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Four counters spook bourse rally

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LAST week, the initial market rally on lower-liners and Mesdaq on the Kuala Lumpur Stock Exchange (KLSE) was spooked by unusual activity on four second board stocks, two of which registered "limit-down" for two consecutive days.

Their sudden sell-off triggered panic across-the-board last Thursday and Friday resulting in many stocks losing their gains. As these four stocks were retail-driven, Mesdaq and other second board counters were most affected.

For the record, Kimble lost 51.47 per cent last week, plunging from RM5.75 to RM2.79, on a high weekly volume of 22,85 lots done, Kai Peng tumbled 46.2 per cent from RM2.90 to RM1.56 on unusually high weekly turnover of 80,34 lots and Emivest lost 26.6 per cent while Premium lost 18.1 per cent weekly.

What was unusual about the falls in this "Gang of Four" was their sharp plunges were not preceded by any adverse announcements of business activity. In this sense, the first two - Kimble and Kai Peng - have even exceeded the infamous Enron's record, which registered the worst weekly fall at only 40.9 per cent in the week of October 26 2001. In Enron's case there were warnings as early as October 16, 2001 when it announced a third-quarter loss.

Most investors were confounded in last Thursday's mayhem and had to rely on rumour mills to rationalise the falls of these second board stocks.

What was heard on the street was that a syndicate head was "arrested" by the authorities or police. A day later this was found to be untrue but it was too late for an investor to act.

For the believers of efficient markets, this example will vindicate them as prices had immediately reflected all available information.

The only difference is, in this case, the information was not through an announcement but through the rumour mills. However, if an event study were to be conducted there could be the finding of the presence of cumulative abnormal returns (CAR) which imply insider buying and selling.

CAR aside, this type of malicious rumours spread to trigger panic-selling has a familiar ring to it as it had happened before in the Sinmah case. As can be seen from the comparative charts of Sinmah, Kimble and Kai Peng, the "distribution" patterns are similar - all sharp and abrupt so much so that there is little chance for investors to cut-losses.

The fact that volumes are so huge on the plunge implies major players are getting out. The question is; Why are they getting out when there is not even a bad announcement?

Under the circumstances, shouldn't the authorities query the respective companies immediately? When prices rise sharply we notice the authorities clamp down on them like in the HWGB case. But nothing is done when a company's stock price falls sharply. Why so?

There are various types of insider selling. The Enron-type is one with gradual declines until after it has been known to be bad through official announcements.

This debacle once again underscores the importance of looking at fundamentals before leaping. If one chooses to buy speculative stocks be prepared to stay close to the price quote screen and have an understanding of what technical analysis is all about.

On the KLSE this week we expect to see the KLSE Composite Index (KLCI) moving higher in line with strong Wall Street performances last Friday. Both the Dow Jones Industrial Average and the Nasdaq chalked up new 52-week highs by last Friday's close as investors were upbeat by positive economic data, a jump in manufacturing report and consumer spending.

These positive numbers as well as strong technical readings in the US are expected to propel the KLSE higher.

On the local scene Budget 2004, changing of the guard from Datuk Seri Dr Mahathir Mohamad to Datuk Seri Abdullah Badawi as the new Prime Minister in October and the anticipated General Elections in December are some of the reasons for a bullish KLSE.

But let us see if the KLCI can break the 816 resistance convincingly first. If so, we will change our views. Until then, do not expect too much.

Be happy with 816.

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