

## MINORITY SHAREHOLDERS WATCH GROUP

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD

(Incorporated in Malaysia – Registration No.: 200001022382 (524989-M))

The Edge Malaysia – Monday, February 1, 2021 (C) – Part 1

# MARKET MANIA OR A REVOLUTION IN THE MAKING?

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The local bourse could absorb the full swing of short-selling activity, but hopefully it won't dampen the current high retail participation – Lau



The underlying Robinhood effect seems to have spread here, with fragmented small-time retail investors grouping through Telegram and Reddit. – Yoong



There is a risk of irrational exuberance on the part of retail investors whose emotions may be whipped up by crowd frenzy – Devanesan

Now, where shall we begin? “GameStop” was on the lips of almost everyone in the investing fraternity last week.

Shares of GameStop Corp have jumped more than 10 times – from US\$31.40 on Jan 14 to US\$347.51 last Thursday (Malaysian time) – as Reddit-obsessed retail investors, with the help of technology, coordinated a massive short squeeze on at least two hedge funds that had bet that the shares of the US video game retailer would fall.

Drawing inspiration from the GameStop rally and the WallStreetBets chat room, a new forum on social aggregator Reddit, dubbed “BursaBets”, was created by Malaysian investors on Thursday evening, plotting to buy up rubber glove stocks.

Then, a spoof of the face-off between the two groups based on *Avengeurs Assemble* went viral on Friday morning. The video shows retail investors teaming up as superheroes in the final battle against Thanos, who represents the short-sellers and a prominent foreign fund.

At the time of writing, at least 7,300 retailers have joined the BursaBets forum. Meanwhile, a Telegram chat group aggregating investors to unite against short-sellers of Top Glove Corp Bhd now has 30,000 members.

But industry observers are quick to point out the difference. First, unlike in the US, short-selling in Malaysia is regulated. Besides, the short-selling ratios – short-sell value against market capitalisation – of Malaysian stocks remain very low, at single-digit.

Recall that in the first trading week of the new year, investors on Bursa Malaysia shorted RM1.7 billion worth of shares in the big four glove counters, namely Top Glove, Hartalega Holdings Bhd, Supertmax Corp Bhd and Kossan Rubber Industries Bhd.

As at Jan 27, the net short-selling on Top Glove stood at 239.45 million shares, equivalent to barely 2.9% of the company’s outstanding shares, according to data from Bursa Malaysia. Kossan had the second-largest net short-selling position with 55.6 million shares, or 2.18% of its share capital, followed by Hartalega’s 47.06 million, or 1.38%. The fourth counter was Serba Dinamik Bhd, with a net short-selling position of 36.88 million shares or 1.09% of its share capital.

Using football as an analogy, the gegenpressing tactic – counter-pressing the opposition right after losing possession of the ball – does not work if your opponent just sits back and does nothing.

Likewise, in stock trading, if the short-selling pressure is not intense enough, a short squeeze is not likely to occur simply because the short-sellers were not chasing after the stock in the first place. And even if they do, there are still plenty of stocks for them to pick up in the market.

Simply put, the retail investors are merely fighting an imaginary enemy. Having said that, while the whole GameStop phenomenon is not likely to happen in Malaysia, the underlying Robinhood effect seems to have spread here, with fragmented small-time retail investors grouping through Telegram and Reddit.

The power of social media was demonstrated last August in Hong Kong, where the share price of Next Digital, which operates *Apple Daily*, jumped more than 1,000% in a day after the arrest of its founder Jimmy Lai on charges of violating the national security law and colluding with foreign powers. A month later, however, 15 people were arrested by the Hong Kong police for stock price manipulation.

Given the buying frenzy in GameStop, there have also been calls for scrutiny of social media posts, which could be seen as driving pump-and-dump schemes, and hence, potentially destabilising the stock market and hurting investor confidence.

But nobody will deny the impact of social media on the global stock markets today. Are we witnessing a social media-driven stock-market revolution?

