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Loui Low Ley Yee, MSTAlylow@hlib.hongleong.com.my**(603) 2083 1727****Traders Brief****Selling into strength could be seen on KLCI****MARKET REVIEW**

Asia's stock markets ended lower following the statement from Apple, slashing its revenue guidance for iPhone and Apple Watch for 1Q on the back of slower sales in China. The Nikkei 225 and Hang Seng Index fell 0.31% and 0.26%, respectively, while Shanghai Composite Index ended marginally lower by 0.04%.

However, the FBM KLCI bucked the regional trend despite Apple's softer guidance; the FBM KLCI rose 0.46% to 1,675.83 pts. Nevertheless, technology stocks such as Inari and Globetronics were affected the most after Apple slashed its outlook. Meanwhile, market breadth was neutral with 366 advancers vs. 367 decliners, accompanied by 1.76bn (worth RM1.22bn).

Wall Street ended sharply lower following the softer outlook warning from Apple on the back of potential slowing economy in China amid the ongoing trade war, which has led to a decline of 2.83% and 2.48% on Dow and S&P500, respectively. The negative sentiment spilled over towards chipmakers such as AMD and Nvidia, while heavyweights like Caterpillar which has high business exposure in the China were affected as well.

TECHNICAL OUTLOOK: KLCI

Although FBM KLCI performed a technical rebound yesterday amid bargain hunting activities, the MACD Histogram continues to weaken further. Nevertheless, both the RSI and Stochastic oscillators are trending in the positive region (above 50). With the mixed readings from the indicators, we believe FBM KLCI would range bound between the 1,658-1,700 zone over the near term.

Figure #1 Daily chart: Mixed technical readings on indicators, expect range bound mode

We expect the selling pressure to emerge this session, given the weak sentiment from Wall Street, which was affected by Apple guidance and led to sell down in chipmakers. Hence, we believe the KL technology index would suffer another round of sell down, while the FBM KLCI could trend mildly lower with the support zone set around 1,630-1,650.

Bursa key stats

| | |
|--------------------|---------|
| FBM KLCI (pts) | 1675.83 |
| Volume (shares bn) | 1.76 |
| Value (RM bn) | 1.22 |

Daily participation (value) 3 Jan

| | |
|-------------|------------------|
| Institution | RM0.64bn (52.1%) |
| Retail | RM0.42bn (34.3%) |
| Foreign | RM0.17bn (13.6%) |

5-days net trade flows (RM m)

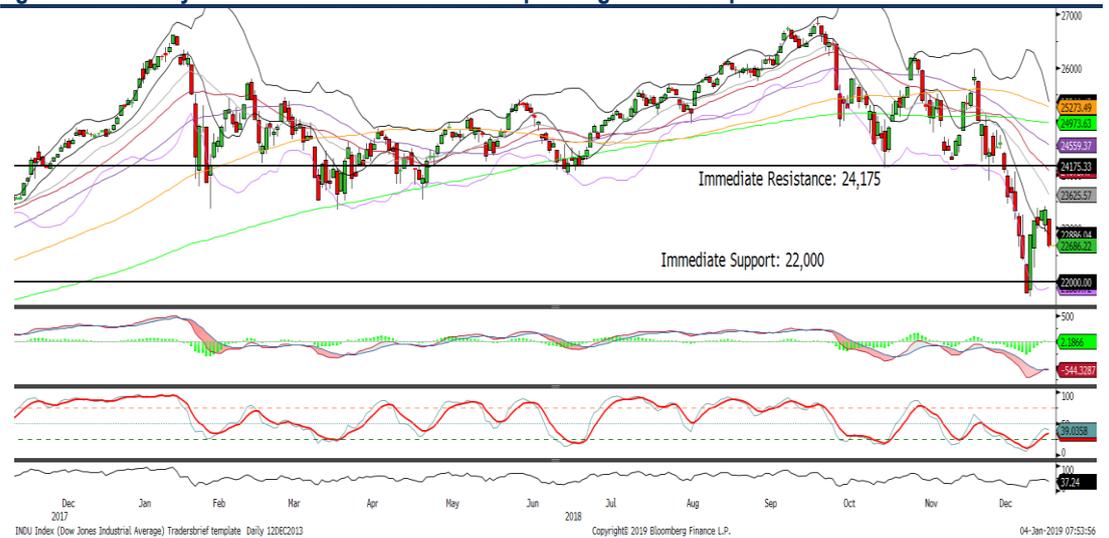
| | Institution | Retail | Foreign |
|-------------|-------------|--------|---------|
| 27 Dec | 64 | (36) | (28) |
| 28 Dec | 39 | (13) | (26) |
| 31 Dec | 94 | (58) | (36) |
| 2 Jan | 50 | 6 | (55) |
| 3 Jan | (94) | 30 | 65 |
| 5-day total | 152 | (71) | (81) |

BursaMktPlc

TECHNICAL OUTLOOK: DOW JONES

With the Dow retracing yesterday, the MACD Histogram has turned lower, while both the RSI and Stochastic oscillators have hooked downwards. Hence, we opine that the Dow may further pull back over the immediate term, with the support anchored around 22,500, followed by 22,000. Meanwhile, resistance will be pegged around 23,500-24,175.

