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Program trading used to
keep Dow from collapse

WHAT is computer program trading? To explain in the most elementary way, it involves first the actual purchase of stocks in substantial quantity. This drives the price of the stocks purchased upwards. Then
| profit is taken by selling the stocks at the now higher price and simultaneously selling the index that includes the stocks short. Since selling the stocks and selling the index short now drives the index down in price, profit is taken again as a result of the short sale of the index.

This is naturally an over-simplification. Many computer trading programs are proprietary and kept secret as they would not be as profitable if too many manipulators used the same system.

The White House used a unique manipulation program to force up the Dow Industrial index on October 20, 1987, to restore confidence after the crash, and again on May 12, 1992, the day the Olympia and York bankruptcy was announced. This event was threatening to crash the US stock market which would have been damaging to the Republican president's election hopes. The method used was quite sophisticated. A little-known index called the MMI is traded in Chicago.

This index has only 20 stocks but all are components of the Dow Industrial 30. Naturally, it is easier to manipulate 20 stocks than 30. Since Chicago opens one hour later than New York, the White House manipulators were in place in Chicago one hour after the NYSE opened, where

selling had started to drive the market down in New York.

_ With less than \$60 million buying the MMI long on margin in Chicago, the Dow started rising in New York. At the end of the day, the Dow, which would otherwise have

crashed and burned because of the colossal O&Y bankruptcy, was only off 15 points. This prevented a politically devastating crash.

Manipulation of stock markets have long been part of the fabric. This is why astute investors require at least a three per cent dividend yield premium over bond yields to compensate for the frequent manipulation risk.

Manipulation of stock markets is more common today than ever because of the computer which enables even teenage hackers who understand the soft under-belly of computers to become billionaires.

Naturally, small markets are easier to manipulate than the NYSE. Latin American, Asian and other low-capitalised markets are the easiest to manipulate. This is one of the

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Money Talks

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Tips

Â® We donâ\200\231t buy Chinese B shares because we believe the markets are mal-regulated and corporate accounting practices are primitive. We donâ\200\231t accept this much risk.

@ Interest rates have fallen in Australia, the US, and Canada. Low interest rates drive up stocks prices and many assume that is also true of property. It is not. Property values in the US, Canada and Australia are still falling and it is not yet time to buy.

@ Donâ\200\231t rely on a US recovery to help Asia because there is no recovery.

Â® The Tokyo stock market has not yet bottomed out.

Buy Nikkei Puts on any strong rally. Our target is 14,000.

reasons we like the rigid regulation of Singapore as compared to the loose regulations of some Asian markets.

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IT IS Money Talksâ\200\231 position that

most stock markets are greatly overpriced. One of our most important methods of deciding when stock markets are overpriced or underpriced is the "rule of 20". This measure is not reliable for measuring individual stocks. The reason we don't trust this rule on individual stocks is that earnings of some listed companies may be fabricated by creative accounting in some years. However, when an index is used, the average company's earnings are reasonably correct. (Some companies keep hidden reserves to save tax and use it later to smooth out periods of poor performances. Other inflate earnings for a variety of reasons including directors' bonuses or keeping the stock prices high.) In a group such as an index, they tend to balance out.

We have found the rule of 20 to be incredibly accurate by using a stock market index such as the Dow Jones Industrial Average and the Hang Seng Index. To apply this rule, use the average P/E of the complete index. Add this to the rate of inflation. As example, if the P/E is 17

and the rate of inflation is six per cent, the addition gives 23.

However, the rule of 20 requires that the addition must result in exactly 20. In this case, where the score is 23, the market is overpriced and a wise investor will stay out. At another period, inflation may be four per cent and the average P/E to be 12. Thus the score will be 16. Therefore, buying stocks then is a wise decision as they are likely to move up to the central point of 20.

The rationale for the number 20 as being the dividing line between undervalued and overvalued is that when inflation is low and interest rates low, it is not so difficult for a company to make profit, causing the stock to be profitable.

The profit will force the stock price up and the investor will make money. Conversely, when the interest rate and inflation rate are high, companies tend to make less profit which drives the P/E down by gravitation.

We don't claim the "Rule of 20" infallible but we have tracked it for 20 years with two indices. This rule only failed three times in 20 years, and then only for a short time. Needless to say, in 1987, just before

the crash, the Rule of 20 had been volatile on every index we have checked. It was over 30 in the Dow, and 29.7 in the Sydney All Ordinaries.

While we think all stock markets are overpriced this is not to say we think they will quickly fall. We think the Hongkong stock market is greatly overpriced considering both the high inflation and interest rates are higher than those in Singapore, Japan or the US. However, unless there is local social or political unrest, the Hongkong market should remain high until the US stock market

s.

It is not quite ready to fall yet. The driving forces behind the US stock market is low interest rates, low inflation and the belief the US economy is coming out of recession. We don't think it is coming out of recession, but is merely bouncing because of the adrenalin doses of easy money the Fed has made available.

We think investors will learn by July or August that the recession is not over, and then the market will fall and take the Hongkong market with it.

The best stock to buy now, if you want to buy any, are utility stocks and gold mining shares. Our overall view is that high interest bearing currencies and eurobonds are much more appropriate than today's highly risky stocks.

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Pretoria
and ANC |

to share |
power /

From GAVIN Bri
IN JOHANNESBURG

SOUTH African political |
leaders have agreed 10 'y to
form an interim, multiracial
government before July !

