

RALLY BETWEEN THE BULLS AND THE BEARS

Market Finally Shows Signs of Recovery

During October, the Korean Stock Price Index (KOSPI) showed some possibility of gaining supporting ground to escape the longstanding sluggish market. In the middle of October, the KOSPI rose with the help of good news and improved liquidity. The Korean government implemented several measures to improve the economy and the capital market. However, the effect of the new policy was not significant enough to realize a total change in the market sentiment in the stock market.

For the longest of times, the Korean stock market has been struggling with the bad Korean economy and poor stock market sentiments. This situation finally pushed the Korean government to undertake several measures to revive the capital market. It was recently announced that Korea has been accepted for admittance into the Organization for Economic Cooperation and Development. As a result, market-based economics will prevail in almost all economic policies, and the Korean financial market will be widely opened to foreign investors. Therefore, it is most crucial for the Korean government to vitalize and to improve the efficiency of the capital market.

The first measure of the Korean government was to lower interest rates on deposits and loans, which will lessen the burden of financial costs and improve the competitiveness of Korean companies when the market is opened to foreign companies. The news that the Bank of Korea would reduce the reserve requirement ratio backs up the direction of the government's measures. Furthermore, the tax benefited savings will increase the demand side of the market.

How to Keep Investor Confidence High

Right after the government's policy was announced to investors, the market showed a significant jump. This improved investor sentiment pulled up the KOSPI to over 840 points, an increase of more than 80 points from the 753.35 points on August 28 which is the lowest point for this year. This boost was not only because of the good news from the government but also because of the increase in the trading volume and the increase in customer deposits. Overall, the market is ready to provide a sound investment environment to investors.

Even though the blue chips came on strong at the beginning of the recovery, the most active stocks which provided the bulky trading volume and high returns were the small- and medium-caps. By now, almost every investor feels that the stock market has been struggling at the bottom of the cycle for a long time and the government will come up with new policies that could reshape the capital market. As was mentioned before, tax-benefited savings attracted huge amounts of capital. This proved that even under many regulations, the market-based economy still works according to its own methods.

Investors are wise enough and willing to accept the new playing field based on a market economy. What the government has to do to give confidence to investors is push forward with its deregulation plan. The KOSPI is likely to stay around the 830 level until the investors see further measures from the government following the OECD admittance. While the general M&A theme stocks will cool down because of an investigation into possible insider trading, the financial industry stocks might come up as a new government-approved M&A theme stock. **VIP** (Jin-Kyoung Kim)

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