### Disruption to traditional ecosystem

Calling it “a new game in town”, Minority Shareholders Watch Group (MSWG) CEO Devanesan Evanson says retailers mobilising via social media to drive share prices up whenever there is a feeling that short-sellers are driving prices down will disrupt the traditional stock-trading ecosystem.

“There will be an element of crowd-fed-investing frenzy and there is a risk of irrational exuberance on the part of retail investors, whose emotions may be whipped up by crowd frenzy,” he says in an email reply to *The Edge*.

With regard to the popularity of trading chat groups, he points to Securities Commission Malaysia’s (SC) recent Guidance Note on

Value of selected shares  
shorted on Jan 27

COMPANY	SHORT-SELL VALUE (RM MIL)	MARKET CAP (RM BIL)
Public Bank	2151	84.63
Top Glove	15.16	49.83
Hartalega	3.24	41.82
Supertmax	1.73	17.17
Pentamaster	1.57	4.54
Malaysia Airport	1.35	8.46
Maybank	1.23	89.83
Genting Malaysia	1.05	13.85
Lotte Chemical	0.498	5.5
Hibiscus Petroleum	0.391	0.958
DRB-Hicom	0.376	3.44
Sime Darby	0.348	15.31
Mah Sing	0.342	1.99
Sunway REIT	0.285	4.76
Genting Plantation	0.271	8.81
Greatech	0.266	7.32
AirAsia Group	0.257	2.27
Vinson	0.247	5.65
Malaysia Building Society Bhd	0.223	4.19
Alliance Bank	0.203	3.87
Time dotCom	0.197	8.28
IGB REIT	0.191	5.84
D&O Green Tech	0.186	3.31
British American Tobacco	0.186	3.79
Pavilion REIT	0.165	4.17
IJM Corp	0.162	5.58
Gamuda	0.16	8.5
Sunway Bhd	0.158	7.43
Malaysian Resources Corp Bhd	0.145	1.7
IOI Properties	0.13	7.21

Provision of Investment Advice, which has created a sense of awareness among those who may run afoul of the law by giving investment advice – which is a regulated activity – without a licence.

“There is a new forum on Reddit called BursaBets, where Malaysian retail investors discussed buying up stocks of glove makers. Their issue was that the share prices of glove companies had dropped in recent months despite the increasing profits reported by these firms. They are obviously inspired by the recent rally at US firm GameStop.”

Devanesan says it is up to the regulators to decide whether such activities fall under the definition of manipulation.

“The gist of the activity is that one, or a group of retail investors, encourages other retail investors to buy the shares of a particular counter with the intention of driving up the prices. There is a risk that the party

**Top Glove, which has been the main target of short-sellers in Malaysia, rose 53 sen or 8.53% to close at RM6.74 last Friday – paring its gains after reaching its intraday peak of RM7.12**



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GameStop is currently one of the most discussed stocks on WallStreetBets

which is urging others to buy the shares, and to drive up the prices, may actually be unloading their shares at the higher prices," he explains.

He advises minority shareholders to exercise diligence and be aware of the risks involved in such initiatives.

Regional private equity investor and former investment banker Ian Yoong acknowledges that the amount of information on stock trading traversing social media is phenomenal.

"Pump-and-dump exercises are common. These exercises are usually thematic. The more recent popular themes are gloves, vaccine, steel, solar power and government projects. In the 1990s bull run, the popular themes were lottery businesses in China and government projects. There is nothing like euphoria to drive up share prices," he tells *The Edge*.

Yoong points out that the Robinhood effect has spread in Malaysia via WhatsApp and Telegram as well as investing sites such as i3investor.com.

"The success of retail investors following investment advice on social media is highly dependent on the source of the

advice. To paraphrase Warren Buffett in his quote about Wall Street, social media is the only place where millionaires listen to investment advice from unqualified people, in many instances. There are indeed good advisers but they are rare. Ask yourself, why would successful investors be giving advice rather than investing for themselves?" he says.

