

Checkmating market syndicates

SEASONED investors know that logic doesn't necessarily prevail in stock trading. Fundamentally weak stocks can see steep rises in prices while those with good prospects can experience price slides.

Such irrational behaviours have given rise to talk that stocks are sometimes manipulated by syndicates or groups of people who "push" these stocks up or down. These syndicates are also undeterred by the fact that these stocks are queried by Bursa Malaysia for any unusual market activity (UMA).

A good example is the trading of penny stocks, including their warrants, which continue to hog the limelight attracting keen interest from punters. They can be highly speculative or volatile although some have zero fundamentals.

For retail investors who make up one-fifth of Bursa's stock trading participation, delving in penny stocks has become a way to make quick gains. But this could be potentially risky as they are oblivious to the invisible hands in action.

Tam believes stocks move because big funds move them from behind



Characteristics of manipulated stocks

- **LIQUIDITY** returns to stocks which used to be illiquid with price volatility rising and traded volume surging as stocks are being mopped up; manipulation is the only way for major shareholders to make profit (or in some instances, to cash out) as illiquid stocks often do not possess impressive revenue/profit stream.
- While fundamentally-sound but illiquid stocks will rise gradually with no mini crashes, those on the other extreme are capable of trapping speculators (ignorant retail investors) with false pullbacks before rallying to make new highs.
- Strong rumours/tips that the stocks are "going to fly"; this is done through multiple conduits,

that is, word of mouth, the media, market analysts, fund managers or even virtually on digital platforms such as blogs or social media sites via group chats. Knowingly or unknowingly, these disseminators of market-sensitive information can impact a particular stock, a group of stocks or the overall market sentiment.

- When the manipulator wishes to offload his holdings, he releases the most bullish news of all to spark buying frenzy amid high-volume transactions and likely possibility of the stocks scaling new highs. The bubble will eventually burst during this distribution phase, trapping "stock chasers" who are lured into the buying frenzy.

Source: Adapted from *Profitability of Technical Analysis* (2006) by Fred Tam

And many a time, such invisible hands and their manipulative manner thrive on the pump-and-dump strategy with large block of shares acquired, price ramped up and followed by dumping of an enormous quantity. Such market behaviours would eventually leave stock chasers who are not wary of the hidden agenda getting their fingers burnt.

Comintel Corp

A recent example is Comintel Corp Bhd (ComCorp) which was served an UMA query by Bursa on June 21 after its share price dipped 27 sen, or 28.88%, to 66.5 sen with 30.65 million shares traded (see charts).

"The syndicates pushed the stock up for 'false breakout' to the upside with a break above the recent high of 97.5 sen to 99 sen before slamming it down to 66.5 sen within the last 20 minutes of the trading day," commented stock and futures analyst **Fred KH Tam** in his daily newsletter dated June 23. "It is a classic case of pumping and dumping."

What puzzled Tam about ComCorp is that its fundamentals were sound even up to the point of the plunge. Its price-earnings ratio (PER) was 8.31 times while its latest net profit for Q4FYE1/16 jumped to RM6.11 mil year-on-year from RM708,000 previously (Q3FYE1/16: RM4.75 mil).

"Here is a good example that the only way to exit is via a technical sell signal and not via fundamentals," Tam points out. "I would not re-enter this stock after it triggered a sell signal. The last time it did this stunt was on Nov 28, 2007."

Who are the culprits?

Market observers tend to perceive and categorise the rogue traders - or syndicates as they are popularly known - to be both company insiders and outsiders.

The first group comprises owners/directors of the listed companies, fund managers, substantial shareholders, stockbrokers/remisers and underwriters, among others.

The second group comprises traders who are savvy at their game. They could be acting on their own or hired by an insider or a third party to manipulate stock prices, particularly penny stocks for quick profits.

Interestingly, however, the advent of information and communication technology has inadvertently served as a conduit to expand their reach to mislead investors vis-a-vis the market for the prices of companies they have earmarked.



by Cheah Chor Sui

ComCorp (June 21) - sell/stop hit



ComCorp (Nov 28, 2007) - note similar fall, all the way down



Lya advises investors to do their own research

For example, social media in the form of Facebook and Whatsapp have brought about chat/telegram/webinar groups which have facilitated the dissemination of market tips - both credible or solely on rumours or speculation - that could trigger excessive or impulse buying or selling.

Minority Shareholder Watchdog Group (MSWG) general manager (corporate services) **Lya Rahman** lists five typical manipulation tactics in the pump-and-dump scam, which are e-mail spam, internet fraud, paid promoters, cold calling, and questionable press releases.

