

Herd mentality wrong approach

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PRIME Minister Datuk Seri Dr Mahathir Mohamad chided Malaysian investors yesterday for their herd mentality and for relying too much on cues from foreign investors when investing in the local stock market.

Dr Mahathir said as long as Malaysian investors had such a mentality, the KLSE Composite Index (CI) would not reflect the actual performance of local companies and the country's economic fundamentals.

He said in his Budget 2003 speech: "Today's domestic investors' decision to invest in the stock market is not based on economic fundamentals, real value of companies' assets and profitability. They are only influenced by the market behaviour of foreign investors."

Dr Mahathir said foreign investors had their own agenda, and to them the value and performance of Malaysian companies are not important. "What is important to them is to

only reap capital gains from the fluctuations in share prices."

Lamenting that, unfortunately, market sentiments in the stock market influenced the "feel good" mood of Malaysians, he said: "The CI is not

the sole indicator of our economic performance. There are many other indicators that reflect the actual performance of the economy."

Dr Mahathir said that the majority of Malaysian companies were financially stronger than foreign companies.

"Reports indicated that Malaysian companies had made millions in profits, with some even exceeding RM2bil," he said.

He added that these companies have high value assets and as such the real values of the shares of these well-managed companies are higher than their market value.

"However, as investors are influenced by fluctuations in the Dow Jones and the analyses of foreign experts, the CI remains subdued. The shares of our Malaysian companies continue to be undervalued," said Dr Mahathir.

Datuk Megat Najmuddin Megat Khas, who is president of the

Malaysian Institute of Corporate Governance and of the Federation of Public Listed Companies Bhd, echoed the Prime Minister's views that local investors are not making their investment decisions based on fundamentals.

"The herd mentality and the gambling attitude of local investors have been there for years. This is the wrong approach (to investing)," Najmuddin told *Star Business*.

He said investors should have no reason to sell their shares if the companies they had invested in were well run and practiced good corporate governance.

On another note, SJ Securities' head of research, Anthony Dass, said he agreed with the statement that the local stock market was undervalued.

"The market is currently trading at a price earnings ratio of about 17 times, a 26% discount to its historical average," Anthony said.