

Sri Lanka: Stock market: Avoiding a national crime

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One would think Sri Lankans would learn. The Central Bank (CB) from 2010 to 2013 drew much flak as the Employees' Provident Fund (EPF) incurred losses by purchasing stocks in companies with artificially inflated share prices. It won't be long before CB and other state entities are confronted with another disaster if prudence isn't exercised.

The Business Times reliably learns that self-proclaimed stock market gurus joined by certain influential stock market players are wooing government institutions such as the EPF (under the CB), Sri Lanka Insurance Corporation (SLIC) and another CB unit, Employees' Trust Fund to enter the Colombo Stock Exchange (CSE) - this time to buy 'blue chips' that these investors are holding.

Most blue chip prices have increased by over 60 per cent over the past three months - after significant lows due to the hype in high valued shares.

Many scrambled to buy when foreigners started selling - mostly due to redemptions. Companies like JKH and LOLC's prices increased above 60 per cent within three months, since June. In the case of Commercial Bank, the price rose by over 50 per cent, HNB (over 31 per cent) and Sampath Bank (over 15 per cent).

Most share prices increased when locals started buying (which cannot be found fault with), but all firms weren't performing - corporate earnings have taken massive hits in the last two quarters and the shares didn't boast much value. When foreigners were shedding their holdings in blue chips locals were lapping them up, because of their 'past values'. "They were bargains at the time, not now," an analyst noted.

The big guns with some of the shares are looking for a fall guy/s to park the stocks (as they did during the pump and dump era in 2010-13), he said. What better option than the SLIC, EPF, and ETF etc especially when these gurus draw a picture saying the market is performing well and now is the best time for government institutions to enter the CSE?

"It is a national crime to get the government involved at this time now that prices are higher. It is in their (the influential group) agenda to dump their heated shares on government institutions," a CB source said noting that certain informal 'chats' are already on.

Sri Lanka has come out on top on the coronavirus situation which isn't so in the rest of the world still being beat up with the disease. "The whole world is expected to go through a recession and its effects will be felt here too. So the government should wait till the market is settled," the CB source said noting some politicians with the mentality (to support the current stock market hype) can be easily targeted or conned by these groups. "It is not the right time to enter the market. The use of public money needs to make sure that there is a return." Locals can't sustain the ongoing foreign sales and if they want to keep the price up, they must drag government institutions to the market to buy the foreign supply, was his take on the situation. "Otherwise the market will come down and

players who pumped the shares will be in a dilemma," he said.

State institutions don't invest for short-term gains - doing so is basically gambling and they aren't for gambling; they invest for fair returns on investment horizons, he said.

"These groups 'forgot' to promote the blue chips to state institutions when the prices of the mentioned shares were at irresistible bottoms. This is one cue for the investing authorities to not give into the pressures of the lobby groups." The only saving grace at this point in the government institutions purchasing the shares is that they are 'blue chips'. "If similar incidents like pumping and dumping happen again, the government institutions will not touch any share for the next decade," the source said.

An economist said when share prices are at their lowest, it is sensible to buy. "If the share prices have risen by over 60 per cent, it is an anomaly which needs to be investigated and the decision to invest in those shares should be made on the worthiness of that particular counter."

Another analyst advised the right time to invest in stocks has passed (when the shares were really low - Commercial was at Rs.53 for example and now trading at around Rs.80). "If government institutions invest now, it's indirectly assisting these investors to dump their shares."

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