A working group at the *"
Convention for a Democratic !
South Africa â\200\224 Codesa â\200\224 (he
multiparty ncgonanng fo- â\200\231
rum, proposed the target date
yesterday in an aiempt (o fâ\200\230
speed the election of a consti- ||
tution-making body. The |
group, which includes repre. |
sentatives of the National
party government and the
African National Congress, |
said every atiempt should be
made to convene the second
plenary session of Codesa on
April 24 and 25 and to install
an interim government by
June 30. ik

Tentius Delpont, the deputy
minister of constitutional devy
clopment, said that if suffi-
cient progress was made in
the negotiations, general elec-
tions for a new constitution-
making legislature could be
held next year. The principal
parties envisage a two-phase
transitional period, involving
some form of executive pow-
er-sharing, followed by
elections.

The government yesterday
tabled proposals for a bicam-
eral parliament in the second
phase, in which minority par-
ties would have dispropor-
tionate representation in the
second house. The document
rejected the ANC'S proposals
for a constituent assembly
elected on the basis of one
man, one vote.

Saki Macczoma, for the
ANC, expressed concern that
a bicameral parliament
would give the leaders of trib-
al homelands a power of veto
in the lower house. However,
he agreed there were now
similarities between the two '
partiesâ\200\231 concepts of interim :
arrangements. Gemrville, â\200\230en, !

the minister of constitutions! |
development, said political {
strife in black communities |
could delay the process

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Musiciansâ\200\231 ban
on working in -
S Africa lifted

THE Musicians' Union will lift its
ban on performing in South Af-
rica, it was announced yesterday.
The decision comes after the pro-
reform result of the all-white ref-
erendum earlier this month.

The boycott, which began in the
mid-1950s, will end next month
but the union will continue to dis-
courage â\200\234purcly commercial
toursâ\200\235. Artists should â\200\234only accept
engagements which have the
back.x|Â\$ of representative groups
of the black populationâ\200\235,

Brian Blain, the unionâ\200\231s spokes-
man, said the decision would
prompt a rush of artists to Sun-
City, the entertainment capital for
South African whites, but he ap-
pealed to musicians to consider
the countryâ\200\231s black majority. â\200\234"The
icast they can do is get involved in
mixed audience concertsâ\200\235 The
boycott had been the most suc-
cessful by a British trade union
and had prevented many British
bands performing to white audi-
ences in South Africa, he said.

Few leading British artists
broke: the boycott Queen, the
rock group whose singer Freddie
Mercury died last year, were the
most high-profile band to ignore
the ban, but they later apologised
to the union and agreed not to
tour the country again.

Mr Blain said the recession, and
the lifting of the United Nations
cultural boycott last year,

-had made it impossible to main-

tain the ban â\200\234The political set-
tling might be unhappy about it but
musicians would have thought,
*Sod this, I'm goingâ\200\231 There is a re-

cession and musicians ate up

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By Dean Nelson

against 1. The union would no longer have to veto projects intended for mixed audiences, Mandia Langa, the African National Congressâ\200\231s cultural attachÃ©, welcomed the move and said he hoped Equity, the actors union, which bans sales of television programmes to South Africa and advises members not to work there, would soon follow. A spokeswoman for Cauty said there were no plans to lift the ban, but that there could be a referendum after the union's conference next month, 3 The Musicians' Unionâ\200\231s decision surprised some of the musicians most affected by the boycott â\200\224 exiled South African musicians in Britain, Several tours were vetoed last year, i Melwn Afrike, pianist with Zua, the London 'p, said: mm gc I ing we felt a bit discouraged, because many of us were black Southâ\200\235 Africans, But one of the good things about coming to Britain is that here there is a union to protect you. In South Africa we did not have that. So we understood, but felt Â« bit frustrated â\204¢ Barbara Pukwana, widow of Dudu Pukwana, the band's manager, said: â\200\234The tour would have earned the players Â£200 per show plus all expenses paid. They would have got time off during the week to see their families. So it could have been a good tour, but the artists understood that the situation had to be right.â\200\235

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De Klerkâ\200\231s
government
offers vote

JOHANNESBURG, South Africa
â\200\224 The white-minority government
on Monday proposed elections,
the first with black participation,
for a two-chamber parliament to
_ write a new constitution.

The African National Congress,
the largest black political move-
ment, expressed reservations at
. the plan â\200\224 which reserves white
. veto power â\200\224 but welcomed simi-
larities with its proposals.

Politicians said the multiethnic
elections, taking President F.W. de
Klerk's government closer to its
promise of sharing power with the
black majority, could be held by
June 30. But no date was set. -

Gerrit Viljoen, constitutional
affairs minister, said the govern-
ment was â\200\234closing the gap with
other parties.â\200\235 The parliament
would govern during a transition to
full democracy, he said.

= TODAYâ\200\231S QUOTE

â\200\234Soil that you can't produce
crops on anymore is real serious
business. This is an alarm bell.â\200\235

'â\200\224 Robert Livernash, editor of a
report by the World Resources
Institute that says three billion
acres of land, or 11% of the worldâ\200\231s
vegetated surface area, has
become seriously degraded since
World War II. The soils are mostlyâ\200\231
in Asia and Africa. The study drew
on data about erosion, salinization

and destruction of soil.

â\200\224 Edited by Wayne Beissert