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Selective rally on value stocks

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THE benchmark Kuala Lumpur Stock Exchange Composite Index (KLCI) hoisted itself to a new 13-month high, a level not seen since July 5, 2002.

Week-on-week, the KLCI gained 14.84 points or 2.04 per cent to close at 743.35 on renewed buying ahead of the tabling of the 2004 Budget on September 12 by the Prime Minister and Finance Minister Datuk Seri Dr. Mahathir Mohamad.

The KLCI is not the only bourse that registered new weekly highs last week. Of the 15 indices monitored, 13 made new weekly highs.

Only the KLSE Second Board Index and the Technology Index have yet to exceed their old highs of July 18. In our column last week, we noted that ten indices made new highs. This implies an additional three indices - Indonesia, South Korea and Nasdaq-improved upon their previous week's performance.

We mentioned last week that when an index can scale a new high, it implies that bulls are firmly in control of the market. With the addition of three more indices making new highs by last Friday, making a total of 13 indices, it is clear that bulls will continue to dominate activity.

On another bullish note, we observed that the number of indices making it to the status of a "bull run" have increased from four to eight. In last week's column, the Mesdaq, KLCI, Emas and the Thailand indices were in a "bull-run' mode but as of last Friday's close, another four - Japan, Singapore, Indonesia and Australia - had joined the club.

Note, although the Dow fell 74-points last Friday to close at 9,348.87, this close is still viewed as technically bullish because this is the Dow's highest close in 14 months.

The last occasion we saw a higher Dow was in the week of June 14 2002 when it registered 9,474.21.

Just as bullish is the Nasdaq, which closed at 1,765.32, making a 16-month high.

Technically speaking, this high number of bourses closing above 52-week highs across Asia, Europe and in the US tell us that investors are bullish on stocks. But in spite of such clear technical signals of recovering global equity markets, many investors in Malaysia have not been impressed with the half-hearted rallies on the KLSE thus far.

Some would not even categorise this current uptrend as a bull-run. We would not disagree with them if their definition of a bull run is the type of bull markets seen in 1993/94, 1996/97 or even 1999/2000.

In the 1993/94 bull run for example, Granite rose from 58 sen to RM15.50

and in the 1996/97 bull run, MCSB climbed from RM5.00 to RM40.00, Transwater Corp rose from RM10.00 to RM110.00 while Hwa Tai defied gravity momentarily when it shot up from RM9.00 to RM208.00. Surely, we are nowhere near these types of irrational exuberances.

But note the existence of the three-year cycle for the KLSE. In 1993/94, it was the main board that saw action. In 1996/97, it was the second boards, and in 1999/2000 it was more the technology stocks.

This time around (2002/03), we are witnessing a very selective rally comprising mainly of value stocks.

This selective rally could have been brought on because, after the Enron debacle and the subsequent emphasis on corporate governance and transparency, funds are more cautious and picky. Action should therefore revolve around value stocks for this 2002/2003-market cycle.

Besides value stocks, we see a resurgence of the local technology sector following the footsteps of Nasdaq. The current technical rebound on Nasdaq could well have inspired a mini-rally on our local Mesdaq stocks.

The other possible reason why investors are targeting Mesdaq stocks is because of their relatively "clean" balance sheets and lack of stale bulls as compared to many second board stocks, which were hurt by the Asian financial crisis.

Mesdaq stocks were fortunate enough to have "missed" both the financial crisis of 1997 and the tech bubble of 2000 either by a stroke of luck or by design, as Mesdaq was launched only on March 18, 2002.

Oil and transportation stocks are also on a strong bull-run this time around and should not be missed out.

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