FOCUS MALAYSIA - APRIL 1-7, 2017 (A)

markets

FocusM | April 1-7,

Firmer tone ahead of Q1 close - 47

## Be wary of market manipulators

# They may take advantage of current bullish market trend



to firm above the 1,700-point level – probably backed by foreign funds which mopped up a cumulative net purchase of RM3.23 bil between March 1 and 24 (February 2017: RM956 mil) – it makes valid sense to be vigilant against various manipulative activities which WITH the FBM

trading platforms.

Bursa Malaysia recently issued a rare industry communication letter thrive on the social media and internet

investor blogs, chat groups (eg Telegram, WhatsApp and WeChat)/chat rooms, electronic bulletin board postings (on Facebook) or online newsletters. to inform their trader representatives and clients to be wary of scams - in particular "pump and dump" schemes misleading statements/news/rumours in seeking the assistance of stockbrokers carried out through the spread of false/

To a further query by *FocusM*, the market regulator nevertheless clarifies that the letter "only served as a precautionary action to alert market participants", contrary to common perception that "pump and dump" schemes are prevalent in the marketplace.

"Bursa will continue to monitor trad-

ing activities and take necessary actions (eg unusual market query, market alerts, etc," it points out. "Whenever a breach of our rule is detected and established, imposition of enforcement actions on the Securities Commission (for possible offences under the Capital Market & Services Act 2007)," the errant brokers, dealer representatives and/or such other parties registered by Bursa Malaysia will be taken; as for violation of laws, case referrals will be made to

#### **Common traits**

In welcoming the market regulator's latest action, stock and futures market analyst Fred KH Tam observes that many lower liners and penny stocks continue to post record volumes and price rallies despite their dubious financials.

"Technically, we see a lower liner [penny stocks] bull rally this round besides the FBM KLCI index rally," he tells *FocusM*. "In our technical view, it is not so much due to pushing by syndicates but a re-rating after being left out in the cold since our ringgit treatened in 2014" weakened in 2014."

Tam shares some traits (and examples) of stocks might be subject of "pump and dump" exercise: Strong price ascent and trading volume surge prior

to share price collapse:
IFCA MSC Bhd rose from eight sen on March 14, 2014 to a high of RM1.87

- on May 20, 2015 for a 2,237% gain before crashing to close at 42 sen on March 27.

  XOX Bhd started its ascent from 13 sen on Sept 7, 2015 to a high of 70.5 sen on Nov 20, 2015 all in a spell of two months before slumping to 13 sen within the next six months.
- Vivocom International Holdings Bhd rose from six sen on May 11, 2015 to a high of 29.5 sen by May 13, 2016 for a gain of 391% before declining to 16 sen by March 27.
- Tek Seng Holdings Bhd rose from 39 sen on Aug 25, 2015 to a high of RM1.43 on May 18 for a gain of 266% before retreating to 67 sen
- Sketchy valuations: Be careful if financial numbers are not reassuring or financial ratios are exorbitant. For example, IFCA, whose share price skyrocketed by more than 2,000% in 2015, disappointed the market with a loss of RM5 mil for its six months
- Reverse takeover (RTO) merger:
  Reverse takeover (RTO) merger:
  There is nothing wrong with an RTO merger unless the deal is ill-conceived and fails repeatedly, thus eroding public trust. For example, Kuantan Flour Mill Bhd's recent failed RTO with Felcra Bhd was not its first. In March 2015, a proposed RTO by water-filtration company, NEP Holdings (M) Bhd (which sells water filtration system products under the Diamond brand), was called off iust two months after the proposal explored the possibility of switching to a new business model through a proposed RTO with autoparts man-ufacturer APM Automotive Holdings Bhd but the deal, too, did not come to two months after the proposal inked. Earlier in 2002, KFM had

 Horn blowing: Aside from having tech-savvy public relations teams who are able to make unsubstantiated statements on





Education is key to inculcating right trading habit, says

roadshows to tout their company promotional news or hearsay to lure followers, some listed companies even went to the extent of organising

credentials.

Trading surge: The rise of the share prices is accompanied by heavy volume. Unless the stocks are backed (hence, ramping up share prices), only to be followed by the dumping of an enormous quantity which would their assets), such high volume can be deceptive given syndicates may be acquiring large block of shares by corporate developments (right issues or fund managers reviewing trigger an avalanche effect on stock

Some current examples of heavy volume small-cap technology stocks thought to benefit from the Digital Free Trade Zone initiative launched by Prime Minister Datuk Seri Najib Razak recently are Dataprep Holdings Bhd (unusual market activity query issued on March 17). Efficient E-Solutions Group Bhd. Bhd, Cuscapi Bhd, AppAsia Bhd, Rev Asia Bhd, Public Packages Holdings Bhd, KYM Holdings Bhd, Boon Koon

## Investing knowledge is key

ing retail investors who generally may Minority Shareholder Watchdog Group (MSWG) general manager Lya Rahman sees Bursa's latest reminder as benefit-

> resources to make informed investment decisions. not be as sophisticated as institutional investors in terms of knowledge and

greed and lack of discipline – to chase rising stocks," she says. In Lya's opinion, the challenges to inculcate the right trading habits can be summarised as:

Lack of sufficient stock investment follow the "Many retail investors may likely ow the herd instinct - coupled with

Check technical charts to separate news from hearsay, says Tam

- knowledge;
  Greed and indiscipline;
  Short termism (many look for quick gains or even resort to contra trading);
- proper investment techniques such as fundamental or value investing. "The solution to inculcating the right Unwillingness to spend time to master

investing and be constantly reminded of investment risks, particularly in the context of manipulative activities." to be educated on fundamental or value trading habits is, therefore, to address the above issues/challenges and the key word is 'education," she asserts. "Investors have

### Nefarious schemes

Malaysian Investors Association president Datin Ho Choy Meng opines that the warning by Bursa should be viewed syndicates. to curb nefarious schemes by market as a proactive stand by a market regulator

unusual market activities queries to companies that show flurry of activities without solid basis," she says. "Let the manipulators know that their activities are being closely monitored. Let the herd instinctive buyers of such stock beware." "Another proactive step to protect stock market investors is to issue early

Additionally, market regulators can choose to strictly enforce regulatory ruling that requires listed companies to release vital information without long delays, according to Ho. "But such information – be it positive or negative – must be true and accurate," she stresses. "In

the final analysis, investors will be able to make informed decisions."

Moving forward, Ho reminds retail investors on the need to safeguard their capital by emphasising on cash flow to take advantage of buying opportunities and the constitution of birth conformations. and the acquisition of high performance stocks with good values, attractive price-to-earnings ratio, sound balance sheets

and proven track records.

"At the end of the day, always remember that a stock's past performance does not guarantee its future performance," she adds.



