

## Kimura Dreamvisor Newsletter Summary 15<sup>th</sup> of June

As soon as the 15500 level is recovered a rock solid bottom will be confirmed.

Investors who rode the bullet of excess liquidity pulled out...

Even if current stock markets fall has been worldwide, the selling scale has been different from one country to another. The larger the rise the deeper the fall! This is true of India, Japan, Korea, and Germany...

The New York Dow reached a new historic high on the 10<sup>th</sup> of May at 11642 however the advance rate since 2004 was only 8 %, the fall has been limited to 8 %. In the case of the TOPIX the advance was +55,2% and the fall from peak 18,2%. Indian market advance was .94,9 % and subsequent correction 29,5%, Korea rose 63% and corrected 18%. This said one cannot compare advances and decline in such a simplistic way, a fall of 20 % roughly equals a rise of 40 %, Should the fall rate goes up to 30 % it is really harmful.

A range of factors are behind recent falls but to summarize it an appetite for high risk high return assets developed alongside the longest expansion ever under US leadership. The background: ultra loose Japanese monetary policy, oil money and Chinese surplus which led to such investment environment.

In normal time investors should have discounted the risk premium from expected investment returns but new players ignoring the risk premium joined the market. Asset prices would normally form under a logical economic scenario but the 'excess liquidity' new players made the market movements erratic.

FRB mid May inflation warnings were decisive; the market took it as a war declaration against inflation even if economy was to be sacrificed.

If the 'war' against inflation takes the lead over economic prospects players cannot continue allocating funds toward risk assets. It is clear that if US was to substantially slowdown BRICs and commodities markets would crash. Foreign investors sensing the wind change took profit wherever possible, this does include Japan.

However I feel that US housing bubble inflated the core CPI. US house prices are now slowing down therefore it is just a matter of time before the bubble burst makes its consequences felt.

By reading FRB chairman declarations 'between the lines' he could have said : 'I shall

continue tightening to prevent inflation rising but as I am expecting the housing bubble to deflate I prefer to make it over a short period. Because I am aware of the danger of worldwide recession should rates go up too strongly coupled with housing bubble burst' The 'excess liquidity' investors panic reaction derailed supply demand situation temporarily however I find it hard to believe it led to a stock market meltdown considering the strong fundamentals.

This said I strongly believe that companies can maintain high profitability even if they are not in a position to keep on with current profit growth rate.

The simple fact that Japanese companies have long been able to secure profits in a near zero nominal growth environment proves their worldwide competitiveness. Japanese companies are well positioned to storm the mild US tightening.

US companies favor sales growth rate and cost cutting to maintain profitability.

Usually in the United States investors would not consider any investment returning less than 10 % (ROI) and would sell right away should the ROI declines. As a consequence a lot of industries have disappeared in this country. For a low economic growth like Japan this is a bonus.

The market entered rebound but to confirm bottom we need to have at least a two weeks rally form there. If the three years cycle has bottomed out then 1 year, 6 months and 4 months cycle should all confirm bottoming out at same time, as a consequence the rebound is powerful. Looking at the past three years cycles the common pattern is a 20 % rebound from lows within 1 or 2 months time.

Therefore the main point is whether in the next 2 to 3 weeks we can have a 10 % rebound leading the Nikkei to 15500 and TOPIX to 1580. If the market cannot try those levels real bottom cannot be confirmed yet.