Kimura Dreamvisor Newsletter Summary 26th October 2006

*Bulls make money, Bears make money, but pigs don't!

Although there are still concerns left market ceiling is higher.

NY Dow rise looks unstoppable. The Dow is 3 % above year 2000 peak (11750) and no real correction took place since last July low. US investors are not overly optimistic; numerous investors are not aggressively buying due to concerns over the housing boom end and economic outcome. However due to lack of viable alternatives to equities money is gently flowing to stock market.
As forecasted FOMC left rates unchanged. Crude oil price felt to 60 US$ per barrel, housing market is slowing down and inflation pressures remain subdued. September second hand housing sales are down 1,9 % at 6 million 180,000 units which is a low since January 2004. In addition September average house price was 220,000 US$ down 2,2 % compared to august. The average price has been going down for two months in a row, which is the first time since 1990. US individual's consumption is impacted by both negative and positive factors, on the positive side crude oil downtrend and on the negative side negative home equity loan.

There is an old Japanese stock market famous proverb saying' Bulls make money, Bears make money, but pigs don't '. I believe everyone experienced this. I believe Stock market and economy are both experiencing this situation currently. Economy and equity prices cycles both peaked out and developing countries euphoria is not spreading out. Rather concerns lie ahead of us.

Although worrying, such concerns are not strong enough to destabilize economy for now. Industries profitability is still trending upward. There is no desperate selling nor high expectations therefore situation can change suddenly. Market is not going to jump due to the lingering uncertainties and the gentle rise can continue (for now).
The origin of the above mentioned Japanese proverb comes from 'Yagi Tora no Maki'. It could be translated literally as: 'when you believe it is bottom consider that prices may still go down and when you feel it could go further down bottom may have already been found and stocks on the up trend'.

Said in a word it is rather difficult to predict market trends and you are warned to make conclusions using your own judgment. The market is 'reason beyond reason' and even if market does not always behave with common sense market participants have to take in account totally unexpected events according to the surrounding psychology.
Whatever sure your convictions are it is necessary to buy and sell with circumspection. Market price always exist therefore the risk it does not match your point should be remembered.

Best chances are born out of different interpretations.

Mid term earnings announcements really started this week and large corporations are showing good earnings taking advantage of Yen weakness. Nippon steel, JFE holding were originally forecasting a 20 % fall in earnings but as this was extremely conservative Nippon steel finally revised up its current profit to 268,9 billion Yen against previously forecasted 250 billion Yen. JFE holding announced 223,9 billion Yen against previously forecasted 200 billion Yen. For highly export geared JFE the revision is sizeable (JFE export ratio is 33 %, Nippon steel

28 %). Honda renewed its historic net profit and even Nissan motor, suffering from bad US sales, achieved a lower than anticipated decline in current earnings (just one digit). Yen effect is progressively filtering through balance sheets (Honda export ratio is 84 %, Nissan 77 %).
This is no more than strong earnings on the back of forex gains and real competitiveness improvement cannot be taken for granted. However if these companies do not take advantage of fair winds blowing now they would no be able to build up strengths when contrary winds will blow again.
Japanese most representative blue chips companies were able to ride above a long painful reform period and they wont easily loosen up their wallets despite current boom. If they win and do not loosen the helmet cords I want them to extend the winning streak at all means thus avoiding selling oneself at low price during rainy times.
If companies do not prepare excess capital for rainy days they run the risk of being sold at dirt cheap price after having been bought like crazy, this is exactly what happened during bad loans sell-off period for City Bank collateral real estate or Golf properties. The asset value can be assumed through capitalization by calculating profits produced on a yearly basis; although this is a highly reliable estimation when the profit level is transitory it becomes no more than ‘fair wind’ reference record. On the reverse when a recession results in abnormally low level price is assumed lower than fair value.

Market always detects price distortions and discounts or premiums to real value. A low priced asset is recognized as a bargain, overpriced asset is a speculative bubble. Those who buy at bargain make money but investors buying at bubble level are foolish. Japanese mega banks are now showing 10 trillion Yen capitalization but you should have in mind that the same banks were valued at one tenth of that back in April 2003. Investors who bought at this bargain price cumulated knowledge and strong common sense. I consider that the most foolish acquisition in history was Times Warner who then merged with totally valueless Internet provider AOL, after the merger they were soon pressed by a huge 5 trillion yen goodwill excess estimate (surviving company is AOL).
Soon the large caps bubble ‘bargain’ may disappear although such phenomenon is partly created on a local basis. Market always compels an immediate judgment therefore for those hastily making their difference there must always be a situation where ‘cold cash’ return to the market. This always creates opportunities for investors with excess money.

* This is Pascal Jeannenot free interpretation of this Japanese famous financial saying (not easily translated).