Recent enforcement actions by Securities Commission

Datuk Ishak Ismail

JUNE 13: Businessman Datuk Ishak Ismail was charged in the Sessions Court with making misleading statements in *The Star* newspaper on June 5, 2010 to induce the purchase of Kenmark Industrial Co (M) Bhd shares.

Prior to making the alleged misleading statement, Ismail, who was charged under section 177(b) of the Capital Markets and Services Act 2007 (CMSA), was a major shareholder of Kenmark, holding 57.7 million shares.

He also faced two counts of insider trading charges when he sold 58.7 million Kenmark shares on June 9 and June 11, 2010 while in possession of material non-public information that two of Kenmark's clients had been declared bankrupt and that EON Bank Bhd had refused to uplift the receivership on Kenmark.

Earlier in 2010, the Securities Commission (SC) had obtained an injunction from the High Court to freeze RM4.8 mil of the proceeds of the impugned trades by Ismail who has claimed trial to all three charges. The Sessions Court imposed a bail of RM600,000 and one surety on Ismail pending trial in November.

Low Thiam Hock

FEB 29: The Sessions Court sentenced Low Thiam Hock - better known as Repco Low - to a five-year jail term and RM5 mil fine for manipulating Repco Holdings Bhd's share prices on Dec 3, 1997. Low, 53, was convicted under section 84(1) of the Securities Industry Act 1983.

Following the sentencing, the Sessions Court allowed Low's application for a stay of the decision pending his appeal to the High Court. Initially charged in the Sessions Court on Sept 18, 1999, the former executive chairman of Repco was acquitted on the basis that the charge was not proven. The SC then appealed to the High Court which affirmed the Sessions Court's decision.

However, the Court of Appeal on Feb 28, 2013 overturned the decision of the High Court and ordered Low to defend the charge against him, reverting the case to the Sessions Court. The sentence against Low is the highest imprisonment term imposed by the courts in a market manipulation case. Low is appealing.

Tan Swee Hock & two others

DEC 8, 2015: Transocean Holdings Bhd director Tan Swee Hock, 62, and two other individuals were charged in the Sessions Court with acquiring 632,700 units of shares in the company between Aug 20 and Nov 6, 2009 while in possession of material non-public information.

The SC alleged that the information referred to in the charges relates to the proposed takeover offer by Kumpulan Kenderaan Malaysia Bhd of Transocean shares. The offer was announced to Bursa Malaysia on Nov 6, 2009.

Tan, who faces 28 charges, is said to have acquired the Transocean shares through accounts belonging to two individuals, Chan Sze Yeng and Yap Lee Lee. Chan and another individual, Cheng Seng Chow, were both charged with abetting Tan.

Tan, Chan and Cheng were each granted bail of RM200,000 with one surety.

Datuk Lim Kim Chuan & two others

NOV 24, 2015: Former Melewar Industrial Group Bhd CEO Datuk Lim Kim Chuan and two other individuals were charged with insider trading in the Sessions Court. Lim, 56, was charged with acquiring 398,000 units of M3nergy Bhd shares between Aug 6 and Sept 11, 2008 while in possession of material non-public information.

The SC alleged that the information referred to in the charges relates to the conditional voluntary takeover offer by Melewar Equities (BVI) Ltd, a substantial shareholder of Melewar Industrial Group Bhd, to acquire M3nergy shares. The share acquisition was announced to Bursa Malaysia on Sept 12, 2008.

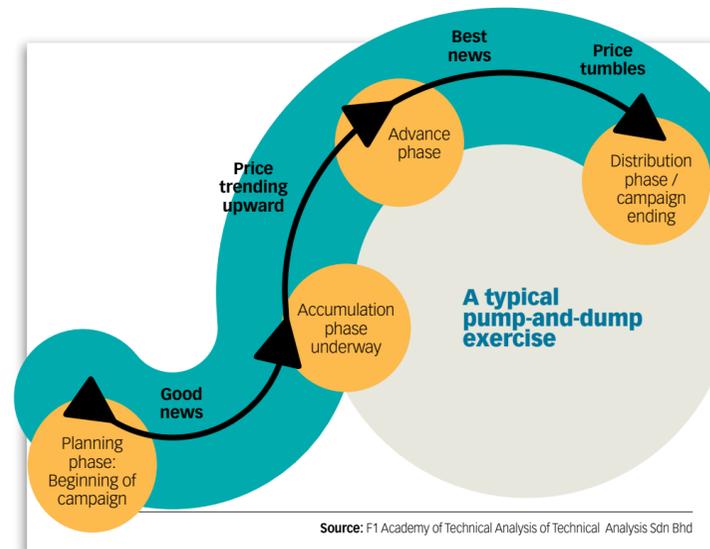
Lim, also a former director of M3nergy, faced a total of 11 charges under the CMSA. He is said to have acquired the said shares through the accounts of Tay Hup Choon and Theng Boon Neoh @ Tan Boon Cheng. Both Tay, 47, a Singaporean, and Theng, 57, were charged with abetting Lim in committing the offences.

