

15/01/2001

Situational stocks see thin transactions

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THE benchmark Kuala Lumpur Stock Exchange Composite Index (KLCI) barely made it into positive territory last week thanks to British American Tobacco (BAT) and MPI.

BAT was up RM1.75 or 5 per cent to RM36.00 while MPI was higher by 50 sen or 3.2 per cent to RM16.10, helping the KLCI to close 8.72 points or 1.3 per cent higher, at 678.90. Had it not been for BAT and MPI's price rise, the KLCI would have ended in negative territory as heavyweights Tenaga, Telekom and Maybank failed to perform.

The market started well last week on Finance Minister Tun Daim Zainuddin's comments of a better performance on the local bourse after a successful meeting between UMNO Youth and Chinese lobby group SEQIU.

Bank Negara's statement of an increase in the country's foreign reserves from RM112.736 billion to RM113.565 billion and their reassurance of ample domestic liquidity to finance investments in Malaysia also buoyed market sentiments.

Other bullish news was an imminent Cabine reshuffle by Prime Minister Datuk Seri Dr Mahathir Mohamad and the listing of Time dotCom.

In anticipation of Time dotCom's listing, its parent company Time and related company Renong were heavily traded last week. Investors bought these two counters at a pace not seen since October 20 last year, chalking handsome gains for both. Time was up 29 sen or 15 per cent to RM2.20 while Renong was up 18 sen or 19 per cent to RM1.13.

But last week's market rally was not broad-based. Other than some situational stocks, the majority was thinly traded. The new settlement period of T+3 days had taken a toll on market volume as the normal "contra" investor is now marginalised. Without sufficient participation we wonder where the "fuel" is going to come from to drive stocks higher.

Given the strong of bullish news, the KLCI's single-digit rise cannot be said to be strong. Where have all the players gone?

Many have already been wiped out by the nearly one year of downtrend since the KLCI topped out last February 18, at 1,021. This round is the KLSE's worst. Even the 1998 decline was not that bad as the market fell for only five months from April 1 to September 1, 1998 before rebounding.

Never in our history (except for the 1997 decline where the KLCI also declined for 12 months from February 1997 to January 1998) have we experienced such a prolonged period of downtrend.

It is like Chinese water torture where you die a slow death. Much as we had gone through the "crash" of 1997 and should have learnt a lesson from it, many investors were caught unawares this round principally because the news in early 2000 was extremely bullish.

A foreign stock brokerage house called Morgan Stanley had in January announced the reinstatement of Malaysia into the Morgan Stanley Capital Indices by end-May 2000. Given this piece of supposedly "bullish" news, many investors entered the market from January. Even as the market was slipping, they held on, believing that come May 2000 the entry of foreign funds will help lift the index back up again. They were wrong.

No doubt there was a rally, from 900 points to 954 points by May 22, 2000 but that was as high as it went.

The KLSE made a swift turnaround and within three days, had fallen back below the 900 level. It made another dead-cat-bounce to 928 last May 31, trapping even more investors, before plunging to where we are now, at

678.90. In the interim, the market has made no less than 10 dead-cat-bounces!

Dead-cat-bounces are nothing more than a few sessions (at most 12 sessions as in the pre-Budget run of last October) of rally before plunging to make new lows. These bounces are partly the result of bargain hunting arising from a temporary oversold situation after an abrupt plunge in prices over too short a timeframe. But their rallies are temporary in nature and do not end up in a trend change.

It is these dead-cat-bounces that caused astronomical losses to investors. Every time the market rallies, they draw in players and invariably these players get caught holding onto them because prices continue to make new lows. And they don't sell them because they think Big Guy's (Morgan Stanley) announcement meant that sooner or later foreign funds will come to their rescue.

Well, we have waited until today for their support, but where are they? Some of us are still waiting but many are already dead and gone.

Let us all learn a lesson from this episode - and that is, don't we believe everything said or announced by Morgan Stanley or for that matter any "authority". News should be taken with a pinch of salt. At the end of the day, we should fall back on analysing the demand and supply of shares.

Unfortunately, the fundamental school doesn't have a "Sentiment Index" for us to gauge changes in demand and supply of shares. About the only way one can sense something is strong with Morgan Stanley's reinstatement statement is by looking at the highs and the lows of each stock and the indices.

If in spite of bullish news, the market and the stocks you hold keep making new lows and lower highs, you should sense that sellers are dumping shares at you. Should you still hold on to these shares? Definitely not. If you do, it's like trying to catch a falling knife. That is why a chartist would "sell" if a support breaks down.

The 700-point level support was broken last December 22, 2000. This breakdown implied sellers are still dominating market action. In other words they still don't see value at the 700 level. The KLCI then plunged to the 652 level on January 3 before rebounding to where we are now, at 678.90.

We are labelling this rebound a "Return Move" after a Head-and-Shoulder breakdown. Unless the KLCI can lift itself back above the 700 level, this Return Move is only temporary and the market should revert back to a downtrend phase.

A resumption of the downtrend could mean still lower prices with the KLCI possibly re-testing the 640 area. The other major downside targets will be 550, 450 and 360 although it is not necessary that the market must test these levels before bottoming out.

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