# Politics, terror cut higher gains at Colombo bourse in 2005

The twin factors of politics and terror checked what would have been a rollercoaster high gains in the Colombo stock market in 2005. As at November 16, the market was up by nearly 70% however after the outcome of the Presidential election held on November 17, the market lost much of the gains experienced earlier on and finished the year 2005 with only a 28% growth. The market capitalization saw around Rs. 200 billion in loss of value. However if a new investor tracks the market's performance over the past five years, Colombo has offered consistent growth.

The 28% gain by the All Share Price Index (ASPI) in 2005 was on the back of 42% growth in 2004, 30% in 2003, 31 % in 2002 and 38% 2001. This analysis confirms the view that Colombo bourse has provided investors a highly commendable return on a consistent basis. For local investors equities have without a doubt offered by far the highest return and here too on a consistent manner. So for most of the market players on an annual analysis Colombo stock market is still attractive though it lost steam in the last two months of 2005. The original dip soon after the Presidential election could be linked to an apparent disappoint of the market over the loss of UNP leader Rani! Wickremesinghe, who was always seen as pro business. However the subsequent dip was largely on account of a series of violent incidents in the North and East renewing fears of direct clashes between the armed forces and the LTTE. In the month of December alone over 50 soldiers and police personnel were killed and a higher number injured. Several civilian too were killed in addition to the T A Member of Parliament Joseph Pararajasingham, who was gunned down inside the church during the midnight mass on Christmas day. There have been various allegations against these killings from both sides. However the unfortunate loss of lives were despite the existence of ceasefire signed in 2002. Whilst the Government and the armed forces according to many analysts have acted with great restraint, the deteriorating security situation in the North and East, have for the first time put the ceasefire and the peace process under severe threat.

> Whilst the Government and the armed forces according to many analysts have acted with great restraint, the deteriorating security situation in the North and East, have for the first time put the ceasefire and the peace

process under severe threat.”

It is a fact that the ceasefire and the peace process have been beneficial to the country, kept the economy growing despite the impact of high oil prices and the devastating December 2004 tsunami. President Mahinda Rajapakse has consistently emphasized that he was committed to a peaceful resolution of the conflict in the North and East and this has been the only silver lining in an otherwise gloomy environment. Stock brokers and fund managers are of the view that if the President Rajapakse Government can effectively manage the peace process the economy would remain buoyant improving the prospects for corporates as well as the country in general. The economy in the third quarter of 2005 posted a high growth of 6.4%. The year 2005 in an overall sense perhaps the best for the development of the market was concerned. The entry of Dialog Telekom, Sierra Cables, HDFC, a host of Rights Issues by other corporates, propelled the market capitalization to over Rs. 700 billion (it peaked to Rs. 772 billion on November 16), compared with Rs. 382 billion in 2004. More investors, both foreign institutions, and domestic retailers embraced the Colombo bourse. Several market development initiatives were held including successful road shows in the Middle East, Australia and New Zealand. To expand the domestic retail base, the Colombo Stock Exchange opened a branch in Kurunegala.

Several high net worth investors were active in addition to institutions with new acquisitions or increase in their exposure to the market. A closely watched event was the DFCC-Commercial Bank saga with shareholders, directors and workers joining the fray. Baring politics and terror at the tail end of 2005, the Colombo bourse in deed had an exciting year. The challenge in 2006 for all stakeholders is to retain the thousands of investors who had faith in the market and entered for the first time in 2005. Their personal net worth has certainly dropped but the Mahinda Rajapakse Government has to ensure that there is no further loss. It has to take confidence from the fact that even without a UNP regime, the stock market, a frontline and influential showpiece for the country, boomed in 2005. With sincere and bold efforts on peace and dynamic economic policies, President Rajapakse can certainly bring the bulls back to the Bourse and ensure more ordinary people benefit from investing in equities.