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Strong uptrend signal seen

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THE bull is back! After eight sessions of market correction since June 12, the benchmark Kuala Lumpur Stock Exchange Composite Index (KLCI) is now seen resuming its uptrend.

Week-on-week, the KLCI was the fourth best performing bourse in Asia, up by 9.01 points, or 1.32 per cent, to close at 691.45 points. But the bourses that stole the thunder from index-linked stocks were Mesdaq, Technology and Second Board stocks, which took up the top three places (see table).

The Mesdaq index was up a whopping 8.71 points or 9.29 per cent, the Technology Index by 2.03 points or 4.33 per cent while the Second Board Index 3.32 points or 3.17 per cent.

Yet, in spite of the rebound from a major support at the 675 level, local investors and analysts are still cautious, citing weakness in the US economy and "negative" news from the local economy.

Here is where fundamentals appear to be in conflict with the charts, as the fundamentals are not explaining or supporting what the market seems to be doing. John J. Murphy noted in his book, Technical Analysis of the Futures Markets, "it is at these crucial times in the trend that these two approaches seem to differ the most. Usually they come back into sync at some point, but often too late for the trader to act".

In this case, it is quite clear from the technical viewpoint that indices globally (not just Malaysian indices) have reversed their downtrend as their respective indices have exceeded their secondary highs.

For the KLCI the secondary high was at 675, Emas Index at 165, Second Board Index at 106, Mesdaq Index at 97 and the Technology Index at 47. As at last Friday's close, all five KLSE indices have exceeded these highs.

The Dow Jones, too, had exceeded its secondary high around the 9,000 level on June 4 and rose to a high of 9,406 on June 17 before pulling back to the 9,000 "resistance-turned-support" area (see chart).

To us, this pullback is "no big deal" and it should rebound from this area to test its 2002 high of 10,700 points. Nasdaq, is also enroute to test its 2002 high of 2,099 points.

If both the Dow Jones and the Nasdaq can hit their 2002 highs, it is possible to see the KLCI testing 816 points, registered on April 23, 2002.

Based on last Friday's close, all five KLSE indices showed buy signals on our proprietary indicator - the P.I. System Trader - on all three timeframes; daily, weekly and monthly, triggering a "triple screen" buy.

This scenario implies a very strong uptrend ahead.

Here is our analysis of the market based on last Friday's price and volume activity. If the KLCI and all four other indices can close higher than 694.44, and volume can exceed 881 million shares this round, then we really got a very strong bull run ahead. But, if volumes cannot exceed 881 million, stocks would still rise, but the potential bear divergence could well signal this next rally to be the final run-up to form the market top for 2003.

Note that there were "up-gaps" on all five indices last Friday and prices broke out of a consolidation (flag). The presence of gaps hint at a strong rally ahead, and we are labelling this a "runaway" or "measuring" gap, viewed by chartists as the midway of a bull-run. Using this classical technique of measurement, the next target should be at the 760 level, before a major correction takes place.

Many stocks will see new highs that are higher than the June 12 high. As such, investors should get loaded for this trip. Examples are Symphny, YTLCE-Wa, EONCapital, EPMB, Kimble, Kwantas, Petra, Rhythm, Sapura, Tawin and Uniphon. These were stocks highlighted in last week's column.

This week, stocks are expected to rally across-the-board.

Here are just some of the stocks we are looking at: 3A, BTech, GHYSys, Glosoft, MCMTech, Krnsoft, Symphny, Willow, Eng, Formis, Lityan, LKT, MPI, Patimas, Suntech, Suninc, Sapura, Uniphon, Utusan, Abric, Granite, Avenue-Wa, Commerz, CIMB, DMIB, DRBHicom, DRBHC-WA, Edaran, Engtex, Harvest, Intria, MPlant, MPlant-Wa, NSTP, MRCB, PMInd, RHBCap, Topglov, Yeaik, YTL, YTL-WB, YTLLand, YTLPower-Wa, YTLCE-Wa.

One possible reason why stocks are likely to rally further is market talk that our Prime Minister Datuk Seri Dr Mahathir Mohamad may lift the controversial exchange controls, which were put in place five years ago. Recent statements by the Prime Minister urging Malaysian companies to switch to the euro for trade and the continued weakening of the US dollar added fuel to the speculation that the ringgit peg to the US dollar will eventually be removed.

A lift should see foreign money coming back into the stock market. As such, achieving the 760-800 levels is not impossible.

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