Kimura Dreamvisor Newsletter summary 18th July 2006

This is adding insult to injury! but let's no get discouraged.

Following speculative sell a wall of sellers appeared.

After having hesitated market felt as much as 400 Yen at some point the 18th! I understand worrying factors are numerous however such selling is surprising to say the least. The morning fall was comprehensible. Middle East tensions between Israel and Hezbollah turned to war and as Iraq stands behind Hezbollah, oil price surged to new high and US economic slowdown story materialized again, investors had to further reduce risk positions.
This said Iraqi officials had made reassuring declarations the day before and Oil & Gold price plummeted the 17th. UN had also reached a consensus declaration on Korean North Missile crisis therefore tensions were easing. The Japanese market already started to correct previously thus limiting fall scale and I believed that 14700 had been confirmed as a resistance line.
However point number one, Softbank was sold under psychological 2000 yen level. -Everybody- trades in Softbank stock which excels in reading the current vacuum state of the market. Should the leader fall then MOTHERS, HERAKLES new growth market listed stocks follow up. Six months before the 18th of January precisely during the Livedoor shock Softbank also plummeted. But next day volume surged and the stock was bought back, such players did not materialize today.
If new growth markets fall this is right away translated into a Japanese individual's negative stance toward market and future traders immediately start to sell. Furthermore today was the first trading day for Mini Nikkei index. Those having good memory will remember this; bonds futures trading opened in 1987, and the market plummeted the following day just after new derivatives introduction.
Market was indicated in the 14500 range. However futures selling pushed the Nikkei to the 14000 level, if players had bet on a double bottom confirmation there was no reason to push it that far!
At 14500 the market looked to have found support however around 14.10 pm heavily capitalized Toyota Motor announced the car recall story which had a negative impact, and then players turned to heavy net selling again. TOPIX felt as much as 3 %. Without any specific bad news such fall seems extraordinary to say the least.

Looking at other Asian markets Korean stock market which was falling 1,7% at some stage finally closed on a mild positive note. The Japanese market fall seems isolated. Taiwan registered +0,4%, Hong Kong +0,1%, Singapore and Manila closed higher. Jakarta plagued by a quake felt -1,5 %.

Today's fall was not triggered by fundamentally negative elements.

Considering it all, there are a lot of bearish players who strongly believe that Japanese equities are moved by US economic fundamentals (this in turn being based on the belief that the Japanese market is solely moved by foreign investors). The recent US economic indexes largely point at US economic slowdown. Consequently American investors and domestic investors considering US a key element analized the market should fall and reacted to outside negative news by heavy selling.
Currently most investors are only taking in account two scenarios for US economic situation and stocks /financial policy. The most thought about scenario is that; excess supply in the economy lead to tightening, then stock market goes down as a result of such tightening followed by economy slowdown and weak earnings , stocks plummet further as a result and as a consequence monetary authorities start to ease again…
Whatever angle you look at it stocks do not go up in such scenario. This scenario is certainly not shared by all investors or do not fit in with Japanese current cycle but considering Japanese investors did not take the lead in the bull phase their right to say is null….

Japan's biggest problem remains domestic institutional investor's lack of power. Institutional investors should be the most active players compared to other type of financial products but stocks investment is not any more the core activity since bubble burst. Long term investors like Japanese pension funds only hold 17% of their assets invested in domestic stocks which say it all.
Fixed income interest and fixed deposits interest is always paid off borrower's cash flow, what is left after subtracting intermediary's fees is given out to investors and savers. Intermediaries like banks or financial institutions exclude current costs and loan losses from their own earnings and what is left for investors or savers after interest payment is not important.
On the contrary even if borrowers do pay high interest rate return is low. Said in other words before interest payment financial institutions assets ROA is higher than paid interest themselves.

Companies are those issuing rights to earnings after interest payment. In a standard economy ROE is normally much higher than long term rates or interest on deposits. Furthermore companies earnings and shareholding equity grows. As a consequence stock price goes up. Therefore stock investment income is higher than other financial products.

As ZIRP has ended and economy goes back to normal stage if one really grasp this fact (that equities income pays more) then a few years later crying will turn the other way up!