

10/06/2000

Confidence is the key

AS perverse as it seems, restored and sustained faith in the Kuala Lumpur Stock Exchange market does not rest solely on evidence of economic recovery. Like it or not, market sentiment counts.

It is integral in determining investor confidence. Sometimes, overly so. This has been seen in the slump in the KLSE for the past week, with its benchmark composite index sliding by six per cent. Thursday's fall to 842.24 points, upon shedding 13 points, was the index's lowest level in five months which is said to have erased most of this year's gains. It had hit a high of 1013.27 points in mid-February, a heartening increase by 25 per cent from last year's closing level of 812.33 points.

Going by indicators such as an increasingly strong economic performance and the re-instatement of the index in Morgan Stanley Capital International indices last week, the reversal in sentiment is unexpected. By all reckoning, factors such as diminishing fears of a high rise in United States interest rates, which may persuade some fund managers to see our market as relatively pricey compared to others in the region, should not have caused the market to decline by a wide margin. Factors such as concern over the release of CLOB shares from the first week of next month and the shortening of settlement days to T+3, too, are seen as unwarranted.

The primary cause of the depressed market for the past week is, as pointed out by Finance Minister Tun Daim Zainuddin, rumour-mongering. Indeed, vicious rumours emanating from abroad have been circulated, particularly the so-called impending resignation of Daim. Without doubt, this has wreaked some uncertainty in the market. As rightly pointed out by a seasoned investor, fund managers do not like this and hence they either sell their stocks or sideline.

As Daim said, there were too many rumours that investors become "confused" and, in the end, "no reason becomes a reason". The so-called rift between Daim and Prime Minister Datuk Seri Dr Mahathir Mohamad and the former's impending resignation are an old theme harped upon by the foreign media and at one point or other, it will re-surface at the slightest misinterpretation of events and even public service and political appointments.

Malaysians should not play into the hands of these rumour-mongers who may have their own sinister agenda. Too many analyses, especially those that go beyond interpreting corporate performance and economic fundamentals by reading too much into political developments, confuse rather than assist investors. Locals should not unwittingly contribute to further dampening the sentiment by adding oil to the fire. Dwelling on the rumours will only serve to convince others that there is basis to them. This is an act of self-fulfilling prophesy.

President of the Federation of Public Listed Companies, Datuk Megat Najmuddin Khas, hit the nail on the head when he emphasised that "a positive impression should be portrayed by local investors by having confidence in their own capital market". They should heed the sound advice to consider economic fundamentals and performance of companies. There are still many attractive counters to be picked up.

There is no reason for today's encouraging market uptrend not to be sustained. The fact that the futures market is trading at a premium to the cash market is a sign investors are still bullish.

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