Kiyoshi Kimura Dreamvisor Newsletter Summary Dated 22cd of June

Investor's funds are constrained by FED tightening.

Market is good value but it looks difficult to increase positions at that stage.

All economist and strategists including the author of this report sustain that stocks look currently cheap, compared to fixed income or money rate it would be hard to find someone not putting ahead stocks. Most veteran investors share the same view. Any experienced investor with surplus cash to invest would go for equities. However one cannot see such vigorous buy on the market now.

The most evident response would be that professional investors who bought large amount of stocks and burned themselves have no real buying energy left. And for the newcomers the mass media that awakened interest shifted abruptly form positive to negative views which leave them in uncertainty.
There is another reason behind the pessimist unwillingness to kick start buying: even if on a pure valuation basis one should buy, considering investment timing and economic cycles numerous unclear points remain. So the investors consider that it is worth waiting for more weakness to minimize risk.
For example last week advance /decline ratio fulfilled near perfectly a medium term bottom considering the gap with advance/decline ratio mid term average. Either margin buying settlement is probably not yet enough at an advance stage or as a consequence of US related inflation fears investors fear a new correction stage before autumn.
I nevertheless believe that investors should look at margin settlement more positively, this said one cannot ignore Us equities 4 years cycle, one need to pay special attention to October second quarter for the Nikkei 225 8 years cycle lows.(Nikkei 225 low was registered in October second quarter of 1974,1982,1990,1998).

The risk scale associated with US interest rates.

Considering recent trend in the commodities and new growth markets or high volatility with Nikkei 225 futures I strongly believe market players felt in some kind of 'light' hysteria. Anyway the new long term bull trend that kicked off during previous years will continue. Market players are still long by quite a large amount.   Central banker's new restrictive policies to prevent inflation risks create volatile movements among investors wondering what timing should be right to exit the game.

Us economy is the obvious source of World investors concerns. The probability FOMC will tighten again in august is near 70 %. On the other side should economy slow down substantially inflation fears will recede and world economic growth will take the lead again. As economic concerns take the lead, stagflation or hard landing scenarios will be the new topics…

Furthermore US stock market has been showing a near flat trend in the last 2 to 3 years, in the worst case it is hard to believe in a market meltdown. The negative yield spread is not peculiar to Japan, US and Europe are also experiencing such a ratio. The risk of earnings decline and economic slowdown has already been discounted by the markets. But to summarize OECD equity investors are not in over optimistic mood.

However considering that investors have made huge long positions during a long bull market it is quite normal that when the wind turn this lead to near panic fall downs. The intensity of the fall being directly linked to the scale of the bull. The new growth markets are a good example of that.

The 29th of June US FOMC will sure increase rates by 0,25 %. The market focus is rather on the comments that will be made that very day to smell the next tightening. For now FRB members stress the strength of the economy, but in august according to the forthcoming worsening of house prices and consumers psychology FOMC shall decide whether further tightening is necessary or not.

For the next months the market would very much welcome US economy slowdown news, in which case august further tightening expectations will recede. This would lessen the necessity for funds to decrease positions. All US mutual funds need to outperform US short term interest rates, if this is not the case fund managers would have to get out of commodities and Indian stocks. The impact would be identical for Japanese equities to a somewhat lesser extent.

Consequently US house price falls are welcome. This said one must not forget that the housing/real estate boom has been worldwide (exception made of Japan who is safe from this). France top quartile real estate prices reach the same levels than Ginza in Central Tokyo as investors believe that compared to Hong Kong or shanghai there is still upside potential... (This is the logic worldwide). Obviously if a worldwide real estate bubble deflates, world finance assets will suffer the most.