Figure #2 Daily chart: Technical indicators are pointing for further pullback



Bloomberg

In the US, we believe that the selling tone may extend over the near term with the weaker-than-expected factory data in China and Europe, whilst the corporates in the US could be affected by potential slowing economy in China, translating to weaker earnings moving forward eventually.

Figure #3 Technical Tracker portfolio (Maximum Holding Period is 4-5 Weeks)

| No | Stocks | Entry price | Report date | S1 | S2 | R1 | R2 | LT Target Price | Stop-loss | Highest price since report | Lowest price since report | Last price ⁶ | Gains/Loss since report ⁷ | Remarks |
|----|---------|-------------|-------------|-------|-------|-------|-------|-----------------|-----------|----------------------------|---------------------------|-------------------------|--------------------------------------|---|
| 1 | PECCA | 0.705 | 1 NOV | 0.69 | 0.66 | 0.74 | 0.80 | 0.87 | 0.64 | 0.83 | 0.700 | 0.80 | 13.5% | Took profit on 26 Nov after hitting R2 |
| 2 | AKNIGHT | 0.175 | 5 NOV | 0.160 | 0.150 | 0.220 | 0.240 | 0.260 | 0.145 | 0.215 | 0.170 | 0.195 | 11.4% | Took profit on 19 Nov |
| 3 | FPI | 1.56 | 15 NOV | 1.50 | 1.47 | 1.60 | 1.70 | 1.83 | 1.44 | 1.910 | 1.550 | 1.83 | 17.3% | Took profit on 26 Nov after hitting LT target |
| 4 | PTRANS | 0.265 | 26 NOV | 0.255 | 0.25 | 0.275 | 0.30 | 0.315 | 0.245 | 0.270 | 0.250 | 0.265 | 0.0% | Closed amid weakening technical on 17 Dec |
| 5 | QES | 0.280 | 27-NOV | 0.270 | 0.260 | 0.290 | 0.300 | 0.350 | 0.250 | 0.285 | 0.245 | 0.260 | -7.1% | Closed amid weakening technical on 30 Nov at S2 |
| 6 | TALIWRK | 0.85 | 29-NOV | 0.820 | 0.800 | 0.900 | 0.960 | 1.000 | 0.780 | 0.855 | 0.810 | 0.82 | -3.5% | Closed at S1 amid weakening technical on 3 Dec |
| 7 | GENM | 2.82 | 3-DEC | 2.760 | 2.620 | 3.060 | 3.160 | 3.270 | 2.580 | 2.97 | 2.780 | 2.82 | 0.0% | Closed amid weakening technical on 17 Dec |
| 8 | FRONTKN | 0.755 | 14 DEC | 0.72 | 0.70 | 0.79 | 0.825 | 0.89 | 0.69 | 0.755 | 0.73 | 0.70 | -7.3% | Closed amid weakening technical on 30 Nov at S2 |

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Figure #4 Technical Tracker performances

| | 2016 Cumulative return | 2017 Cumulative return | Jan 18 ⁸ | Feb 18 | Mar 18 | Apr 18 ⁸ | May 18 | Jun 18 | Jul 18 | Aug 18 | Sep 18 | Oct 18 | Nov 18 | Dec 18 | 2018 Cumulative return |
|----------------------|---------------------------|---------------------------|---------------------|--------|--------|---------------------|--------|--------|--------|--------|--------|--------|--------|--------|---------------------------|
| Total calls made | 144 | 129 | 16 | 8 | 7 | 11 | 12 | 9 | 15 | 8 | 5 | 13 | 6 | 2 | 112 |
| Total winners | 85 | 80 | 6 | 4 | 2 | 7 | 6 | 5 | 11 | 3 | 2 | 5 | 4 | 1 | 56 |
| Total losers | 59 | 49 | 10 | 4 | 5 | 4 | 6 | 4 | 4 | 5 | 3 | 8 | 2 | 1 | 56 |
| Successful hit rates | 59% | 62% | 38% | 50% | 29% | 64% | 50% | 56% | 73% | 38% | 40% | 38% | 67% | 50% | 50% |
| Average return | 20.4% | 54.6% | 3.3% | 1.7% | -1.5% | 5.3% | 3.7% | 3.1% | 9.9% | 0.8% | 4.1% | -1.4% | 15.8% | -3.6% | 41.2% |
| Relative against CI | 19.4% | 50.7% | 0.0% | 1.3% | -1.1% | 6.9% | 5.8% | 4.4% | 4.6% | -0.3% | 6.8% | 0.6% | 13.2% | -2.1% | 39.8% |

