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High volume, rising prices a sign of bullish sentiment

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THE stock market's performance last week was simply astounding. What was very obvious was the unusually high volume being clocked by the local bourse - its highest in 16 months. The last time daily volume exceeded that of last Thursday's 709 million shares was on March 10, 2000 when it clocked 754 million shares. But that high volume of 754 million shares was registered in a downtrend, which was unhealthy.

The unusually high volumes, accompanied by a rise in prices across-the-board is sending a message that is as clear as daylight - and that is, bullish sentiments are back.

The benchmark Kuala Lumpur Stock Exchange Composite Index (KLCI) gained 27.75 points or 4.47 per cent to close at 648.78 - just short of the psychological resistance of 650 points. The Emas Index rose 7.84 points or 5.31 per cent to 155.61 while the Second Board Index was higher by 6.42 points or 6.06 per cent to close at 112.29.

Some will dismiss this type of unusually high volumes as a market top or buying climax as the past year has seen how these "killer" volumes gave false impressions of a trend change only to be followed by new lows. The trade refers to these bull-traps as "dead-cat-bounces". Investors have been tricked into buying as least six times last year since Morgan Stanley called for a reinstatement of Malaysia into its world indices.

But this time around, it doesn't look to us that this rally is another bull trap. We will try to justify this later on in this article. Fundamentally speaking, there are a few reasons to justify Malaysian stocks rising. The most important one being a change in the Minister of Finance which is now held by the Prime Minister, Datuk Seri Dr Mahathir Mohamad.

With the Prime Minister taking over this "hot" seat, we see things moving in the right direction. First there is talk that he is in favour of a corporate tax cut in this coming budget. Then he was seen wooing foreign fund managers in a closed-door meeting. Around the same time, the market saw the suspension of UEM and Renong.

The latest speculation was that a group led by state-investment arm Khazanah Nasional Bhd will make a takeover offer for all the shares of UEM at RM4.60 per share. The offer represents a 22.8 per cent premium over UEM's last traded price of RM3.56 before it was suspended last Wednesday.

The second reason for the higher stock prices in the last couple of months was the huge jump in crude palm oil prices from RM767 a tonne (third month futures) on May 13 to a high of RM1,236 on July 18 before closing last Friday at RM1,146 per tonne.

The third reason for the strong market now is because fund managers see Malaysia has having a more diversified economy than other countries in the region that is not totally dependant on exports of electronic goods and this buffers it against a slowdown in the US.

Coming back to the significant volumes clocked last week. From our research on the KLSE, we observed that when daily volumes exceeded 500 million shares in a rising market (it is important to emphasise the market is already rising) it is a clear signal that "new" funds are in our market.

A look at Table 1 will reveal that Malaysia, besides Indonesia, is the best performing bourse last week outshining South Korea, Thailand and the rest of Asia.

This is not the first time that we spoke of foreign funds coming into Malaysia. We had a double screen buy signal since June 8 at 575.75. and a triple screen buy signal on July 6 at 626.81.

Note that if by the end of July the KLCI can close above 620.48, then we will see a first monthly (long-term) buy signal after 15 months of downtrend. The last time we had a monthly "sell" signal was on April 28, 2000.

Another observation we have about high volumes in relation to price rises is this. For Malaysia at least, the character of this market is such that in a rising market, a registration of daily volumes exceeding 500 million shares is an indication that the current run is at a mid-point of a bull run.

Here are three examples from previous bull-runs to prove that when volumes start to exceed 500 million shares (in a rising market) it is only at the half-way mark and have not completed its run. Let us look at the above KLCI Chart where we saw 3 major runs since September 1998.

The first bull-run stretches from September 1998 to January 1999 (we call it Wave 1). The second bull-run stretches from April to July 1999 (we call it Wave 3) and the third bull-run stretches from December 1999 to February 2000 (we call it Wave 5).

* Example 1: The bull-run of Dec 1999-Feb 2000 (Wave 5)

* This bull run's mid-point was on January 3, 2000 (KLCI at 833.89) when it clocked 559 million shares. Daily volume gradually rose to 1.2 billion shares by January 17, 2000 (KLCI at 953). It then took a 10-session dip to 922 (with a volume of 439 million) by January 31 and then rose again to peak at 1,021 on February 18 with a volume of 1.32 billion.

* Example 2: The bull-run of April-July 1999 (Wave 3)

* This bull-run started on April 1 at 527 points on the KLCI but volume was unimpressive at 194 million shares. By April 26, half way into the run, daily volume had exceeded 500 million shares (at 643 million shares) with the KLCI clocking 673.90. Though at 500 million shares traded, it was not the end of the run. Volumes rose steadily to peak at 1.18 billion shares with the KLCI registering 775.73. The KLCI then dipped for 13 sessions to 731.01 by June 7, 1999 before embarking on another rally on high volume to peak at 1.63 billion on July 12, 1999.

* Example 3: The Bull-run of Sept 1998-Feb 1999 (Wave 1)

* This bull-run started on Sept 1, 1998 (KLCI at 261) but volume exceeded 500 million shares only on November 9, 1998 and the KLCI registered 465.69. This represented the half-way mark of this Wave 1 run. Both the index and volume continued to rally with volume peaking on December 4, 1998 at 900 million shares and the KLCI at 527.26. Thereafter, the KLCI continued to rise but on a much smaller volume to peak on January 22, 1999 at 621.57 with a volume of 394 million shares.

Conclusion: What we can conclude from this exercise:

1) From the three bull-runs analysed, by the time daily volume exceeds 500 million shares, the KLCI was already half-way into a bull-run. If history repeats itself, then we are now at the half way mark. Since the KLCI has risen 102 points (from 547 to 649), then the peak could be around 751.

The estimated target would then be pegged at around 746.

2) Volume wise, this run is not likely to exceed one billion shares as we are classifying this bull-run as similar to the Wave 1 run from September 1998-February 1999. The peak volume should stop short of one billion shares but the index should continue to climb on lower volumes.

3) The current rally is not over. It is now at the mid-point of a total run. It should peak at 746-751 before coming down for a strong correction. If this is also your view, then it is good to buy on dips, when the market

corrects.

But as in any Wave, it is the index-linked stocks and government-backed stocks that rally. You should therefore continue to accumulate index-linked and government-backed stocks.

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