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Players bullish on Valuecap entry

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WHO can be timelier in calling a "buy" than Prime Minister Datuk Seri Dr.

Mahathir Mohamad? On January 9, he said that Malaysian stocks were not reflecting their fundamentals and suggested a "buy".

On January 10, a new fund, Valuecap Sdn Bhd, was reported to have entered the market and that triggered, what is by now, a sixth session of gains.

For six consecutive sessions, prices rose in tandem with volume - something we haven't seen for the past nine months.

Last week's volume was the highest since April 19 2002 while the KLCI topped Asia in terms of performance with 34.71 points or 5.46 per cent gain, ending last week at 670.53.

Table 1 shows that Malaysian stocks were the best in Asia.

Despite the overbought market from six days of rally, government-linked stocks continue to be supported by funds. There is talk that Valuecap did not really buy into stocks as yet.

Announcement of its entrance is enough to spur a buying spree. They expect foreign funds to sell down at higher levels, and only then will Valuecap move in to buy.

Stocks that have fallen to rock bottom levels because of poor fundamentals, like Granite, Kejora, Tenggara, Artwright, Eden, Fourssn, GPlus, Haio, Lonbisc, MFCB, Bernas, Nexnews, PWE, Bernas, Poly, Setegap and THGroup, are beginning to attract retail interest. Many of these second board stocks and lower liners have moved up to last September's highs.

The question now is whether the rises can be sustained, especially that lower liners are beginning to move? Have the country's fundamentals really changed or was it just market sentiments?

When prices can test September's highs within one week, it can't be due to changes in the company or fundamentals. In all probability, we would attribute these rises to a change in the market's psychology, a change in players' perception brought on by Valuecap's entry.

This leads to the next question.

"Is the rise in prices too fast and can it be sustained?" Remember it's the market's psychology that is pushing prices higher, not fundamentals?

Market psychology has always been an underestimated factor as a mover of markets. Though intangible, it has a strong impact on demand and supply relationships as is proven in this case. News of Valuecap's entry has tilted the demand-supply relationship in favour of the bulls, resulting

in
frantic buying which drove prices up.

But just like a relay team, where the first runner passes the baton to the second and so on, who does the fourth and last runner pass the baton to?

A market driven by sentiment has its weakness. It behaves like the baton passing analogy of the relay team. What will happen after the last speculator has bought? Who is going to take over this baton from the last speculator?

When everyone has bought and no one supports the market any further, what would happen to prices? It should fall, right!

Not necessarily. As long as players' perception of the market, in other words, sentiment remains bullish, few will sell their shares. In that scenario, selling pressure will not be strong enough to cause a price plunge but merely trigger a pullback or correction. Furthermore, by then new factors may come into play, providing fresh impetus for further rallies.

Summing up, we believe that news of Valuecap's entry into the KLSE has succeeded in changing players' perception. While previously, players fear that prices could fall further inspite of an undervalued market, and hence remained non-committal, Valuecap's participation has turned market psychology the other way around. Now, local and foreign funds have jumped in for fear of missing the boat.

This "buying-on-fear-of-missing-out" syndrome had an infectious effect of creating new waves of buying capable of absorbing any selling. As a result, share prices remain supported.

The market's momentum has taken over and this could drive the market even higher. Though sheer sentiments won't last, the positive vibes generated by news of Valuecap's entry can sustain a rally for a few months before the market discounts it.

It would appear that Charles Dow's 100-year-old theory, that, "a trend in motion will remain in motion" is still very much applicable in today's world, as history tends to repeat itself.

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