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Note:

- Maximum holding period for stocks recommended are ranging from one week, two weeks, four weeks to three-six months. We will take profit (depending on strength of technical chart reading) should share price reach our R1/R2/LT upside targets.
- We will close the positions upon expiry of the maximum holding period even if the stocks fail to achieve our R1/R2/LT upside targets and/or remained above the cut loss level;
- For Sell ratings, we consider the return as equivalent to the losses made if investors did not sell;
- Prices shall be adjusted accordingly in the event of relevant exercises (i.e dividend, bonus, rights issues etc)
- S=support; R=resistance;
- For those that we took profit, this column shows the price level which we exited from the trade.
- Excluding brokerage, stamp duty as well as clearing fees.
- Included quarterly stock picks.

Figure #5 4Q18 Quarterly Retail Strategy stock picks (Maximum Holding Period is 3 Months)

| No | Stocks | Entry price | Report date | S1 | S2 | R1 | R2 | LT Target Price | Stop-loss | Highest price since report | Lowest price since report | Last price ⁶ | Gains/Loss since report ⁷ | Remarks |
|----|---------|-------------|-------------|-------|-------|-------|-------|-----------------|-----------|----------------------------|---------------------------|-------------------------|--------------------------------------|---|
| 1 | PHARMA | 2.790 | 8-Oct | 2.700 | 2.650 | 3.000 | 3.280 | 3.500 | 2.600 | 3.130 | 2.690 | 3.00 | 7.5% | Closed amid weakening technical on 30 Nov at R1 |
| 2 | SALUTE | 0.605 | 8-Oct | 0.585 | 0.575 | 0.655 | 0.700 | 0.740 | 0.550 | 0.650 | 0.540 | 0.550 | -9.1% | Cut loss on 24 Oct |
| 3 | SUPERMX | 3.060 | 8-Oct | 3.000 | 2.900 | 3.200 | 3.360 | 3.600 | 2.850 | 3.030 | 2.790 | 2.850 | -5.9% | Cut loss on 10 Oct |
| 4 | POHUAT | 1.390 | 8-Oct | 1.350 | 1.300 | 1.450 | 1.550 | 1.660 | 1.280 | 1.580 | 1.300 | 1.570 | 12.9% | Took profit on 19 Nov |
| 5 | DAYANG | 0.765 | 8-Oct | 0.730 | 0.720 | 0.880 | 0.950 | 1.000 | 0.700 | 0.765 | 0.700 | 0.700 | -8.5% | Cut loss on 10 Oct |
| 6 | UZMA | 1.280 | 8-Oct | 1.210 | 1.180 | 1.500 | 1.660 | 1.730 | 1.120 | 1.380 | 1.180 | 1.190 | -7.0% | Closed amid weakening technical on 26 Oct at S1 |
| 7 | DANCO | 0.515 | 8-Oct | 0.505 | 0.480 | 0.600 | 0.650 | 0.665 | 0.450 | 0.505 | 0.445 | 0.450 | -12.6% | Cut loss on 10 Oct |
| 8 | HSSEB | 1.010 | 8-Oct | 0.960 | 0.900 | 1.120 | 1.180 | 1.300 | 0.880 | 1.000 | 0.850 | 0.880 | -12.9% | Cut loss on 10 Oct |

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Stock rating definitions

| | |
|---------------------|---|
| BUY | Expected absolute return of +10% or more over the next 12-months. |
| HOLD | Expected absolute return of -10% to +15% over the next 12-months. |
| SELL | Expected absolute return of -10% or less over the next 12-months. |
| UNDER REVIEW | Rating on the stock is temporarily under review which may or may not result to a change from the previous rating. |
| NOT RATED | Stock is not or no longer within regular coverage. |

Sector rating definitions

| | |
|--------------------|--|
| OVERWEIGHT | Sector expected to outperform the market over the next -12 months. |
| NEUTRAL | Sector expected to perform in-line with the market over the next -12 months. |
| UNDERWEIGHT | Sector expected to underperform the market over the next -12 months. |