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Players likely to wind down their portfolios ahead of holidays

Fred Tam

THIS week, the Kuala Lumpur Stock Exchange Composite Index (KLCI) lost ground on blue-chip selling to close 18.39 points or 1.92 per cent lower, at 935.57.

Main board stocks were relatively stable despite some early week profit-taking by institutions until Wednesday when an unexpected sell-off on shares belonging to the Renong group of companies spilled over to other counters. Time and its warrant were the centre of attraction this week - as well as confusion. After a strong burst of buying on Tuesday and early Wednesday, rumours of uncertainties over the outcome of Time's restructuring as well as Prime Minister Datuk Seri Dr Mahathir Mohamad's ill health reversed the market's sentiment. Time and its warrant especially, were up one minute but down in another.

Retailers were no doubt shaken by the sudden market reversal in the last half hour of trading on Wednesday and dumped stocks as though the Dow had just crashed through the roof the night before. Actually, Time's selling could be due to foreign hedge fund selling in the hope of buying some cheap stocks as they knew that's about the only way to get a low-cost entry after missing the boat most of the way since Malaysia implemented selective capital controls in 1998.

But investors should suspect the sell-off is just another stunt pulled by hedge funds for at the close on Wednesday February stock index futures was still selling at a premium of 13 points over cash - which implies the majority of players are still bullish about the cash market.

True enough, come Thursday, the market swung back up with Time and Time-W leading the pack. Though suspended on Thursday, Time and its warrant managed to gain 40 sen to RM3.48 and 42 sen to RM2.08 respectively. The Renong group also recouped Wednesday's losses on news that Time Engineering and its nine subsidiaries were given a three-month extension of its restraining order to April 28 2000 from the High Court. But renewed selling on Friday weakened these two stocks again though on a much lower volume.

Other lower liners especially those belonging to the property sector which was just beginning to flex their muscles from early week succumbed to Renong's sell-off and corrected in line with main boards. We would say that as a result of Wednesday's sudden plunge from hedge funds activities, investors' sentiment especially retail, is once affected. Since Wednesday retail investors have been seen winding down their portfolios. See, investors do not like uncertainty, and Wednesday's shock sell-down had dented their confidence.

We believe mid-week's rumours was detrimental and had an adverse effect on players' sentiment.

So what do we see for next week? We believe retail investors will likely continue to wind down their investments. This is especially so because of the long Chinese New Year holidays ahead which commences on Friday and extends to Monday. The KLSE will only commence trading on Tuesday. Not believing that there will be a post Chinese New Year rally this round will also be a major reason for winding down their portfolios. This reason perhaps accounts for the weakening of the indies since Wednesday.

Why do investors not believe there will be a post Chinese New Year rally this round? Our survey tells us that many are unloading stocks because they got burnt for buying on the last trading day before Chinese New Year

on February 12 1999 only to find there was no "gap-up" unlike the post Chinese New Year rally in 1998 where the KLCI rose 132 points from 569 to close at 701 when market reopened on February 3 1998.

All said, we believe that the ghost of 1999 will likely cause the majority of players to wind down their investments next week and wait-and-see after the holidays before deciding whether to re-enter.

Our views:

* While we feel that the main boards and second and third liners will likely continue to trade lower next Monday and even on Wednesday and Thursday (as Tuesday is a KLSE holiday) we are not too sure if one should buy back stocks on Thursday - not until the close of market on Wednesday.

* If by Wednesday's close, the market is still "technically positive", we would re-enter the market on Thursday (February 3) and await a post Chinese New Year rally when market reopens on February 8. In other words, this year could well be a 1998 scenerio. Because we can only know by Wednesday close, P.I Capital will be holding a special evening talk on Wednesday evening to inform investors if it would be wise to buy on Thursday (February 4) to prepare for a post-Chinese New Year rally on February. Readers wishing to attend our talk can contact P.I. Capital at 03-2455877 for more details or surf www.picapital.com.my.

* Next week, we believe that there is a good chance that tech stocks will hog the limelight. Semi-conductor as well as software and hardware and electronic related stocks will continue to rally very strongly. This will be helped by a strong Nasdaq closing on Friday. Judging by the Nasdaq chart (see chart above) it seemed to us that though there are bear divergences, Nasdaq has not reached its wave 3 target of 4,900. As such, it is possible for Nasdaq to make a new high - and if that is so, we expect our tech stocks to stage a strong rally.

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