 By Datuk Mohd Salleh Majid

What's With The Stock Exchange?

The Malaysian stock exchange does not seem to have fully recovered from the 1997 beating it took. In fact, it has lately been recording lower trading values compared with bourses in the region.

RECENT concerns about the way things are going with the stock market is perhaps one reason why Bursa Malaysia held a one-day conference of regional commissioned dealers' representatives recently.

On Aug 26, dealers from Thailand, Singapore and Malaysia put their heads together to gauge what the future holds for the region's stock markets. These are the group that saw their income shrink as the years went by, caused not only by domestic structural changes but also by shrinking volumes.

For example, from January to July 2005, the value of share trading on Bursa Malaysia was US$ 32.885 billion, down 14.8% from the same period in 2004. Singapore showed a decline by 1.896 to US$ 65.133 billion for the same period. Thailand was down by 18.8% to US$ 60.328 billion.

However, Jakarta was up by a hefty 89.6% to US$ 26.698 billion. The Philippines also showed a hefty increase of 156.6% to US$ 4.577 billion.

For the whole of 2004, Bursa Malaysia recorded a total value of trading of US$ 61.636.4 billion, compared with US$ 52.2334 billion in 2003. Jakarta recorded US$ 27.517 billion, compared with US$ 14.652.4 in 2003. Singapore chalked up US$ 107.247 billion (US$ 91.928 billion) and Thailand US$ 116.381 billion (US$ 102.420 billion).

One noticeable fact based on these figures is that the Malaysian exchange has been recording a lower value of trading compared with others in the region except Jakarta. The volume was indeed shrinking and the first half of this year was no better. It is not surprising that remisiers or commissioned dealers' representatives are concerned.

One observation made by a market analyst is that post-1997, retail investors who have been the major supporters of the market have decreased their activity. In fact, it is not wrong to say that some of the losses incurred during the financial crisis have yet to be recovered. Most have cut off and moved on to other things, swearing never to enter the market again.

Meanwhile, the hardcore retail investors have hung on, hoping for a return of the mid-90s bull. Recent positive excitement in the market has included the de-pegging of the ringgit, an event that was very much anticipated, however discounted it was by the time it actually happened.

The excitement was short-lived since too much volatility of the currency might cause unstability. The millstone that is hanging around the market's neck is none other than the ever-increasing oil price. Nothing on the horizon points to a lowering, and higher oil prices (possibly hitting US$ 100 a barrel) has too much implications for the economy.

First, the Government would have to deal with the thorny issue of subsidy - to give or not to give. Giving is costly to the Government and not giving would mean a spiralling cost of living caused by consequential increased cost of manufactured goods and transportation. Even fishermen have stayed away from the sea because of the high diesel price. As a result, prices of fish have hit the roof.

The scenario against a background of higher oil price is gloomy, no matter how good the planning is. Unless new sources of energy are discovered in the next few years, OPEC, the cartel that controls the world's oil prices, will be tempted not to lower them.

Over the years, development within the structure of the market, especially in relation to commission charges, have posed tough challenges to remisiers - to stay in the business or to move onto other things.

The growth in the unit trust business has been tremendous, confirming further the changing pattern of consumer involvement in the market.

The posture adopted has been one of caution and unit trust funds provide this security in investing. This is in fact a strange phenomenon. If indeed retail investors were moving towards institutional funds, a possibility supported by the proliferating of funds in the market, then the market through the institutional purchase or support should show a higher volume of trade.

As for foreign investors, since figures are not readily available and their accuracy sometimes doubtful, it is difficult to gauge their support. However, based on past trends, it is quite safe to assume that foreign investors have not come into the market like they used to.

Maybe the attraction of other emerging markets has caused them to shift their attention. In fact, Jakarta and the Philippines, though recording a smaller absolute value of share trading, showed a tremendous increase of 89.6% and 156% respectively.

There has been quite a number of developments taking place within the last 18 to 24 months in the Malaysian market including the listing of the exchange itself. The coming of six universal brokers, for whatever it is worth, each with no less than 18 branches, is another.

While negotiable commission is inevitable, income without higher volume will shrink further. These developments, while possibly noted by the foreign institutional and retail investors, may need to be clearly explained to them.

Perhaps a lunchtime briefing with the top foreign investment houses to coincide with the Prime Minister's address to the United Nations later this month is a possibility the stock exchange might want to take.

Arrangements to invite the Prime Minister to officiate the function and to have a dialogue with the chairmen of these houses would do a lot of good.

Similar roadshows could be held at other financial centres, including those in the Middle East. These dialogues, which could be participated by the Securities Commission, the Central Bank and a few listed companies, should help to clear the air over a number of rather unpleasant issues, such as the day when 10 stocks hit limit-down (in May this year), and questions over the future of the Mesdaq market.

Domestically, educational programmes must go on. The exchange need not dovetail its programmes with those of other institutions such as Permodalan Nasional Bhd's unit trust week since the latter is more on the safety of investing through unit trusts.

More creative ways of creating interest among retail investors, such as via radio or television programmes or even competitions among institutional investors or higher educational institutions based on good investing practice, should be developed.

While it may be assumed that Bumiputera investors are the least knowledgeable on the subject of the stock market, the whole retail market generally needs guidance. A sizeable amount should be set aside for this purpose rather than refunding the excess funds of the exchange to the shareholders. **mb**

The writer is the former president of the KLSE (now Bursa Malaysia).