Lim was granted bail of RM250,000 with one surety while Tay and Theng were each granted bail of RM150,000 and RM120,000 respectively with one surety each.

Alan Rajendram Jeya Rajendram

JULY 9, 2015: Former Linear Corporation Bhd director Alan Rajendram Jeya Rajendram was charged with authorising the furnishing of a false statement to Bursa Malaysia Securities Bhd on Dec 29, 2009.

The announcement in this case was that Linear's wholly-owned subsidiary LCI Global Sdn Bhd had accepted a RM1.6 bil construction project awarded by Global Investment Group, a Seychelles-incorporated company, to design and construct a district cooling plant of 350,000 RT (refrigeration tonnes) in the district of Manjung, Perak, for what was termed the 'King Dome Project'. Bail was fixed at RM150,000 with one surety.



Source: F1 Academy of Technical Analysis of Technical Analysis Sdn Bhd

"To control or prevent such pump-and-dump scams, investors should be cautious with any news that they receive on their investments and educate themselves by doing their own research," she tells **FocusM**. She urges investors to always exercise the following:

- Understand the business of the company;
- Read and research carefully and thoroughly the "opportunities" stated in reports (rumours) and to independently verify the facts, and
- Always be sceptical and treat "stock tips" with extreme caution and never trade based on these rumours as they are very likely part of the pump-and-dump scam.

Indeed, some bloggers are somewhat influential and have a following. Savvy investor, philanthropist and blogger **Koon Yew Yin** is one. He admits that his average daily trades exceeds RM1 mil but clarified that he has no intention to mislead people, especially his followers, to lose money. He was quoted as saying that he had never recommended readers to buy shares he was selling.

"As you know, I had written many articles about Latitude (Tree Holdings Bhd), VS (Holdings Bhd) and Lii Hen (Industries Bhd) which had gone up a few hundred per cent the last two years. If you had followed my recommendations, you would have made a huge profit. Of course, if you were too greedy and did not sell, you cannot blame me," he was quoted as saying.

In any case, the authorities have been coming down hard on manipulators. Of the 58 active investigations pursued by the Securities Commission (SC) as of Dec 31 last year, 43 or 74% were related to insider trading. Last year, the SC had 53 ongoing cases in court, of which 30% related to insider trading and 28% linked to corporate governance breaches such as financial mis-statements and disclosure offences.

Fighting the syndicates

Tam believes stocks move because big funds move them from behind. "It is very unlikely for one to beat the big funds (syndicates) at their game. Investors can go with the flow (think and act like the syndicates) so long as they can foretell which stage of the rally the syndicates are at," he tells **FocusM**.

Tam, who holds a Master in Financial Technical Analysis from the US-based International Federation of Technical Analysts, labels the common three stages pursued by syndicates as the planning phase (accumulation of stocks), advancement phase (stock prices peaking) and campaign ending/

Stopping the manipulation

- **PUBLIC** education on what is meant by a buying or selling climax, spotting the invisible hands, how they ply their trade, how to identify accumulation and distribution, what makes the market rise and fall (tick) from the syndicates' perspective is as important as knowing about fundamental analysis or securities laws (investors' rights).
 - One way to spot manipulated stocks is to track them with the Channel Breakout 20-20 trading system which is capable of capturing the manipulator's intention of "attracting a following" through a "buy" signal and the manipulator's intention to "distribute" through a "sell" signal.
- The issuance of unusual market activity query by Bursa Malaysia does raise the red flag and has in a way been successful in curbing manipulation.

distribution phase (dumping of stocks).

Turning the tide on syndicates is made more complicated as greed and limited capital - as evident in the overindulgence in contra trading - tend to make retail investors increasingly vulnerable to the game plan of syndicates.

"From the Tulip Mania in the 1600s to the South Sea Bubble and Mississippi bubble of 1700s to the crashes of 1929, 1987, 2000 (dotcom bubble), 2008 (subprime crisis), and 2015 (China) market, manipulations had prevailed and will continue to do so," he insists. "There is nothing much you can do about them, except to educate and warn them. After all, it is caveat emptor."

