Kimura Dreamvisor Newsletter summary 30th June 2006

The more negative the reaction the stronger the rebound.

Theory tells us that upside potential is substantial!

First the 30th June closing, the market kept its gains since the 27th of June and finally opened a window of opportunity. This is called 'Gap up, Gap down'. Provided there is no sudden move to close this gap the market tends to follow the trend created by this gap. In short provided the market does not crash at the week's opening it will try the upside, however if the gap closes suddenly the danger is that the reverse trend takes the lead.
For example the 8th of May gap up was suddenly closed, the gap down opened on the 12th of May and created a bear trend for one full month. The recent recovery started with the 15th of June gap up which leaves the way open for a 5% upside potential.
According to the cycle theory the 14th of June low could be the 3 years and 18 months cycles low. In the case this is the long term cycle low, simultaneously short term cycle low match this level. As different time span cycles join in a simultaneous upside vector this usually translate into a large rebound. If the market does not rebound at least 10 % from recent low the risk is for a second fall. If the market is in a rebound phase it is wise to search for the theoretical upside target price. For TOPIX to regain 1/3 of loss from high to low means 1554, half regain means 1612. Golden cross rebound (61,8% regain) means 1652, for the Nikkei 225 16150 Yen is the next target. Two thirds regain means 1669 Yen level.
Some would object that pressure coming from margin selling or lack of volume is of concern. Considering we are not in a one sided bull case then daily volume decrease looks natural. Regarding margin pressure selling this is due to damage suffered by on line daily traders. The TOPIX is currently down 11 % from high but 36 % higher than 2005 June closing. The new growth markets scale is limited therefore damage suffered by such type of investors is not that tremendous Margin selling pressure settlement is at a 90 % advance stage.

The absence of net traders explains the lack of volume.

However one must not deduct hastily from the lower net trader's turnaround ratio that the market lacks rebound potential. True during the recent correction most net traders suffered heavy losses but those players have no knowledge at all of demand supply balance. Day trading players just buy and sell out of flow; obviously they inflate trading figures but don't bring new capital to market.

If one is concerned about volume just wait out for a slight rise in market price and provided exiting news are announced volume will surge.

So finally US FOMC increased FF rate by 0,25% as forecasted. These leave the Media with not much to shout about.

I feel that at the next FOMC meeting (8th of august) odds are at 80 % in favor of a standby. And even if further tightening happen this possibility is only 10 %. The reasons behind this are that asset prices (housing) support US economy for now and recent tightening has put a brake on such asset price inflation. The US housing SP index has fallen nearly 40 % since last year July high. The secondary home price inflation is near 0 for now.

FRB has been targeting a slowdown in economy and has reached its inner target to reach this objective. To judge tightening impact efficiency the credit market is important. The US households have 19 Trillion $ in real estate assets this is nearly 2200 trillion yen. Relative to that Mortgages amount to 8,2 trillion yen, 950 trillion yen. The difference is the net asset value of homes but should prices go down by 10 % that will trigger a Yen 220 trillion reverse effect. If rates were to go higher then buying will slow down drastically and this will impact consumption. Maybe FRB's Bernanke has chosen to tighten quickly in a raw to keep inflation at bay avoiding a house price crash which would lead to steep economic slowdown.

Should US experience a mild slowdown Japanese stock market has a long way to go up I believe.