

## **Najib's RM20 bil mistake to shore up market**

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**On Sept 14, the prime minister said ValueCap will be armed with RM20 billion to shore up the stock market by investing in undervalued Malaysian companies. But the question is whether this is really necessary.**

Fresh from announcing a special committee to help the national economy navigate the recent turbulence, Prime Minister Najib Abdul Razak made another intriguing announcement on Sept 14: a RM20 billion allocation to shore up the stock market.

The question though is whether this is really necessary.

The swings in the stock market does not necessarily reflect the state of the economy and the announcement raises the question whether such a large allocation could be put to better use.

Is this ultimately an attempt to combat undervaluation driven by poor sentiment or a futile effort to delay an inevitable correction?

According to a [Reuters report](#), the RM20 billion will be allocated to equity investment firm ValueCap, which will use the funds to invest in undervalued Malaysian companies in the stock market.

“The government will reactivate ValueCap with funds of RM20 billion,” the prime minister was quoted as saying. “ValueCap was established in 2002 as an entity to support undervalued stocks and the result was effective as it managed to stabilise the stock market.”

First, it is only fair to recognise that there are valid reasons to stabilise a turbulent stock market. There are simple possibilities in terms of ripple effects that might ensue from a prolonged downturn in the stock market, which might indirectly affect the economy.

Fear, for example, may drive retail investors to cut their losses now, and in turn, decide to hoard cash as savings and spend less. Plunging share prices of large listed firms may lead to shareholder pressure on management to cut costs too much to push for security, potentially killing off some jobs in the process and hurting growth.

But these effects are hard to quantify and harder still to justify. They remain understandable worries if the FBM KLCI index, which represents Bursa Malaysia, had been showing mind-boggling swings such as those seen in China's stock markets earlier this year. But it hasn't.

According to Bloomberg, FBM KLCI has fallen by 10.33% over the past year and by 6.6% in 2015 to date as of Sept 14. A bulk of that fall was over a three-week span in August, which saw the index fall from 1,744.9 points on Aug 3 to 1,532.14 points on Aug 24 – a 12% dip.

That is by no means catastrophic, considering Bursa Malaysia was, until recently, the world's longest bull market from October 2008 to mid-2014, over which it grew by 127% in value, according to Bloomberg's MSCI All-Country World Index.

It does not stretch the imagination to think some corrections may have been coming for certain counters on Bursa Malaysia which makes up the benchmark index, exacerbated by the global oil price plunge since last year, as well as the prolonged capital outflow and political uncertainty in the country, among other things.

In particular, the relatively sharp August dip coincided with a number of headwinds in the international markets as well as sharp declines in the ringgit, alongside various political controversies which did not help investor sentiment at all.

So why do we need to set aside so many billions to prop up the stock market? Up to a certain extent, a slight share price dip does not discernibly affect a company's business operations – why bother so much with it?

One possibility is that the government may be looking to address declining public confidence in the economy. However, it is important to distinguish that the stock market is not the economy and neither necessarily reflects the health of the other at any given time.

At best, spending so many billions to buy into certain counters to prop up the Malaysian stock market would only benefit the stock-buying population – a small group relative to the country's population – by limiting their paper losses or even reversing it.

And even then this benefit depends on which stock is being supported by virtue of being deemed as “undervalued”. This raises further questions: What criteria will have

to be met for a counter to be deemed as undervalued and thus requiring some of these funds to support it?

If the purpose is to support the benchmark FBM KLCI, the list of potential counters shrinks dramatically to just 30. Even then not all would have been regressing in value equally – which do you buy into and how much? Investing in such a select few counters raises questions of whether how such discretionary spending of so much public money is decided and who ultimately benefits.

If the funds are meant to shore up share prices throughout the stock exchange as opposed to just the FBM KLCI 30, the murky waters grow deeper. Which companies are undervalued and will there be enough of the money to support everyone? Can the government prop up all counters which are deemed undervalued? Should it?

The answer to that last one is no. The capital market is one of risk and reward: investors decide which company to put their money into, ideally after much thought and due diligence, and take the risk that they might lose some or all their money if it turns out that they had chosen wrongly and didn't get the returns they had hoped for.

If the government starts propping up the market with abandon, then essentially it becomes a lesser risk scenario for investors – a scenario that is hard to sustain. That is not how the capital market is supposed to work and many a country has found out in the past that it is not easy to fight the market trend.

The government can excuse an intervention in the event of unnatural and incredibly major market turbulence which may carry negative ramifications to the country; but in all other scenarios, the government should stay out, let the appointed regulator keep watch and let the market find its own path.

What it can and do to improve long-term confidence in the economy and by extension to the stock market, however, is to bring about proper governance measures within government, cut corruption, and improve transparency and accountability as part of badly needed measures to restore confidence.

Take care of such big picture changes and ensure that this is translated into minute detail by those institutions who are supposed to watch over governance and ensure transparency and accountability, and the market will take care of itself.

**GRRRRR!!!**

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