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`Stand against terrorism should boost market'

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THREE weeks of gains returned the Nasdaq composite index and Standard & Poor's 500 index to pre-terrorist attack levels and the Dow Jones Industrial Average near its pre-attack level.

Wall Street's three week's rally was a combination of better-than-expected earnings reports as well as the US "successful" attack on Afghanistan with little backlash from opposing nations. Companies such as Pepsico Inc and semiconductor maker Lam Research Corp reported quarterly profits that met or beat forecasts.

In Asia, markets rebounded in tandem with the Dow led by the Nikkei 225 index, Australia All-Ordinaries and the Singapore SES Index. But except for Japan, the other two indices are still a little below pre-attack levels.

Unfortunately, the three most lethargic Asian markets since September 11 are the Philippines, Indonesia and Malaysia's Kuala Lumpur Stock Exchange Composite Index (KLCI). Three weeks later, our KLCI is still languishing sideways with little buying interest. Week-on-week, the KLCI edged up 2.32 points or 0.38 per cent to close at 611.32. This is still 79.22 points or 11.4 per cent below the pre-attack levels of 690.54.

From table 1 on percentage gains of regional bourses, one can detect that weekly gains accrued more to countries perceived to be closer to the US or are seen to be more politically stable. Herein lies one reason why the Philippines, Indonesian and Malaysian markets tend to be lagging behind, as they are, rightly or wrongly, perceived by investors to be "less stable".

We mentioned in our column last week that demonstrations like that held by PAS in front of the US Embassy will do little to help project Malaysia as a moderate Muslim country. In the wake of the September 11 attacks, our country was one of the earliest nations to take a position in opposing terrorism, which put us in a positive light amongst investors.

Prime Minister Datuk Seri Dr Mahathir Mohamad was very clear on that even in the first few days after attack and he pledged to work with the US to root out this political plague. Our stand with America to fight international terrorism earned us valuable points that were reflected by the strong 25.88 points rally of September 19, which took the KLCI from 607.64 to 633.52.

But why was there no follow-through thereafter? Whereas other countries like Singapore, Hong Kong, Japan, Australia continue to rise above September 19's high, our KLCI and Emas Index are still languishing below that level. Why did funds switch out of Malaysia into other Asian countries when just before the September 11 attacks, Malaysia was the most favoured Asian financial destination? It would seem to us that after the attack, foreign funds prefer to park their funds into countries seen to be "safer" (read as more anti-terrorist). But isn't Malaysia's anti-terrorist stand clear enough? Didn't we take a position on terrorism long ago? The answer is yes we did. Our Prime Minister did, but our good name has since been smeared by the opposition party, PAS, who opportunistically organised street protests in front of the US Embassy as well as vowing to send their members to Afghanistan to fight the US-led forces. PAS' stand is clearly inconsistent with that of our Government. They are indeed throwing a spanner in the works.

It is our view that the opposition party's actions in organising these

demonstrations have instilled fear amongst investors. This is one major reason why Malaysian stocks are sold down in favour of other more moderate countries. We had said in last week's column that, "at times like these any country perceived by investors to be sympathisers of the terrorists cause will face selling pressure."

"In this context, Pas protest in front of the US Embassy is in bad taste. Malaysia's good image as a moderate Islamic country - under the strong leadership of our Prime Minister Datuk Seri Dr Mahathir Mohamad and with the cooperation of the Barisan Nasional component parties - may be seriously marred by these irresponsible elements. Towards this end, the Government should seriously consider taking action against them or we will risk our stocks being dumped, not only by local but foreign investors."

Last Friday, there was another round of protest at the US Embassy and water cannons had to be used to disperse the unruly crowd. A nearby-uncompleted building was mysteriously burned. Our question is, will these irresponsible acts help to shore up investors confidence? Why are we doing exactly what some radical Indonesians are doing at the US Embassy in Jakarta? We have much to lose if foreign investors leave our country and withdraw their investments.

If you believe things need to get worse before they can get better, then continue to stay out of the stock market. If on the other hand, you think things will only get better from now, by all means start "accumulating" now. You'll have to be a brave investor to do that!

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