economy back on its feet. Unfortunately this cannot be said of the required adjustment in the mindset of Malaysians, if the stock market is any indication. As driven as before by the lure of quick money, the retail investor continues to submit himself, and contribute, to the collective mood swings of the market. This is certainly much easier than to submit to the rigours of a skilled and

disciplined investor who bases his decisions on what he knows to be true, not what other people say or do. Until this happens, the next best thing appears to be institutionalisation of the market through the promotion of domestic mutual and other investment funds. Right now, the market is overly retail-based. An estimate of the Malaysian Investors' Association has shown that virtually every Malaysian who is in a position to own shares, does own a stake in companies listed on the stock market. Try as the authorities have in educating them about the fundamentals of investment, the efforts will come to nought if Malaysians steadfastly refuse to learn.

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