Kimura Dreamvisor Newsletter Summary 1st of June

The winding up of margin calls is progressing alongside nervous trading

The fall of Softbank stock signals bottoming

The fall of new growth markets the 30th of May gave the impression that only the Japanese market was down, US and European markets recovered so today's rebound was not hard to predict. Entering June made it easier for dealers to take new positions and the Investment trusts subscriptions were large enough to allow them to buy substantially and swallow sell orders.

In addition the bottoming out of Indian equities which took place around 13:00 pm (Japanese time) would have led to think that bottoming out has been confirmed. However despite a strong start in the afternoon session the short term traders 'idol' Softbank went below the day's previous low of 2700 ¥ crashing to 2465 ¥. Psychologically this fall impacted the new growth markets more than anything and led to renewed selling on MOTHERS and HERAKLES.

Consequently more sell orders materialized to respond to new margin calls and apart form cash buyers no buying orders appeared.

Previously sold off banking and large exporters stocks were relatively firm however there were no buy orders on low liquidity mid size caps which led to heavy falls again.

However deep are the buyers pockets, stocks with large margin buying hangovers were the target of speculative selling. On the contrary buy orders for the likes of Mitsubishi Warehouse and Kikkoman, Lion, Star Micronics were more important than margin sell hangover.

In the afternoon session Indian stock market went down 2% and futures were sold, Nikkei 225 then touched new low. This said TOPIX was firmer and did not register new low. It remain to be seen whether previous three years low scenario will repeat itself, at that time TOPIX first touched new low then Nikkei 225 followed.

In the morning session the new growth markets started firmer but finally ended even lower than the 30th of May closing. MOTHERS was down 3,9 %, fall rate since 16th of January 2006 has now reached 53 %, HERAKLES was down 5,0 %, fall rate is now 50 %. As a reference Nikkei 225 felt 49 % from 1989 high to Gulf war crisis following year's low (2cd of October), but it took no more than 4 months.

Therefore it could even be said that the loss taken by investors who built large positions previous to the Livedoor shock is above the loss registered by US investors after 11th of September terrorist attack. Said in another way we are very close indeed to bottoming out.

It is difficult to measure the liquidation rate of margin positions for new growth markets.

Brokers on line usually have to increase selling when the margin buying loss ratio reaches 20 % before embarking on new buying. However due to more stringent guidelines on deposit money management this margin buy loss ratio has been lowered to 15 %. In addition those statistics concern the three main markets (first and second sections). Statistics do not exist for the new growth markets (apart from JASDAQ). Moreover there are numerous on line brokerages that have no specific limits regarding margin trading.

For the MOTHERS and HERAKLES indexes' having lost nearly 50 % of their value it looks extremely difficult to distinguish clearly between new buying orders and margin calls originated sell orders when volatility picks up. But thinking logically the investors who made money on the new growth markets will learn progressively and ultimately buy on dips to make investments profitable. Too high expectations certainly led to big losses; numerous investors may have fallen in that trap.

New growth markets stocks volatility is high; anyone knows that the risk involved is important considering low liquidity. Investors probably started to trade prudently, then encouraged by healthy gains they lowered vigilance resulting in big losses when the crisis occurred.

If we compare relative performances of the markets the best performers are historically large cap, highly liquid, high PER.PBR equities, this said there are some investors solely focused in newly listed small cap, poor liquidity high PER.PBR listed equities… When those 'one shot' investors start to pull out of the game, party is over.

But it should be stressed again that for the professional investor such indiscriminate selling points at to good timing for bargain hunting. For those having cash at hand it is high time to search for the hidden diamonds.