Kiyoshi Kimura Dreamvisor Newsletter Summary 24th of April 2006/04/21

Is it really worth buying Toyota stock?

Buying good companies stocks does not mean this prove to be the right investment.

Today's (21st of April) top ten trading volume were Sony 1721, Toyota 1126, Softbank 895, Mizuho 780, Docomo 739, MUFJ 649, Canon 584, Honda 503, Mitsui sumitomo FG 494, Mitsubishi corp. 391 (unit : 100 million ¥).
Among those Sony, Toyota, Honda, Canon registered + 3 % price jump. The trading was very heavy by the end of the day, it was rumored that oil money inflows supported such rise.
Seemingly investors are satisfied that such big names having registered above average growth and profit in the past are the right investment targets. No doubt that those stocks are international quality blue chips but the Per of those global stocks is much higher than the average Per…
Whatever blue chip status they have equities don't go up indefinitely and popularity of those stocks could backlash in wide swings (even if earnings are rising).
Three well known financial investment rhetoricians have gathered data on all American listed securities from 1963 to 1990; they classified companies having registered the top 5 years sales growth with the top quartile and the lower quartile group. Then investment performance was measured on a 1 year and 5 years time span.
The stocks which registered the top growth returned + 11,4% but those stocks that registered the lower growth rate (value stocks) returned +18,7%. Value stocks are winning. On a 5 year period the growth stocks returned + 81,8 % (12,7 % annual return), value stocks returned 143,4% (annual return 19,4%). The relative performance of growth equities compared to value equities proved to be much weaker.

There are some human holistic I want to explain.

The human brain is not fully logical, rather than using efficiently all usable piece of information at hand the human being select subjectively the most recent information at hand and guess that such or such decision should be taken. Obviously this seldom leads to the right decision. This short term logic is called Holistic, there are negative as much as positive points.
Investors tend to make large mistakes when trying to evaluate equities or companies.

Usually such investors strongly believe that if the past performance was good this is the right pick and on the reverse if past performance was ugly stocks should be avoided.

Nevertheless by comparing the past 5 years performance of a group of stocks to the next 3 years the 'losers pack' tend to outperform the 'winners' pack by 30 %. Therefore there is a simple but efficient rule which could be nicknamed 'return reversal' strategy. The 'losers' pack has small downside potential left and therefore can positively react to good news or unexpected upside factors.

The vast majority of investors will follow either a trend or a momentum. If we take a look at most investment funds holdings it appears clearly that when specified stocks rise above a certain level and capitalization reach a certain level funds have no choice but to buy.

The fundamentals of technical trading imply that when the chart points to a new high this trigger a buy signal. Most hedge funds are surveying global markets on a pure quantitative viewpoint and focus on markets showing a trend reversal. Individual investors cannot afford to follow the same logic.