

# Be wary of market manipulators

They may take advantage of current bullish market trend



by Gheah Ghor Sooti

WITH the FBM KLCI continuing 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: RM1956 mil) – it makes valid sense to be vigilant against various manipulative activities which thrive on the social media and internet trading platforms.

Bursa Malaysia recently issued a rare industry communication letter seeking the assistance of stockbrokers and clients to be wary of scams – in particular “pump and dump” schemes – carried out through the spread of false/misleading statements/news/rumours in investor blogs, chat groups (eg Telegram, WhatsApp and WeChat)/chat rooms, electronic bulletin board postings (on Facebook) or online newsletters.

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 trading 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 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 the Securities Commission (for possible offences under the Capital Market & Services Act 2007).”

## 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 are re-rating after being left out in the cold since our ringgit weakened in 2014.”

Tam shares some traits (and examples) of stocks might be the 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 RMI.87



Market regulators can strictly enforce ruling that requires listed companies to release vital information without long delays, says Ho



Check technical charts to separate news from hearsay, says Tam



Education is key to inculcating right trading habit, says Lya

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

“Many retail investors may likely follow the herd instinct – coupled with 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 knowledge;
- ▶ Greed and indiscipline;
- ▶ Short termism (many look for quick gains or even resort to contra trading); and
- ▶ Unwillingness to spend time to master proper investment techniques such as fundamental or value investing.

“The solution to inculcating the right trading habits is, therefore, to address the above issues/challenges and the key word is ‘education’, she asserts. “Investors have to be educated on fundamental or value investing and be constantly reminded of investment risks, particularly in the context of manipulative activities.”

## Nefarious schemes

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

“Another proactive step to protect stock market investors is to issue early 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.”

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 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. [FocusM](#)

- ▶ **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 ended June 30 that year.
- ▶ **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 Felera 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 just two months after the proposal was inked. Earlier in 2002, KFM had explored the possibility of switching to a new business model through a proposed RTO with autoparts manufacturer APM Automotive Holdings Bhd but the deal, too, did not come to fruition.

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

## Three-year performance of IFCA MSC

