Kimura Dreamvisor Newsletter Summary 20th November 2006

Chances are in the pinch!

Japan stock market group bullying

This fall is far above what I expected. There was slight madness at today's opening and market closed on a 2 % near continuous fall. M.O.T.H.E.R.S fall was especially harsh down 6,2 % under 12th of October previous low. Today's New Growth Markets showed again the typical bottom reverse pattern and I expected financial statement announcements to keep markets steady but that was totally betrayed.

Falling stocks reached 1000 level during 8 out of the last 9 sessions. Advance/decline ratio has decreased to 72,4 %, TOPIX downside gap with 25 days moving average expanded to 5,1 %. It is almost like market reached pole of the shadow. Today's and past week twin misses suggest a change in the rapidly evolving 27 weeks cycle (up to now we had 9 upturns). I believe this triggers opportunity window for investors having spare cash at hand. It is foolish to believe market falls are only bad. Although any fall is a pitch for loss/gain actual calculation, it also translates into buying opportunity for future gains. On the reverse high price equals positive profit/loss calculation but it is necessary to be aware of future judgment lurks danger.

Individual's consumption recent sluggishness may signal economic short-term ceiling. The Japanese government announced that stock transfer profit taxation preferential treatment could be abolished. The background valorising short-term traders selling pressure is still alive and kicking; traders self convinced themselves with second half downside revisions (companies bypassed full fiscal year upside revisions). Nevertheless major research institutes will soon publish performance forecasts and grand total will far exceed companies' current expectations. Up to the 16th of November Daiwa General Research Institute calculated that aggregated companies second half current earnings would decline by 3 %, analysts calculated 8 % increase showing substantial discrepancies. We should soon experience the same kind of upturn.

Again sole external environment cannot explain today's fall. The Dow registered a 4 days continuous winning streak last week, Indian stocks went up + 50 % since June low and Hong Kong market is testing new highs daily. Putting aside bubbly Middle East stock markets (due to oil boom) it is a world simultaneous bull. Global players just cannot lower stocks allocation and it looks dubious they would sell still laggard Japanese equity market.

Oil prices settled down, earnings are good, cash at hand is plenty. I find it difficult to guess whose dumping Japanese stocks that hard. As previously mentioned I am convinced this is day traders and hedge funds back work. Elementary and junior schools pupils bullying have been widely reported in medias recently, by making a parallel we could argue that Japanese market is beaten without any specific reasons specially in the case of new growth markets and futures.

Current arbitrage balance is not that huge.

New growth markets listed stocks are sold for capital shift arbitrage with large caps. Recent IPO's downside revisions are piling up, this can be explained by defiance toward disclosure .

Up to now anyone could make a killing buying at public advertised price. To register a loss buying at public IPO's price immediately disperses Japanese investors like spider's Childs. Japanese index futures are easily sold because arbitrage balance remains high. 1 trillion Yen Japanese equities cost holding is mostly based on US short-term rates (excluding any forex loss). Short-term securities return 5 %, close to cash returns. For US investors who *must* hold Japanese stocks cheapest way is finding brokers taking US stocks as collateral and buy 1 trillion Yen Nikkei or TOPIX futures. Interest cost will be settled with the futures calendar spread calculated from Japan money market interest rates; it is a sure bet as US Japanese rate differential is 5%.
Highly ranked institutional investors will set up long-term futures contracts and prime brokers who undertook these orders with substantial margins will immediately hedge the risk by taking arbitrage positions.
I think it is wrong to forecast arbitrage led unwinding sales caused by sheer arbitrage balance level due to lack of bullish perceptions.

This said from a chartist point of view today's fall worsened my previous scenario. Nikkei 225 remains above 25$^{th}$ September 15,514 low but TOPIX broke its 1546 previous low today. If the 25$^{th}$ of September proves to be mid term interim cycle bottom then past interpretations need to be changed. To break a mid term cycle bottom during first short term sub cycle mean that current cycle is extremely weak. Further to consider 25$^{th}$ September as mid term cycle bottom was a mistake (this is a highly possible). If this is confirmed then mid term cycle which usually lasts 13 17 weeks will be extended 2 3 weeks, said in other words current fall is the proper buy timing.

Although such possibility is low, we also have to reconsider 14$^{th}$ of June as the 3 years cycle low point. In any configuration the next few days will be *extremely important to gauge current cycle amplitude.*