Kimura Dreamvisor Newsletter Summary 14th September 2006

Individual's money critical points.

The money shift is still partial.

Japanese individual's financial assets were 1506 Trillion Yen by 2005 fiscal year end, 51.2 % of this capital is still parked in near zero yielding cash and savings accounts. The tax system for equities has been largely improved and companies' earnings improved tremendously. Individual's money should have shifted to risk assets from saving accounts. Most professionals nor to mention analysts believe this has happened. However only a small part of this capital has shifted to risk assets, the real shift is still pending.

Household's equities holding increased from 128 trillion yen in year 2000 to 178 trillion Yen in 5 years time. Meanwhile TOPIX rose form 1277 to 1728, considering the new market introductions and non listed companies at best it is flat or a slight net selling.

Furthermore fixed deposits, fixed postal deposits decreased from 586 Trillion yen to 504 trillion Yen. On the other hand cash savings (of which standard savings are part) increased from 128 trillion yen to 220 trillion yen. Investment trusts increased from 34 to 55 trillion Yen, consequently the number of savers willing to cross the bridge, especially those who had their money dormant in their usual bank account, has been increasing.

The Investment trusts increment is growing at fast pace from 6.5 trillion Yen in 2004 to 14 trillion yen in 2005 and has been diversifying from Global Sovereign monthly distribution type fixed income fund to other products. In addition to the 60 years old who invest as an alternative to pension the number of individuals seriously thinking about investing large sums is increasing.

There are reasons behind such delays to shift money in risk assets. 50 years old is the average 'salaryman' (employed person) age to be able to invest in equities, those under that age cannot afford to invest by lack of financial means (even if they are willing to do so).

A large part of the financial assets belongs to older individuals quite reticent to risk investment in addition women take hold of more than half those assets. Within this stratum there are a lot of young people weak at foreign languages and PC, they are not smart respondent to economic situation. I believe that bubble burst and land prices crash which led to asset prices downturn resulted in may participants to withdraw.

This said the situation is changing. And this is due to inheritance. In Japan the number of old people passing away is increasing fast (not a great event in itself!). In 2000 the number of deceased was 962 000. This figure has increased to 1 million 77000 and this figure will increase by 20 to 30,000 people per year from now.
Normally inheritants are younger and their degree of risk acceptance level is much higher toward managing one's money. Further the number of donations from the super rich planning to transfer their assets in an organized way before their death is increasing too. In either case with this 'change of hands' the percentage of equities and foreign securities is sure to rise. The capital shift is just a matter of time.

<u>There are numerous critical points to shift to equities.</u>

Fundamentally the human being is lazy. Or rather our brain is lazy and always tend to move oneself within the limits of familiar patterns. When it comes to set up a training scheme and stick to it we always reject the difficulty.
With the old age brain becomes even lazier. Like a computer, Memory storage capacity becomes scarce. A child's brain still have a lot of available space and new knowledge absorption capacity is still large, flexibility too and therefore children have the capacity to perform unreasonable things to some extent.
Seniors who grasp this concept can foster skillfulness with the youth, and then dividends are earned. There is a popular wording. 'Value well what a lot of people have and shortly follower's number will grow explosively'. There are two conditions to support such popularity. Obviously become popular with a lot of persons and secondly being convinced that should you failed to catch the train you are out !.
Originally human beings have an instinct to save energy by copying what the others do well. The risk to go alone against the crowd is also high. The laziness to test a different option when the majority has decided otherwise is troublesome too.
The investment universe is the same. Until herd instinct popular factors materialize a bull trend cannot appear. In the case of individual stock as investors search with sharp

eyes promising stocks it should not be that hard for a stock to become popular but if new capital does not follow suit the momentum is lost. Like the second half of last year new capital inflow is necessary for the market to make a jump.

In the case of Unites States ,on a macroeconomic basis, individuals did not take part in the bull market which took place until 2000. The so called day trader's effect was comparatively small in scale and US individuals equity holding went down sharply. What was remarkable was 401K diffusion, the IT revolution and the low interest rate environment, all factors that led to individual's money shift toward investment trusts. ROE improvement and own shares buy back amplified the Bull Run.
In theory in Japan all the conditions are now laid for the shift from bonds and saving accounts toward equities to take place, critical points to win the support of the general public are just not clear enough.