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Selling pressure to persist if critical supports give way

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THE benchmark Kuala Lumpur Stock Exchange Composite Index (KLCI)'s initial three sessions of rally fizzled out in spite of Malaysia's official reinstatement into the Morgan Stanley Composite Indices this week.

Investors were also disheartened to see Malaysian stocks bucking the rising regional trend by ending the week "flat", at 891.25. Higher by a mere 6.68 points or 0.74 per cent from last week's 884.57 is no big deal. With all the hype from both foreign and local fund managers touting Malaysia as the destination for foreign funds with Malaysia's reinstatement, a rise of 6.68 points is shameful.

Moreover, the KLCI's weekly gains were possible only because of scant support from a handful of MSCI component stocks like BAT, STAR, EON, MPI, UNISEM, PBB-F and to a lesser extent from COMMERZ, AMMB, NSTP, UMW, MAS and JTIASA.

Most of the MSCI component stocks ended without much notice from fund managers. Some even bore the brunt of liquidations instead of support.

As such, any "steadiness" that we perceive of the KLCI is only an aberration. The overall market, which is better reflected by the KLSE Emas Index, is not that rosy (see chart).

This being the reality, our view last week - where we called for a "full-fledged bull run" starting from June 1 - may be wrong after all.

This is because if one looks at the KLCI daily chart, every rally had failed miserably in taking out its previous rally high. This week's high of 928.34, for example, is below the previous fractal high of 954.59 registered on May 22 (labelled as H3). And the high at H3 had also failed to exceed its previous high of 990.5 at H2, which in turn had failed to exceed the high of 1,021 at H1.

When a chart makes lower highs, it spells trouble as it meant that old bulls are taking profits. Who are these profit-takers? It is obvious they are the funds which had anticipated Malaysia's reinstatement into the MSCI and had accumulated since.

The KLCI daily chart revealed "accumulation" from October 1 1999 to December 6 1999 and than an "advance" from December 7 1999 (at the 730 level) where prices of index-linked stocks are rammed up, until the KLCI peaked at 1,021 on February 18 2000.

The phase from February 18 to June 2 can be labelled as "distribution", and since stocks and the KLCI are still making lower highs, profit-taking activity is still not over.

Lows are also important points to note as they indicate market supports. Fortunately for the KLCI, at 893.25 yesterday, the KLCI has still not violated its low on May 26, at 878.74 (labelled as L3).

If bears can succeed in taking out this low, the next crucial support will be the low on April 17, at 867.24 (labelled as L2).

Once this support breaks down, the bears are in total control, and the market can fall much further, even back to the level where they previously accumulated stocks just before ramming them up. Alternatively, they could stop at 835, 800 or 770, these being the various psychological support levels based on percentage retracements. One should consider reducing positions if the 887-880 support breaks down.

If the KLCI chart does not look so bad (as it is still above its neckline), it's a different story when it comes to the Emas Index chart (which reflects the overall performance of all KLSE stocks, including

second and third liners but excluding second boards). Note that at 225.15, this Emas Index (see lower chart) has already violated its neckline of a head-and-multiple shoulders formation or a wedge, which implies overall market weakness.

The Emas Index's next major support is the low of April 25, at 223.55. Next week look for this support to hold. Any violation of this support at 223.55 will mean a high possibility of sharp falls to test 200. Reduction of positions is one option in the event of a breakdown of this support.

Second Board stocks are also under selling pressure. Any violation of the Second Board Index below its April 25 low of 235 will likely see sharp falls. It is best to reduce positions if the crucial 235 support breaks down.

With talks that Clob shares will be coming into the market commencing from early July, and as well, with the resurfacing of rumours of a rift between Prime Minister Datuk Seri Dr Mahathir Mohamad and Finance Minister Tun Daim Zainuddin, the market badly needs extraordinary strong leads (and soon) to shore up the confidence of the already battered investor.

Most investors are sidelined. Some are waiting to come back in but many others are already calling it a day. The rally on May 19, when the KLCI staged a "flag breakout" to 950.62 could well be the trigger of a bull-run in anticipation of Malaysia re-entry into the MSCI, but it turned out to be yet another bull trap.

At this point of time, there is no buy signal at all, not until the KLCI can clear its moving average resistance of 914, the Emas Index above 234 and the Second Board Index above 256. Until then stay aside and even look to reduce positions if critical supports give way.

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