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Investors accumulate stocks while others fear a drop

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WHAT have these Japanese candlestick patterns in common? An engulfing bullish, a piercing line and a bullish harami line?

The answer is, they are indications of a market bottom if seen after a downtrend.

All three indices displayed these patterns by the close of this week. The Kuala Lumpur Composite Index (KLCI) closed last week higher by 21.02 points or 2.58 per cent, at 833.37 tracing out a bullish engulfing pattern.

The all-shares Emas Index rose 4.62 points or 2.3 per cent to close at 207.15, forming a "piercing line" pattern while the Second Board Index was dealt higher by 6.84 points or 3.3 per cent to close at 215,19, unifying a "bullish harami" pattern.

We wonder if investors realise that last week's close is the market's strongest in the last six long weeks? The last occasion the market saw such a strong weekly rise was on the week ending May 19.

Some astute investors could have sensed it and accumulated stocks since last week (which we did) but unfortunately, the vast majority are still fearful of further drops.

"I would rather wait till today to see how the market reacts to the release of the Central Limit Order Book (CLOB) shares into the KLSE before buying" is the typical reply.

Other than the CLOB issue, we asked investors if there are any other negative issues that could spoil any rebound. Up until June 28, the Federal Open Market Committee (FOMC) meeting on interest rates was still a dampening factor, but now, that's thrown out of the window. The Fed had passed on raising rates further in its Wednesday meeting.

The CLOB factor is therefore about the only reason one could give for not re-entering the market. But little do we realise that every time the market fell in the last six weeks, the CLOB factor was the excuse. It had been used so many times now by fund managers to justify selling down the market that even if there was a sting to it, it would have been blunted by now.

In other words, the market would have discounted most of it by now. Even if it wasn't discounted, investors tend to forget that CLOB's share release into the KLSE will be so small that it wouldn't make any dent to the market. Yet, people are psychologically affected by it - hence the lack of participation from the crowd.

This week, when all is clear after today more participation will return. And that would be the fuel we need to drive this market up the mountain.

Technically speaking, our proprietary indicator, the P.I. System Trader, have triggered a buy signal since last Wednesday. But we need the weekly charts to show a buy signal as well to confirm strength.

This week's buy signal would be triggered if the KLCI can cross the 842.54-point level, the Emas Index above the 210.34-point level and the Second Board Index above 222.40 points.

Talking to some remisiers recently, we sensed some fear in them, that online trading is about to threaten their livelihood. The signs are already written on the wall when the authorities announces a flexible commission rates from September 1.

Commission payable by clients on trades below RM100,000 would be fixed at 0.75 per cent from the present 1 per cent, while trades above RM100,000

will be freely negotiable.

If the reduction of brokerage commissions can be akin to pulling out their big molar tooth, then the impending mushrooming of online trading in Malaysia will have the effect of chopping off their hands and legs.

Just take a look at some statistics. In the US, there are now more than 500 brokerage firms on the Internet. The average US online investor does 25 trades per annum and the cheapest US online broker is US\$5 (US\$1 = RM3.80) per trade in commission.

The top five US online brokers are estimated to have more than 5 million accounts. Charles Schwab alone have more than 2 million account of which 60 per cent of their retail orders are now transacted online.

What about Asia? In Asia today, there are about 30 million Internet users and this expected to increase to 42 million by 2001. Asia has more than 100 online brokers with Japan, Taiwan, South Korea and Hong Kong leading the charge.

Spearheading this growth is South Korea where online brokerage reached US\$520 million in 1999. Online retail revenue grew by 200 per cent in 1999 to US\$2.8 billion. This year revenue is expected to increase to more than US\$7 billion.

In Japan, 18 brokers have gone online, in Taiwan almost 50 of Taiwan's broking firms are offering online trading - the highest in the region.

In Malaysia and Singapore, at least six brokers are already going online. Competition is so hot that brokerage commissions in South Korea has come down to as low at 0.02 per cent to 0.2 per cent.

As the online habit expands in line with Internet popularity and usage, competition is driving costs down fast. The brokerage house now merely becomes the conduit for orders. The middleman (the remisier in this case) is slowly becoming dispensable.

Our Prime Minister Datuk Seri Dr Mahathir Mohamad echoed this fear in the recently concluded Islamic Conference of Foreign Ministers (ICFM) when he said "goods previously imported in bulk by trading houses and distributors through local retailers now come in small parcels direct to consumers from dotcom companies thousands of kilometres away.

"The importers, distributors and retailers are all bypassed and will be largely wiped out. What is going to happen to our business is hard to imagine."

The Internet has definitely changed the way of doing business. The traditional brokerage house without online trading will not survive for much longer. Remisiers will become a protected specie very soon. So either they shape up or they get ship out by the Internet revolution.

The remisiers who will have a chance of survival will be those who can offer value added services to their customers. Those in the sales profession will agree that "the customer is always the king." With the onset of online trading, the customer may be even elevated to that of a demi-god.

What are these new tricks that the remisier must learn to stay alive? We shall address some of these points in the next week's issue. Unfortunately, not many remisiers will admit there is even a problem.

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