MINORITY SHAREHOLDERS WATCH GROUP
Badan Pengawas Pemegang Saham Minoriti Berhad (524989-M)

The Observer

(Following the announcement made by Prime Minister, YAB Tan Sri Muhyiddin Mohd Yassin on 16 March 2020, in relation to the Restricted Movement Order, effective from 18 - 31 March 2020, to contain the COVID-19 outbreak, public listed companies have postponed their general meetings to a later date. Hence, there will be no Weekly Watch featured on newsletter).

WHILE OUR NATION'S HEALTHCARE FRONTLINERS ARE BATTLING TIRELESSLY AGAINST THE COVID-19 PANDEMIC, WE URGE OUR READERS TO STAY HOME (EXCEPT FOR ESSENTIAL NEEDS), STAY SAFE AND STAY HEALTHY!)

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The perils of margin trading

Many minority shareholders are learning the hard way that margin financing can be a double-edged sword during the current spell of market turbulence. Obviously, during the good times, margin loans can be the best of friends to many retail/minority investors.

After all, a margin account extends convenience vis-à-vis the credit facility to expand one's investment horizon – either to leverage returns, for cash flow convenience or for creating a de facto line of credit to meet working capital needs.

This is unlike the conservative and straight forward cash account which might restrict one's stock market exposure to investing with only cash-in-hand (on the hindsight, such account boasts the advantage of limiting one's losses should the market enter a prolonged bearish phase).

To begin with, share margin financing are provided by both conventional banks (regulated by Bank Negara Malaysia) and brokerage-related facilities (regulated by the Securities Commission).

On top of having to pay a higher brokerage fee for every transaction (compared to cash investment), investors leveraging margin financing need to plan around the yearly interest rate charged by the bank which can range from 4% to 7.5%.

Amid the current volatile-cum-bearish stock market, it is inevitable that margin call will become a norm for active margin account holders. Henceforth, it is pivotal for them to bear in mind the following situations:

- Their brokers have the right to liquidate if their margin call is not met after the grace period.

- To further rub salt to the wound, their brokers may also impose charges on the above transaction(s). The investors are responsible for any losses sustained during the above processes.

Vicious cycle

There is no mercy in margin calls. Inability to meet margin calls will trigger forced selling with millions of shares queuing to sell.

When margin selling strikes, it sweeps across swiftly and brutally. Brokers or investment banks are insensitive to the prices at which stocks are sold – the dumping process can take place anytime once the client is unable to top up his/her account. In all fairness, margin call hits both lay investors and company owners.

Amid current market carnage, Censof Holdings Bhd was forced to liquidate some of its stakes in Dagang Nexchange Bhd (DNeX) at a loss to meet margin loan facility requirement. It has sold a total of 114.51 million DNeX shares since 11 March.

In total, the expected loss on the shares disposal had amounted to RM29 million in group level after the forced selling. Censof still owns 170.54 million shares or 9.7% stake in DNeX.

Besides, also recall that how Prestariang Bhd's president and group CEO Abu Hasan Ismail lost his entire 24.3% equity in the company he founded in 2011, leaving him "stake-less".

On 18 December 2018, Prestariang informed Bursa Malaysia that Abu Hasan was forced to sell his entire 117 million shares to rectify personal margin account position held by his private investment vehicles Ekohati Sdn Bhd, Sigma Dedikasi Sdn Bhd and Anjakan Evolusi Sdn Bhd.

Earlier on 22 and 23 October 2018, Abu Hasan had also disposed his 3.13% of Prestariang shares to rectify a personal margin position.

Unfortunately, the hard truth remains that all investment banks must force sell their customers' shares to protect their own interest.

As observed by a seasoned investor who is also an avid stock promoter, "the more forced selling, the more the price will drop which will create more forced selling".

In the current market scenario, the over-leveraging on margin trading – the very notion that bargains abound when market crashes – can be a costly mistake. This is true to the age-old Wall Street adage that the market can stay irrational longer than one can stay solvent.

To those who wish to pursue the margin financing path, bear in mind that margin buying tends to work better when the market is moving upward. When the market takes a dive, the gigantic wave will sweep away everyone mercilessly.

It is therefore worthwhile to heed the advice of renowned stock trader and phenomenal author Mark Minervini, "If you are a beginner, trade with an amount of money that is small enough so that you can afford to lose it, but large enough so that you will feel the pain if you do. Otherwise, you are fooling yourself".

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