Possessing holding power and using the averaging-down method are not ideal solutions either as they only provide investors with a false sense of security, says Tam. "A stock can fall to zero (by getting delisted) and holding power can mean total loss," he cautions, referring to Transmile Group Bhd and Fountain View Development Bhd as examples of stocks that "went to zero".

► Continues next page

Important to read or learn charts

► From previous page

Nevertheless, there is a safeguard in place. With the growing sophistication in stock trading, Tam believes the knowledge of technical analysis can prevent investors from falling victims to a syndicated crash.

“At the very basic, every investor must be able to comprehend the significance of a moving average, support, resistance, trendlines, reversal and continuation patterns, Japanese candlesticks, etc. Technical analysis adopts a cut-loss policy and that is the best way to manage one’s money,” he reckons.

Detailing the importance of research among retail investors, Tam names the Dow Theory and Wyckoff’s Theory – which necessitates the reading of charts – as prerequisite for investors to be aware of the intentions and motives of syndicates. “The trouble with the uncles and aunties (older investors) is that they don’t take the trouble to read or learn charts expounded by the Dow Theory,” he laments. “They listen to tips but when things go awry, they fail to have an exit plan which technical analysis teaches.”

By merely observing trading trends captured on charts, Tam identifies EKA Noodles Bhd, Sumatec Resources Bhd, XOX Bhd and MTouche Technology Bhd as examples of stocks that demonstrate huge syndicate presence.

Lack of transparency

Securities Investors Association Singapore (SIAS) president & CEO **David Gerald** says syndicates thrive on lack of transparency by developing their own hypotheses and trade on such situations. “Thus if a genuine company is less than transparent in its disclosure, it might be under the attack of such syndicates which are out to take advantage of this, and many a time causing the value of the stock to fall,” he tells *FocusM*.

Speaking from experience, he notes that the Singapore Exchange queries companies to explain any unusual trading patterns which are similar to Bursa’s



Ho says syndicates can be formed by any criminal-minded individuals or groups

UMA. “If the company cannot explain the trading pattern, then it will be issued with a ‘trade with caution’ which serves as a signal to investors to take note about trading in such a counter,” Gerald points out.

At SIAS, the emphasis is on value investing with investors being taught how to invest in companies by understanding the annual report and to invest in the long term. “Investors should first invest in themselves, otherwise they would encounter more head and heart aches instead,” suggests Gerald. “They must learn their risk profiles and know their risk appetites.”

Those who don’t want to do so much work or less savvy can invest in exchange traded funds (ETFs) which are passive index funds that give them the return of the market, he adds.

Malaysian Investors’ Association president **Datin Ho Choy Meng** attributes the less stringent listing requirements to list on Bursa as potentially blurring the sight of regulatory authorities in their quest to detect genuine entrepreneurs from opportunists.

“The nefarious activities of the latter thus lead to today’s problem of many pump-and-dump cases although we cannot point our finger to say the syndicate members are definitely from the management,” she tells *FocusM*. “Syndicates can be formed by any criminal-minded individuals or groups out to mine their gold from the local bourse.”

With the advent of the internet and social media, members of Whatsapp or telegram group can actually form a



Yusli argues that big institutional players are not ‘syndicates’

syndicate – consciously or otherwise – by heeding the call of the group leader to buy a stock.

At the close of trading on June 30, Ho observes that 95.5% or 106 of the 111 stocks on the Ace Market were penny stocks, accounting for 11.73% of Bursa’s 904 counters.

On the Main Market, there were 418 or 52.71% penny stocks, including 14 Practice Note 17 counters. In other words, 524 or 58% of all Bursa counters were penny stocks.

Ho nevertheless opines that while a certain level of speculative activity is needed to add excitement to any stock exchange, retail investors remain a vulnerable lot.

“The investing public, being outsiders, can only react to rumours or read from newspapers the previous day’s top 10 active stocks and their percentages of price movements,” she asserts. “Being outsiders, they are at the mercy of the organised syndicates which feed just enough information (rumours) to attract the desired interest.”

On this note, she cites the “once frenetic Shanghai Stock Exchange which is still bleeding today” after attaining dizzying heights in May/June last year. “I always remind our members not to invest any amount greater than the amount they can afford to lose. While margin trading gives us a good leverage to make much money when the trend is optimistically up, margin traders can have their fortunes wiped off once the tide turns.”

