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A timely caution

GIVEN the current euphoria on tech and Internet-related stocks, the Securities Commission's reminder that public listed companies must "uphold the principles of full and fair disclosure when making announcements and statements on their intended venture into Internet business" should be seen as an imperative.

There are several issues here. The paramount concern is that inadequate or, even worse, misleading information may lead to uncertainty and wild gyrations in the prices of shares in the stock market. An erosion in investor confidence will be damaging to the integrity of the market.

As is seen in the corporate landscape, there have been a flurry of Web-based proposed activities and alliances. No doubt, the Old Economy companies' bid to make a transition to the New Economy reflects well on our corporate chieftains.

Many are pooling new resources for a Net start-up or forging strategic bricks-and-clicks alliances to gain a new competitive advantage, known as the dotcom value.

In most instances, the addition of the E-commerce value or the dotcom to a company's name implies speedier access to new technology, greater market flexibility as well as economies of scale.

But whether this will translate into greater earnings capacity remains to be seen and herein lies a pertinent issue. As cautioned by the SC, investors who park their money into listed firms intending to embark on Web-based activities must remember that they are investing in "the potential of such ventures, and not on businesses already established, which potential might not materialise".

Potential earnings valuation is subjective. The risk premium is higher on the New Economy shares than on the Old Economy shares. Thus, there is always the possibility of a major market correction where Net-related share prices may tumble.

Note the slight correctional phase in Nasdaq last week when investors shifted out of tech stocks, causing its composite index to slide down by 2.5 per cent.

The hefty premium fetched by the Net-related shares may not necessarily be an indicator of the value of the real asset that the dotcom activity brings into the listed company. It is likely that the lure of quick riches through the rise in the share price-based wealth has spawned many Web-based deals.

It is a sorry state of affairs if market capitalisation reflects less of real value and more of speculative value. Speculative investor sentiment should not be treated as a better indicator of wealth than real assets. Blind faith in a trend translates into asset bubbles. As recently observed by Prime Minister Datuk Seri Dr Mahathir Mohamad, a stock-market determined 'wealth' yielded by a particular share may be no more than a bubble.

If the speculative fever wanes, prices will fall and investors may end up with devalued papers. Market behaviour tends to be dominated by momentum trading and the bubble will burst eventually. Where the country's market is concerned, it is noted there is a high volume of retail investors on margin accounts heavily involved in tech and Net-related stocks.

Any untoward development will give rise to volatile price movements.

There are reminders, including last week's incident when stock-markets in the region were hit by selldown of Net-related stocks in Japan on rumours that these were over-valued.

The SC did right in imparting such advice and only the foolish will ignore it.

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