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Stocks expected to rally strongly

Fred Tam

FINALLY, the benchmark Kuala Lumpur Stock Exchange Composite Index (KLCI) has breached the 800-point mark - a level last since October 14 1997 when the country was economically steam-rolled by rogue currency traders from hedge funds.

This week the KLCI was higher by another 19.60 points or 2.49 per cent to close at a new 20-month high of 806.23 as Malaysian stocks rose across the board in heavy volume.

The factors responsible for the strong showing this week on the local bourse were Malaysia's Statistics Department's announcement on Monday of a 14 per cent rise in Malaysia's manufacturing sales to RM20.4 billion in April 1999 against RM17.9 billion in the same month last year; a better-than-expected first quarter gross domestic product (GDP) contraction announcement by Bank Negara this Wednesday; an impending announcement by Prime Minister Datuk Seri Dr Mahathir Mohamad of the country's next general election; and continuing strong stock market performances by regional bourses.

But even as stocks continue to rise one after another, from index-linked stocks to second and third liners and even second boards, scepticism and disbelief still lurks on the corridors of the stock broking houses and elsewhere. Unlike in the heydays of 1993 and in 1996 when even the "shoe-shine boy" (from the Joseph Kennedy story) can offer you unsolicited advice on which stocks to buy, few if any participated this time around. Neither did we hear of coffee shop talk from the lunchtime crowd on what to buy or sell. And this despite the continuing strong rallies since September 1998. Though the rate and angle of ascend of many stocks had already surpassed that of 1993 and 1996 and their rises increasing by the numbers as each week passes, few are convinced that this rally would last. And the irony is, they have been saying this since October last year and again since May this year! Meanwhile they watched in disbelief as the KLCI climbed from 262 to 806 for a 544-point or 207 per cent gain.

Many we had talked to are still of the opinion that our recovery is "unreal" and the KLCI's rise is "artificial". We really don't know how some quarters still do not want to accept that the stock market's rally is genuine and not one that is being propped up by the Government. Can't they see the positive statistics are reflecting an economic recovery? Well, they see, but they do not believe - that's the problem. They have this to say about the positive economic numbers: "These numbers are 'doctored' or being tampered with".

If one was a contrarian, this is good news for the already-invested, as a market top would be imminent if even the shoe-shine boy can offer you advice. The presence of sceptics and cynics just proves that the market has not reach the blow-off point yet.

Well, we just got to say to these sceptics "you better believe these numbers or you'll regret you never bought into the stock market when this opportunity is handed to you on a silver patten". You missed it the last round between September 1998 to February 1999 and you'll be missing this second chance to make real good money that started on April 1. And there is a good chance that our market can rally up to September 1 to hit 1,000 points by September, provided it can breach 850 as our first target.

Like we had said all along, don't miss this bull - or should we say "superbull"! It comes only once in 5 years. Our reason for the bullish

market ahead is not solely based on the Government's economic numbers but on chart formation. Numbers may be doctored, but investors' sentiments cannot. And the beauty about charts is, charts reveal the true sentiments of investors. Charts don't lie.

We have said before and we say it again, our stocks are in Wave 3. And Wave 3 is the strongest of Elliott's 5 waves. The presence of strong volumes and gaps are the hallmarks of Wave 3s. Wave 3 is the most explosive wave where the strongest rallies are experienced. It is therefore one wave we all should not miss. What happens after Wave 3? After Wave 3 there is still a Wave 5 to come, this is how attractive our market is right now! And if investors still cannot or refuse to see the "real" thing when it is right in front of their very eyes, then we are afraid they'll miss the boat again. And it won't come this way until, maybe, in 2004.

There is little doubt that demand for Malaysian shares is now greater than their supply. This is so because whosoever that wanted to get out of our stocks had already gotten out. From June 1997 right through to August 1997, they got their chance to get out.

And since Malaysia implemented selective capital controls, few foreign funds got back in. So, where is the selling pressure? Local funds seldom sell - not at current prices anyway. There may be an occasional program selling by smart foreign funds which had bought at lower prices after being "forced" to remain behind after Malaysia's exchange controls restrictions last September, but whatever selling has so far been well-absorbed.

It is ironical but one of the reasons why Malaysian stocks are still resilient can be credited to the Malaysian Government's farsightedness in implementing selective exchange controls, a spin-off of which had served to deter foreign short term funds from re-entering our market in a big way to buy at fire-sale prices late last year. And with these destabilising funds locked out, Malaysian stocks can remain resilient.

Technically speaking, the KLCI has just broken out of a huge saucer pattern (see chart) on very strong volume after four weeks of consolidation. A successful breakout on strong volume implies strong buyers and broad participation and we expect a very strong move to test its first target of 850 and then onwards to 1070 for a start.

After going through all the charts last night, we are of the opinion that many stocks are expected to rally very strongly next week, from index-linked stocks to second and third liners and even some second boards as many are in Wave 3 formations. Two stocks in typical Wave 3 formations are KUB and KFIMA (see charts). Our market is truly in a very powerful and explosive wave. As such, we strongly urge you to buy. But please remember this "We do not advocate `contra' trading. You must have the money to pick up scrips, otherwise, don't buy". You'll lose money in the long run if you play contra. Go on "margin" financing, at least.

Next Tuesday, June 29, we will be organising an evening talk on "Stock market outlook for 1999" and "Stocks-to-watch". So far, the response is overwhelming. Readers who are keen to participate can call us for more details at 03-245-5877.

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