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Poor response despite good news

By Michael Lee

FEDERAL Reserve policy makers said United States (US) hiring 'has lagged' and inflation is expected to stay low, allowing them to be 'patient' before raising borrowing costs. The Federal Open Market Committee voted unanimously to leave the overnight bank-lending rate at 1%, the lowest since 1958, according to a statement after a mid-March 2004 meeting. The US economy is creating fewer jobs at this stage of expansion than any recovery since World War II, even with gross domestic product forecast to expand this year at the fastest rate in two decades, and home sales reaching record levels. Companies have become more efficient, and the Fed said that while employers are firing fewer workers, 'new hiring has lagged'. Fed Chairman Alan Greenspan told Congress recently he expects hiring to pick up 'before long', without saying when. The Fed's measure of stable rates has given the US market a small price rebound after a large price sell-down following a terrorist attack in Madrid a few days earlier.

The Employees' Provident Fund has allocated RM1 billion more for its equity portfolio, adding to an earlier RM3 billion allocation, The Business Times said, citing its deputy chief executive officer for investments, Roslan A Ghaffar. Strong local buying in mid-March (ahead of the Malaysian general election) also lifted the bourse above the 900-point mark, as investors bet the ruling coalition would win a bigger majority in the general election, allowing it to continue with its economic reforms and crackdown on corruption. 'Election optimism prompted investors to buy stocks, ahead of an expected bigger winning majority for the ruling coalition,' said a local fund manager in Kuala Lumpur.

The 14-party Barisan Nasional coalition, that has ruled the country since independence in 1957, won a massive two-thirds majority on March 22, giving it a mandate to continue its rule. Datuk Seri Abdullah Ahmad Badawi, who took over as prime minister from Tun Dr Mahathir Mohamad five months ago, has promised to tackle corruption and be financially more prudent.

TECHNICAL READINGS

Kuala Lumpur Stock Exchange Composite Index (KLCI) (897.87 points, March 23, 2004)

The KLCI's February 2000 high of 1,021.20 points is its Wave 5 high (after September 1998). Since then, it has declined as follows: Wave 1 at 867.24 points, Wave 2 at 954.59 points, Wave 3 at 547.72 points, Wave 4A at 701.76 points and Wave 4B at 589.88 points. The Wave 4C rise ended at 816.94 points on April 23, 2002.

Since then, the market has fallen in a minor 5-Wave pattern as follows: Wave 'i' at 786.84 points, Wave 'ii' at 800.05 points, Wave 'iii' at 703.91 points, Wave 'iv' at 750.33 points with the Wave 'v' low at 614.00 points on Dec 3, 2002. The KLCI then stalled at 675.97 points (Jan 22, 2003). Its next key low was established at 615.77 points (March 11, 2003). (The Wave structure after the next KLCI low of 621.11 points was of a 'Flat' variety, suggesting great caution had investors bought on rallies.) After this low, the KLCI rose on its extended Wave v/5 move to its recent high of 918.95 points (March 22, 2004).

Some of the KLCI's signals are now positive (except its bearish divergent MACD and Stochastic sell signals). Due to its mixed signals, the KLCI may trade between its support and resistance areas. The KLCI's key support areas are now located at 868, 878 and 893 points, whilst its key

resistance areas are situated in the 897, 918 and 932- point zones. Its 12-month high-low range is 918.95 and 615.77 points respectively.

Kuala Lumpur Stock Exchange Second Board Index (SBI) (140.10 points, March 23, 2004)

The SBI's February 2000 high of 313.89 points is its Wave 5 high (after September 1998). Since then, it has declined as follows: Wave 1 at 237.85 points, Wave 2 at 304.31 points, Wave 3 at 97.60 points, Wave 4c/A at 147.46 points and Wave 4B at 100.87 points. The Wave 4C rise ended at 147.80 points on April 19, 2002. Since then, the market has fallen in a minor 5-Wave pattern to its final downward extension Wave v/5 move at 90.18 points (on March 11, 2003). It then rose to a significant high of 157.13 points on Nov 5, 2003.

Some of the SBI's signals are positive (except the DMI and Stochastic). Due to its mixed signals, the SBI may trade between its support and resistance areas. The SBI's support areas are now located at 132, 134 and 138 points, while its key resistance areas are situated in the 140, 150 and 157- point zones. For the medium-term, the SBI has made a key double bottom at the 90-point level and reached a key high of 157.13 points with extremely overbought signals. Its 12-month high-low range is 157.13 and 90.18 points respectively.

Dow Jones Industrial Average Index (DJIA) (10,064.75 points, March 22, 2004)

The DJIA made a significant high of 10,673.10 points (on March 19, 2002), followed by a temporary low of 7,197.49 points (on Oct 10, 2002). Its next key high was at 10,753.63 points on Feb 19, 2004. Its support areas of 9,850, 9,903 and 10,012 points will be weaker, while its resistance areas of 10,064, 10,521 and 10,754 points will be the levels where stale bulls cap its rise and investors liquidate on rallies. All the DJIA's signals are negative. Due to its negative signals, the DJIA will trade towards its support areas. Its downside potential has increased greatly, due to its obvious bearish signals and emerging downtrend. Its 12-month high-low range is 10,753.63 and 7,979.69 points respectively.

