

10/09/2001

KLCI ability to test 700 a morale booster for investors

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LAST week, Malaysia's Second Board stocks chalked up an impressive 8.33 points or 6.2 per cent gain to take the top place among all Asian bourses with a close of 142.98 followed by technology stocks in second place with a gain of 2.05 points or 4.13 per cent to close at 51.86.

The benchmark Kuala Lumpur Stock Exchange Composite Index (KLCI), which took a seven-session breather, staged a spirited rebound last Friday to break out of consolidation following a cut in gaming tax and comments by Prime Minister Datuk Seri Dr Mahathir Mohamad of an expected pick-up in the electronic sector in the fourth-quarter.

Week-on-week, the KLCI edged up 9.49 points or 1.38 per cent to 696.65 while the broader Emas Index rose in tandem by 2.53 points or 1.5 per cent to 167.11. The KLCI briefly flirted with the 700-mark for the first time in six months last Friday before profit-taking eased the index back down to 696.65.

Still, the KLCI's ability to test 700 last Friday was a psychological morale booster for investors who had all this while been sceptical if this run-up can last. Round numbers play a psychological role in influencing player's sentiments, which in turn will help determine the market's direction.

Taking out the 700-point psychological resistance is therefore an important step in soothing whatever remains of investors' uncertainties and scepticisms about our stock market.

In truth, our market has revealed its bullish hand as far back as last July 9 (at 620.70) when this column commented through our Funds Flow Table that foreign funds inflow is already evident. When the KLCI registered the highest volume this year of 709 million shares on July 19 (at 649.49), this column also mentioned that we are likely to be at the "mid-point" of a bull-run. But as always, market turning points are seldom believed until prices have moved way up like where we are now.

Now, players are beginning to shed their doubts on the sustainability of this run-up. The breaking out of the 700-point mark will no doubt help to change players' perception about our market.

When this break of the 700-mark happens, you will see investors flocking back into the stock market. Once again, remisiers will be a sought after lot, when just three months ago no one was interested in what he or she had to offer. When this phenomenon happens, we are at the three-quarter or four-fifth stage of the bull-run. The end game is about to come soon.

But for now, we believe there is room still for the market to move up. We would expect this stage of our bull run to be of faster pace. The charts are clear on this.

The Second Board index is the strongest of the lot and we expect powerful rallies on these counters. Next come technology stocks, as reflected by the bullishness of the Technology Index. The broader market will also be expected to move as the Emas Index is in a strong technical position as well.

All said, we expect the market to move up strongly this week and we are in one of the best positions in the past fifteen months to be investing in Malaysian stocks.

The funds that powered this demand for local stocks are largely of foreign origin - funds which had pulled out of other Asian countries like Hong Kong, Japan, South Korea, Taiwan, Australia and the Philippines to

countries like Malaysia, Indonesia and Thailand in that order. Even Singapore is a casualty this time around.

We have mentioned in our previous columns that weakness of Wall Street has helped send some funds to Asia and into Malaysia - and we were right. But many investors and fund managers instead believed that Wall Street, Hong Kong or Japan's lead is relevant before local shares can rally.

Well, look at them now. They are all in their doldrums and the Dow Jones is beginning to plummet below the 10,000-point level. How can one explain the local rally in the light of their weakness except for the theory of cycles that we have always subscribe to, and that is, hedge funds move in and out of countries in search of trading opportunities and right now the Malaysian, Indonesian and Thai markets are the most promising.

Economic cycles run counter to stock market cycles. One should buy when the news out there is exceptionally bearish and sell when news is extremely bullish. This is classical Dow theory.

Local investors were very bullish when Morgan Stanley reinstated us into their world indices in May 2000 but that should be a time to sell instead of buying. Our market fell from 1,021 on February 18, 2000 in spite of this good news until 15 months later when the KLCI bottomed out on May 21 this year at 554.36.

And the irony is, the bottom came when Morgan Stanley downgraded the stocks in the weekend of May 19-20 this year. Morgan Stanley announced that Malaysia's MSCI All Country Far East ex-Japan weighting has been reduced to 5.4 per cent from 8.6 per cent, its All Country World Index weighting reduced to 0.12 per cent from 0.29 per cent and its Emerging Market Free Index weighting cut to 3.99 per cent from 5.78 per cent. MSCI also dropped 20 stocks from its provisional Malaysia index and added 13 others.

Let us quote what was reported by a foreign news agency on May 21 just to prove our theory that one should buy on the worst news. On May 21 AFX-Asia News reported this: "Dealers said there is little reason for investors to buy into the market right now and market sentiment is still weak on lingering concerns over the economic outlook and the impact of the US economy. The only thing holding the market back is the ringgit peg and concerns over corporate governance. I think we are going to drift lower for a while because of the concern over the peg. A lot of things are keeping the market from moving and investors are not selling as they are just not interested at the moment."

For readers who are curious, the KLCI closed at 554.36 on May 21 and it never drifted any lower since - May 21 was our market's bottom! This is truly an excellent lesson from Dow's theory.

With that behind us, we should now be looking for the "best" news to sell. Have we seen or heard of the "best" news from the market? If you think we haven't, then this market can rise further. Start reducing positions and sell if you feel the news out there is just too good for it accommodate any better news. That time is not come yet.

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