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Market forecast to climb for next three months

Fred Tham

THE benchmark Kuala Lumpur Composite Index (KLCI) made three new highs in five sessions last week to close 15.90 points or 1.98 per cent higher, at 814.99.

Last week's rebound was the least to be expected given the air of uncertainty surrounding the High Court verdict of ex-Deputy Prime Minister Datuk Seri Anwar Ibrahim on Friday. Fears of demonstration by supporters from the Opposition party had kept investors away.

The market reacted violently last Monday when it fell 14.14 points on intra-day trading to 784.95 violating our major support of 789 mentioned in last week's column. But a sharp rebound in the afternoon lifted the KLCI to close at 798.83 saving the market from what could have been another round of panic selling down to the next support at the 750 level.

Last Wednesday registered the weakest volume since March 30, 1999. Only 75 million shares was traded that day - just a shade higher than the volume traded on March 30, 1999 which amounted to 56 million shares. Remember, we mentioned in the previous week's column that "when volume is lowest, the market's turning point is imminent?"

March 30, 1999 saw a marked turning point for the KLSE when volume traded amounted to only 54 million shares. Two sessions later, the bourse staged a powerful rally, leaping from 498.57 (on March 30) to 527.56 by April 1, 1999.

History has repeated itself here because in exactly the same fashion, the KLCI rose from 802.53 last Wednesday to close at 814.99 on Friday, two sessions later.

In the 1999 scenario, the market never looked back from April 1, rallying in a straight line to top out at 870.39 on July 5 - 3 months later. That powerful wave turned out to be Wave 3.

People will say we are mad if we try to insinuate there is a link between last week's pattern to that from April to July 1999. Yes, it is a little too early to link the two. But we do not discount the possibility of a repeat performance, only that this time, any rally will be labelled a Wave 5 rally (see lower chart).

The bull divergence and oversold oscillators hint of an end to Wave 4 which lasted nearly six months - from February 18 to July 31, 2000. Low volumes are also signals of the bears' resolve nor willingness to sell any further. Bearish news is at its peak.

The verdict on Anwar, though postponed, is an example of "bad" news, perhaps one can even put it into the category among the "worst". Being the stubborn contrarian that we are, this type of situation would certainly warrant a "buy".

Some say that Friday's rebound was due to the postponement of the verdict on Anwar. But we believe that the rebound was long overdue and this news was just a coincidence. Why so?

We came to this conclusion because last Wednesday's prices and volume activity had already begun to show signs of an upturn. The 2-point premium on August futures over cash was a bullish signal. The next day, the market rose 7.34 points to 809.89 on higher volumes of 132 million shares - oblivious that the next day is D-day, the day the verdict was supposed to have been delivered.

What the market is saying is, the bearish event on Friday, even if it had taken place, would have been discounted by players.

From this week on, we should hear good news.

Last week, Prime Minister Datuk Seri Dr Mahathir Mohamad had already triggered the first piece of good news. The Government introduced the "prosper" scheme aimed at boosting Bumiputra participation in the retail sector. This may seem insignificant to some, but this move does contribute positively to the stock market.

We all know that markets cannot thrive when a country is in chaos. The ugly scenes in a neighbouring country will testify to this reality. Investors like countries with a stable socio-political climate besides pragmatic economic governance. This "prosper" scheme mooted by the Prime Minister and implemented with immediate effect, though criticised by certain quarters, is surely a step in the right direction to ensure economic stability.

All said, we are of the view that the market has tested a major bottom when it landed at 784 last Monday and the market successfully defended this level by a close above 789. If Ellioticians are looking for the end of "C" wave, then 784 should be it.

From this week, the market should start climbing and gearing itself for another two to three months of sunny uptrend.

We are looking forward to an upside target of 1,000 for a start and even 1,133 if 1,000 can be exceeded on the upside. We flipped through the charts and see many stocks at the end of Wave 4 or at the beginning of Wave 5. These stocks should be "accumulated".

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