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Profit-taking likely to dampen bullish mood

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THE Kuala Lumpur Stock Exchange (KLSE) brushed aside two of the most feared days for the superstitious investor - the solar eclipse and Black Friday the 13th - to stage a strong rebound this week.

Moving in a direction contrary to the conventional thinking of the crowd, the benchmark KLSE Composite Index (KLCI) rose by a hefty 69.79 points or 9.93 per cent this week to close at 772.88.

On Wednesday, the solar eclipse passed with a whimper, let alone casting its "curse" on Malaysian stocks as local stocks see-sawed in a tight range to end the day marginally higher by 4.87 points.

But Friday the 13th absolutely disappointed those with a leaning towards the occult when the KLCI staged a staggering 74.87 point range move and a 43.92 point higher close instead of a plunge to the 666 level as some dealers were heard predicting!

We were sure many investors were frustrated when the market did not do the expected this week - this is, plunge to 666, the 580 or even the 400 level that some had hoped for. What more when the solar eclipse and Friday the 13th co-incidentally fell on the same week!

Not all were wrong in predicting this week's rebound though. We did call for one last week in our column - and the market did exactly that.

Much as we had called the market's bottom at 686 and not at the 660 low tested this Tuesday, we were correct in expecting a rebound - and to the 770 and the 800 level that we spoke of in last week's column.

The two pieces of positive news which triggered this week's strong rebound was firstly, the inclusion of the KLCI in the Morgan Stanley Composite Index (MSCI) Emerging Markets Free Index with effect from February next year and secondly, rumours that two more anchor banks will be announced by the central bank soon.

Buying interest soared to 969 million shares on Friday in the wake of the announcement reinstating the KLCI into the Morgan Stanley Index but the big question is, will strong buying interest continue into next week to push the KLCI higher, with the much anticipated general elections rallying mood taking over from the Morgan Stanley announcement this week?

Given the strong closing this week, many investors will expect further rallies next week. But, unfortunately, the charts are not as clear cut.

As at yesterday's close, the technical indicators are still displaying inconclusive and conflicting signals. Much as the Relative Strength Index (RSI) is above the 50 level and the daily MACD indicator is positive, implying bullishness, the Momentum indicator and the 24-day moving average indicator remains in bearish territory.

So is the monthly and weekly stochastic indicator. Also, the Japanese candlestick pattern on Friday - that of a "shooting star" - is warning of a possible top, however temporary.

The fact that prices could not close at their highs on many stocks indicate that the bulls are still not in total control of market activity yesterday.

Seen after a rally, shooting stars warn of a market top. In short, until the technicals are in "confluence" with one another, that is, all of them emitting bullish signals, the current sentiment cannot be confirmed as "bullish" yet as at this point of time.

Moreover, we read this week's rebound from 660 to 803 as a Wave "4b" rebound. Having completed a 62 per cent rebound from its last downwave

"Wave 4a" it look like the Wave 4b's target is now hit. As we view the current Wave 4 as a complex "a-b-c-d-e" wave, we will be looking forward to a Wave "4c" correction next week. Based on this Elliott Wave count, one should be cautious about establishing "buy" positions until the KLCI corrects back to the 714 zone. The equivalent "buy zone" for the Emas Index will be at the 182 level. The above analysis, however, will be negated if price of stocks can exceed its 24-day moving line next week and all other indicators move into positive territory.

This week, one Malaysian stands out above the rest of us and his name is Datuk Azhar Mansor. We are sure he needs no introduction as we all know he has just returned triumphantly from a 190-day solo voyage round the world in a yacht named "Jalur Gemilang".

At the same time, he has made history by becoming the first person to sail round the world solo on a new east-west route without the aid of any engine propulsion.

Our Prime Minister Datuk Seri Dr Mahathir Mohamad was visibly moved by his feat and has openly called for a new breed of Malaysians, whom the PM calls the "new" Malaysian, to emulate the success of Azhar by daring to take on challenges to be the "first" in achieving something, although it may appear seemingly impossible, controversial, unorthodox or simply unconventional.

At about the same time our PM was in Langkawi to welcome the return of Azhar, another "unconventional" development was taking place at the Putra World Trade Centre on August 12.

In his address to the participants of the Internet Seminar, the executive chairman of Mesdaq, Encik Khairil Anuar Abdullah made a call on all Malaysians to do and look at things differently - to "embrace" the Internet, acknowledging the growth of the Internet as a "mega trend which has far reaching effects on the real economy and the capital market". In the subsequent panel discussion with a handful of "technocrats" he had asked if Malaysians are ready for the listing of the first Internet company on Mesdaq, citing that Malaysians must start to change their mindset over investing in traditional "brick-and mortar" businesses but instead look towards Internet "plays" which may not have a track record of earnings at present but which could grow into Microsofts of the future. Here is another fine example of doing things differently. By being the first, one can benefit from the "first-mover" advantage. Mesdaq should be commended for doing things differently.

It has achieved a "first" in coming up with the concept of distributing prospectuses via the Internet. By so doing, Mesdaq has effectively cut down printing and distribution costs dramatically not to mention the Internet serving as an effective medium in marketing of IPOs. And referring to our PM's call for a "new" Malaysian way of doing things, yet another fine example which is often overlooked by Malaysians, is the one set by the Malaysian Government in promoting the use of the Internet.

Echoing one young but insightful speaker from Merrill Lynch, Mr Yeoh Keat Seng, he said, "The support the Government has given to the development of the Multimedia Super Corridor (MSC) is one of the major reasons for Malaysians' greatly increased awareness of the Internet." If this is not yet another example of the "new" Malaysian way, what is?

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