

Kiyoshi Kimura Dreamvisor Newsletter Summary 16th of May

Last year and previous year lows are in sight.

Foreigners' selling is going up alongside support rate for Mr. Fukuda.....

On the 16th of May closing we are at a new low since 16th of March 2006. Yesterdays closing bounced back some while but above the fact there was no positive factor to support a technical rebound foreigners sold net most Asian stock markets. The Dow was up but NASDAQ suffered heavy blow, gold and oil plunged which is negative for cyclical stocks. From the morning start foreigners were heavy net sellers.

According to Merrill Lynch Institutional survey foreigners started to increase Japanese equities weighting three years ago (when support came for Resona Bank), still now this state of fact continues. But as the Koizumi government closes to an end it looks like foreigners buying appetite is receding. Foreigners made Koizumi the herald of economic structural reforms and bought Yen 26 trillion worth of Japanese stocks. But as he retires it remain to be seen if his successor will lead to the same investment stance.

The heir apparent to Koizumi is not so evident, meanwhile support rate for Fukuda is rising. The image of Fukuda is rather conservative which may lead to uncertainty regarding foreigners positions holding.

Another one is the fact that foreign institutional investors regard with importance large foreign securities houses analyst's estimates. There is currently a large divergence between such analyst's current fiscal year estimates and companies own estimates. The later being, as usual, much more conservative.

Taking in account the Toyo Keizai 'Shikiho' estimates consensus is around + 5% for recurring profits. Figures currently published by companies are up to 6% under the average consensus. Still this average only. On a case by case basis there some published estimates which are as low as 20-30 % under consensus. This lead to heavy selling by investors.

Logically the correction should not be so deep.

This said we are approaching last and previous year lows day (17th of May 2006). We are approaching the peak of the 27 weeks short term cycle change. In the very short term this lead to superb buying chance at lows. However despite having this opinion I cannot

become over-bullish in terms of rebound.

Indeed it is difficult to consider than foreign investors having accumulated such large positions will increase further their buying due to downside revisions and post Koizumi political uncertainty.

On the other side I do not think that the TOPIX will break the 1600 level for very long. As soon as prices reach interesting buying levels there is Japanese individual's money waiting. Japanese individuals money flows also feed onshore investment trust. In addition Japanese corporate are eager to use accumulated cash at hand to buy back their own shares plus an increasing supply of funds are targeting M&A investments. Domestic money can easily absorb up to 100 billion ¥ foreigners weekly net selling.

Regarding M&A specialized funds let's introduce two very simple criteria's; PEDY which is PER divided by dividend yield, a twin indicator of both PER and PBR. If those indicators are low and provided there are no management related problems and a share price under the market average then such stocks can easily become the prime target of Value investors and M&A related funds.

Current TSE first section forecasted average PER is 20 x , dividend yield at 1%, PBR 2,1 then the average PEDY is 20, PER/PBR is 42 . Obviously we cannot expect fund flows to chase price higher but we can expect value buying and it is highly probable that stocks with a PEDY under 15 x and PER/PBR under 30 x will be the target...