Adequate laws

MSWG’s Lya opines that the present legal framework is adequate to oversee the market. The existing Capital Market Services Act (CMSA) and Securities Industry Act (SIA) have effectively regulated the stock price manipulation activities.

“What is needed is to further impose stricter enforcement actions. However, we have seen actions taken by the regulators the past two years against market manipulators, including some high-profile cases on insider trading, which we believe is the right way forward to instil confidence and fairness in the market.”

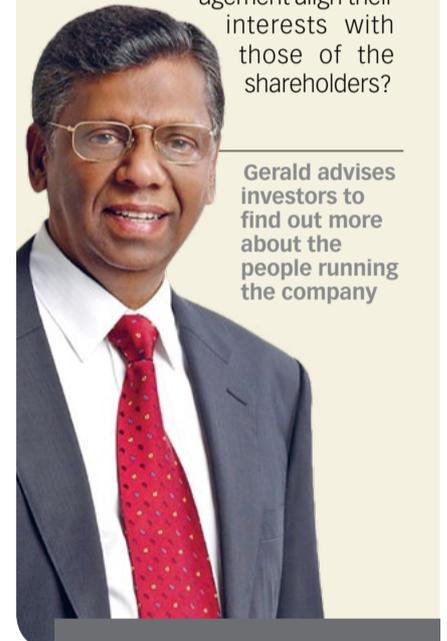
Lya suggests that the CMSA and SIA include a provision to empower the regulators to act against anyone from spreading rumours and to prohibit mass media from quoting and reporting from unknown sources which will ultimately affect the integrity of the capital market.

“A strong ‘fit and proper’ test on the appointment of board members akin to banking institutions would mitigate the risk of insiders who are likely to be the culprits in the abuse of powers and information for their own benefits,” she adds.

Questions investors must ask before buying stocks

FROM a fundamental standpoint – one that emphasises value investing – Securities Investors Association Singapore president and CEO David Gerald emphasises the need for investors to ask themselves the following questions before buying a stock:

- Who are running the company and what is their reputation?
- How has the company performed financially over the past three years?
- What are the risks faced by the business? How is the company coping with the risks? How strong are the internal controls?
- How independent is the board? Does it have an independent, capable and effective audit committee? Do the board and senior management align their interests with those of the shareholders?



Gerald advises investors to find out more about the people running the company

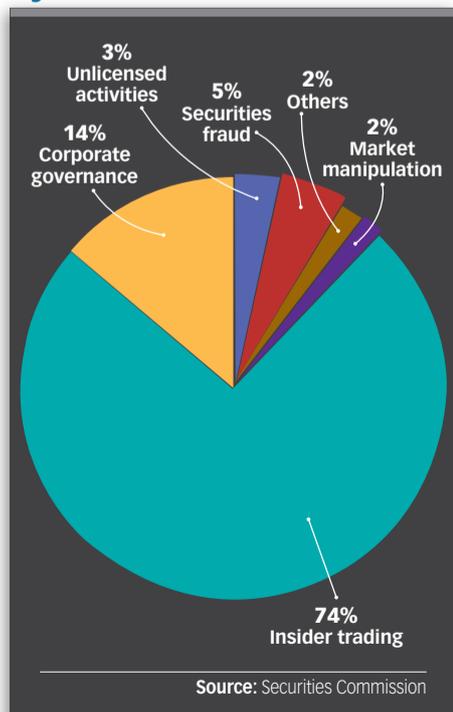
Malaysian Institute of Corporate Governance president **Datuk Yusli Mohamed Yusoff** argues it would not be appropriate to equate big institutional players such as the Employees Provident Fund, Permodalan Nasional Bhd, Retirement Fund Inc, Khazanah Nasional Bhd or the Pilgrims Fund Board as “syndicates” although they tend to transact in big blocks of stocks.

“They are unlikely to be involved in such activities as it would be a fundamental breach of their charters,” Yusli tells *FocusM*. “Of course, it can affect the markets when institutions trade in large volumes, but this is simply a reflection of the volumes being transacted and cannot be described as manipulation as the institutions are trading solely on their own accounts.”

“Such trading is open and transparent; it does not involve benefiting a group of co-conspirators which is the usual intent of a syndicate which trades in an opaque and undeclared manner,” adds the former Bursa CEO.

Nevertheless, Yusli contends that market manipulation and insider trading of quoted securities are criminal offences that are normally motivated by greed and accompanied by a complete disregard for the law as well as victims of these activities. *FocusM*

Active investigation by nature of offences



Last year's ongoing court cases by nature of cases

