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Small caps & New Growth markets went down to a good support level

Small and large caps fall rate is very different.

Mid term earnings were good, foreign stock markets are resilient therefore today's (22 November) Japanese market sluggish response has been frustrating and totally inappropriate. I think investors who had to throw away stocks at such bargain price share this view however market is a money war therefore sometimes casualties are unavoidable. Unexpected large advance or declines are every day's cup of tea; anyone's gain is always someone's loss in the zero sum game. There is no guarantee whatsoever that today's winners will be next ones. It is always necessary to maintain some spare investment capacities to react with self-control during bargain sales.
I analysed fall rates from current fiscal year's high. Nikkei 225 lost 10,7 %, TOPIX 14,3 %. It is quite rare main indexes show more than 3 % discrepancy within 6 months. Large capitalisations mid priced stocks and banks have shown the worst performance. In addition analysing TOPIX sectors performance it appears that large caps index (top 100 capitalized stocks) fall was 11,1 %, mid caps fall was 17,3 % (from 101 to 500 capitalization level), small caps fall was 24,3 % (under 501 level). Individual stocks performance shows near 10 % difference with correlated index therefore readers who bought TSE first section listed small cap stocks in January –April period must have something like 30 % latent loss.

Second section and new growth markets listed stocks are worst. TSE second section fall is 29,5 %, JASDAQ fall is 30 %. Including Livedoor shock MOTHERS fall has reached the staggering 64,1 %! HERAKLES too decreased 60,2 %. It is not exaggerated to say that Japanese new growth markets have been 'massacred'. JASDAQ fall scale can be explained by the high percentage of leading non-IT service companies.

Amongst the 4000 Japanese listed companies only 10 % of the top 100 companies registered falls. But if we expand the scope to less capitalized 500 stocks this percentage goes up to 30 %. Large caps individual investors detention rate is low therefore current fiscal year performance is very bad. Considering the severe wounds inflicted they won't easily revert to positive buy stance. Although recent stories about abolition of tax preferential treatment for stocks does not generate disadvantage for stock holders having latent loss this triggered heavy loss cutting ' is the government abandoning us? Etc.'

We reached a level that should normally translate into self sustained technical rebound nor to mention earnings level. On the 22 November close Nikkei 225 forward Pe multiple is 18x, including loss making consumer loan companies TOPIX forward Pe is 19 x, second section forward Pe 16x. JASDAQ includes high Pe stocks like Rakuten therefore forward Pe is 20 x. Further falls from such level would only increase abnormal low valuations pattern.

US economy slowdown is already discounted; earnings will be further revised upward.

Newspapers headlines are full of economic uncertainties and stress companies' potential downside revisions but US economy slowdown already started. I think this is positive considering excess consumption has been so well publicized. US domestic investors already factored the slowdown in stocks and bonds prices. Investors already discounted US

companies' second half downside revisions. From current situation further deterioration probability seems low.
Based on companies' financial statements if we retrieve first half from current full year estimates earnings second half shows current earnings down 3 %, but as I mentioned previously large research institutes are forecasting 8 % current earnings increase for second half. I personally subscribe to this view. There is too wide a discrepancy between positive and negative estimates. I think there is potential for a 1 point fall in Nikkei forward Pe, which implies 5 % minimum rise for stocks generally speaking.

It may be too soon to draw conclusions from today's movement but current situation would call for immediate rebound. Regarding rapidly changing 27 weeks cycle; should this week's low be the new bottom this strengthen the rebound possibility. Technical support lines linked with TOPIX and Nikkei 225 25th of September low are not synchronized yet; therefore I cannot fully confirm this at that stage. Seasonally speaking holding stocks from October second half to December end invite the best performance, technically the market is heavily oversold hence good buy chance. <u>I specifically suggest unpopular low Pe stocks, especially for companies having left unchanged full fiscal year estimates</u>. Every year's the same and companies forecasting conservative estimates will start to revise up toward the end of the year and increase dividends. From February to March stock splits and M&A cases will surge again. In short it looks a good timing to actively invest in a contrarian mood. Stocks sold in the bear phase easily rebound when positive factors materialize. The best timing for dividend increase lies with companies' earnings announcement. After mid term earnings season has peaked positive factors dries up and when full year earnings are announced profit taking leads the way, this summarizes a typical one-year cycle pattern.