NASDAQ Composite Index (Nasdaq) (1,909.91 points, March 22, 2004)

The Nasdaq made a significant high of 2,098.88 points (on Jan 9, 2002), followed by a temporary low of 1,108.49 points (on Oct 10, 2002). Its next key high was formed at 2,153.83 points on Jan 26, 2004. Its support areas of 1,841, 1,878 and 1,900 points will be weaker, while its resistance areas of 1,909, 2,055 and 2,153 points will be the levels where stale bulls cap its rise and investors liquidate on rallies. Due to all its negative signals, the Nasdaq may trade towards its support areas. Its downside potential has increased greatly, due to its obvious bearish signals and emerging downtrend. Its 12-month high-low range is 2,153.83 and 1,253.22 points respectively.

Analabs Resources Bhd (Analabs) (RM1.18, Net Tangible Asset (NTA) - RM1.37, Price Earnings (PE) - 33.7x, March 23, 2004)

Analabs made a significant recent low of RM0.99 (on Feb 4, 2004), with grossly oversold and bullish divergent signals. Its support areas of RM0.99, RM1.08 and RM1.18 may be zones to buy, while its resistance areas of RM1.34, RM1.38 and RM1.61 may be zones to take profit and dispose it on rallies. Investors may buy Analabs on dips, due to some of its positive signals (except the MACD and Stochastic). Its upside target areas are at RM1.39, RM1.52 and RM1.66, while its stop-loss level is at RM0.97. Its 12-month high-low range is RM1.61 and RM0.99 respectively.

Boustead Holdings Bhd (Bstead) (RM1.99, NTA - RM3.43, PE - 7.7x, March 23, 2004)

Bstead made a significant recent low of RM1.29 (on Dec 22, 2003), with grossly oversold signals. Its support areas of RM1.66, RM1.87 and RM1.99

may be zones to buy, while its resistance areas of RM2.08, RM2.27 and RM2.58 may be zones to take profit and dispose it on rallies. Investors may buy Bstead on dips, due to most of its positive signals (except the Stochastic). Its upside target areas are at RM2.18 and RM2.45, while its stop-loss level is at RM1.64. Its 12-month high-low range is RM2.08 and RM1.05 respectively.

Redtone International Bhd (Redtone) (RM2.07, NTA - RM0.08, PE - 147.9x, March 23, 2004)

Redtone has risen from its opening IPO low of RM1.19 of Jan 9, 2004. Its support areas of RM1.80, RM1.89 and RM2.07 may be zones to buy, while its resistance area and all-time high of RM2.09 may offer token selling activities only. Investors may buy Redtone on dips, due to all its positive signals. Its upside target areas are at RM2.33 and RM2.50, while its stop-loss level is at RM1.78. Its 12-month high-low range is RM2.09 and RM1.19 respectively.

VADS Bhd (Vads) (RM3.44, NTA - RM1.91, PE - 13.0x, March 23, 2004)
Vads made a significant recent low of RM2.37 (on Jan 15, 2004), with grossly oversold signals. Its support areas of RM3.10, RM3.20 and RM3.44 may be zones to buy, while its resistance area of RM3.50 and RM3.56 may be zones to take profit and dispose it on rallies. Investors may buy Vads on dips, due to most of its positive signals (except the Stochastic). Its upside target areas are at RM3.56 and RM3.78, while its stop-loss level is at RM3.06. Its 12-month high-low range is RM3.56 and RM2.37 respectively.

CONCLUSION

World markets that had surged to new recent highs are now at risk if any unexpected or adverse news emerges to upset global fund managers further. The Madrid bombings are an example of what may happen to global bourses if such unexpected news emerges to spook investors. All major global bourses (with the exception of Australia and New Zealand) look risky investment propositions for the time being. Any active terrorist activities will continue to spook the financial equity markets.

The local market was quite resilient until March 22, with some post-election buying that surpassed the profit-taking activities on that day. Some heavy liquidation and profit-taking had capped the market's advance on March 23, 2004, with British American Tobacco (M) Bhd, Malayan Banking Bhd and Genting Bhd among the heaviest losers that day. Some bearish divergence has emerged (indicating waning upside for most stocks) but some interesting and technically strong stocks (at the time of writing) that investors may look at are Analabs Resources Bhd, Bina Puri Holdings Bhd, Boustead Holdings Bhd, Country Heights Holdings Bhd, Eastern Pacific Industrial Corporation Bhd, Jaya Tiasa Holdings Bhd, Kim Hin Industry Bhd, Redtone, Ta Ann Holdings Bhd, Vads, White Horse Bhd and WTK Holdings Bhd.

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