Yoong further says the WallStreetBets forum on Reddit, where small investors discuss stocks anonymously, has inspired many retail investors in Malaysia.

"BursaBets has a very good chance of mobilising and consolidating retail investors into a formidable force. BursaBets can succeed and continue to succeed if the participants earn good profits, which retail investors did in GameStop, for now. But if the history of financial markets is a guide, the impact will be short term," he predicts.

"The main obstacle that BursaBets has in driving up the prices of glove stocks is the large number of stale bulls. Top Glove peaked at RM9.77 a few months ago. There will therefore be numerous sellers between the current price and RM9.77," he explains.

Glove counters were in high demand last

Friday, pushing share prices sharply higher thanks to calls made by groups of retail investors over social-media to take on the short-sellers. However, the buying spree lost some steam mid-morning, with all counters retreating from their peaks.

Seven of the glove stocks listed on Bursa Malaysia "gapped up" after the opening bell, starting the trading day at prices higher than Wednesday's closing.

Rakuten Trade Sdn Bhd vice-president of research Vincent Lau says it was a good attempt by local retailers to prop up the share prices of glove stocks last Friday, judging from the "gap up" in the opening prices.

"It is a spillover effect, which is good and healthy, as our market also needs retail participation," he tells *The Edge* over the phone.

While there is some resemblance between the action by Malaysian and US retailers to fight against institutional funds, he points out that the two markets are not comparable as the retailer base in Malaysia is much smaller, while the US market has retailers coming from all over the world.

As institutional funds seek returns from short-selling activity, he expresses concern over the possible lifting of the intraday short-selling (IDSS) ban after Feb 28, as more stocks could be short-sold via IDSS.

"IDSS is more worrying compared with RSS (regulated short-selling), which is limited to big-cap stocks, whereas IDSS includes mid-cap stocks.

"RSS is more on stocks like Top Glove and Supermax. The cumulative value is not that heavy," he explains.

The suspension of RSS was lifted on Jan 1, but the regulator extended the ban on IDSS by proprietary day traders (PDT short-sale) to Feb 28.

Lau believes the local bourse could absorb the full swing of short-selling activity, but he hopes that it won't dampen the current high retail participation, a scenario not seen for 20 years.

**Don't come down too hard on them**

Despite local retailers being a strong force, a research head from a local bank-backed research firm who declined to be named does

not foresee the drastic share price movement in GameStop happening in the local equity market.

"We don't deny that retailers are playing an influential role in the market now, but whether or not they can pull off something like that is still a question mark," he tells *The Edge*.

Compared with the short-selling ratio of almost 200% for GameStop, he stresses that Top Glove's open position is just 2% to 3%.

"It is very different from what we have seen in GameStop, which has many short-sellers. The idea of squeezing out short-sellers is nothing about fundamentals, but just sentiment and emotion."

He says social media, chat rooms and blogs have been an influential platform for retailers looking for trading ideas, but the issue of stock manipulation prevails.

"With social media, the dissemination of ideas and information is much more efficient, but it cuts both ways. While helping drive market efficiency, it creates a lot of avenues to spread fake news to manipulate stock prices."

Since last year, there has been high retail participation, accounting for more than one-third of market trade.

A director of a local private equity firm, who only wants to be known as Lim, is of the view that the regulators should not come down too hard on social media or its users.

"I do not think you can stop anyone from giving their views in i3investor or other social media, although the SC has been clamping down a lot on unauthorised stock advisers. I think stock investment education is important; Malaysians should learn how to fish themselves rather than just following blindly," he stresses.

Lim, however, admits that Malaysian investors are generally not as mature as those in the US.

"While I think the SC has done a good job in protecting retailers, as a short position comes with unlimited risk versus a long position, an efficient market should be able to operate freely without any intervention. Nevertheless, I am not sure if the Malaysian stock market can absorb massive short-selling pressure," he warns. ■