Kimura Dreamvisor Newsletter Summary 14th November 2006

Previous market fall background

Doubtlessly due to hedge funds operations

What was behind 13th November market fall exactly? TOPIX went down 6,7 % from 24th of October interim high. Meanwhile excellent mid term earnings were announced the likes of Toyota, above previous estimates. Forex, oil and foreign equities markets were quiet. BRICs markets have been showing relentless strength. Japanese do-it-alone bearish tone could not be explained by global financial environment.

Market fall was partly due to foreigners selling however from my point of view there were no reasons to sell on a macro economic basis. Analysing in depth economic news and market inner mechanics'; the right psychological background was in place for short-term weakness to blossom out. Hedge funds like short-term investors were quick to ride this situation and turned to selling strategies. Looking at every day's morning session opening orders, foreigners net buying days are more important. Synchronised buying on both European and US markets can explain this (no particular reason to sell). Market participants making profit out of price distortions using options and futures are limited to hedge funds. As previously mentioned foreigner's morning session orders are no more than 10 % of total buying and selling. Better look at major foreign-affiliated organizations having a Japan base orders; putting aside special events they show continuous buying.
A basic receipt for successful selling lies with the fact that when unfavourable factors appear on a near continuous basis then buyers take a defensive stance, buying potential is extremely limited during this period. We had a string of weak production, new car registrations and machinery indexes recently driving investors to doubt the economic outcome. In addition individual as much as institutional investors rebalanced portfolios to subscribe to the large IPOs and arbitrage balance reached the staggering 5 trillion Yen historic high.

Looking at industrial sectors rise and falls, other financials went down 12,8 %, real estate 12 %, and banks 10,4 %. Other financial consumer loan sector 'grey zone' interest rates abolition bill came in sight, this sector will have to take a 1.5 trillion yen special loss. In addition investors sold existing holdings to take advantage of large IPOs such as Nomura Real Estate or Idemitsu Kosan. If large borrowers like consumer loan companies start to drastically reduce debt this translates into business loss for banks. This could in turn impact office demand, which showed near continuous improvement up to now. Large real estate companies are highly valued, foreigners holding is high too therefore the sector is sensible to bad news.

Private investors timid postures invite sales stopgap.

Above all it is Japanese individuals hesitating attitude which give sellers confidence, despite tremendous earnings improvement most individuals cling to savings and remain large net sellers. For the 5 weeks up to 27th October individuals sold net 1 trillion 500 billion Yen and 200 billion yen on margin. Against that foreign investors bought net 1 trillion 400 billion Yen. When foreign investors stopped buying temporarily the market was bound to fall.
Hidden sellers feint strategies came out of the wood. An opportunity window opened the 30 Th of October and the market felt severely. Technically speaking this is called 'gap down' and invite further selling. Usually hedge fund concentrate on Nikkei 225 constituent high

price shares which can be traded in Singapore market place. Just check out Toyota Motor price for example, the same pattern self repeat itself very often with price closing suddenly weak to rebound only quietly next following day.

I personally believed that downside would be restricted to 1600 for TOPIX and 16,200 for Nikkei 225 indexes but US mid term elections= democrats landslide victory= new uncertainties =risk expansion equation made the correction above my forecasts. In 10 trading days TOPIX lost 6,7 %. 25 days moving average was temporarily broken by 4 % on the downside and price advance/decline ratio went as low as 72,1 % (oversold level).

Machinery orders weak figures announced last week was god sent for short sellers. However this was mostly linked to telecommunications equipment investments and did now show advance deterioration. Medias headlines were large and wide therefore market turned to selling by next Monday.

From both technical and fundamental point of view sellers headed the game. Therefore it is logical that stronger GDP figures announced on the 14th triggered a rebound. Putting aside consumer loans sector which fundamental base is wiped away by new legislation external factors did not change much.

I expect stocks prices to readjust slowly on the upside with accounts closing gap being closed. However I believe US economy will further slow down, we just cannot expect US consumption improvement therefore market cannot positively try new highs. However own stocks buy back plus second half far too conservative figures should lead market on the upside. It is worth recalling the popular saying. ‘Buying at November lows makes money for early spring ‘