Kiyoshi Kimura Dreamvisor Newsletter Summary 29th of May

Tears on the menu of new growth equities markets...

The aftermath of Livedoor shock miscalculations are still lingering…

By judging from last week market sentiment, Chicago Nikkei Futures firmness the author of this report thought the market would strengthen, however market infantry was in the midst of disorderly retreat…I mean the heavy falls registered by New Growth Markets (MOTHERS, HERAKLES). Those markets registered falls of nearly 4 %, on the other side large automakers and bank equities registered gains but downside was focused on mid caps equities and finally the Nikkei went down.

In fact rather than New Growth Equities markets I should stress the battering down of internet related stocks. JASDAQ was the only mid size caps market to register a gain as such equities weighting is only 0,5% .Internet related stocks were the leading pack last autumn just before the Livedoor shock. In the aftermath of the Livedoor shock most of those stocks were left aside in the following Bull Run as heavy sell orders were waiting on the upside. When margin calls day got nearer stocks suffered renewed intense selling pressure, however at some point the battering has to end.

The Ministry of Finance started to look with suspicion Japanese auditing firms with the Koyo audit firm linkage to the Livedoor accounting frauds , nor to mention the enquiry regarding Chuo Aoyama auditors regarding the Kanebo affair. But as the Ministry of Finance launched an enquiry into all 2300 existing audit practices in Japan this led to a Japanese style ‘Enron shock’.

Auditing companies have been requested to report in the most conservative way and never to act in a way that would bring the slightest doubt to third parties. On the other side companies want them to use their entire makeshift creativeness to report the most striking earnings.

Direct consequence of such accounting practice new orthodoxy guidelines , most New Growth Markets listed companies were in no position but to report large downside revisions. Japanese Auditors being in no position to give them a helping hand.

Another example is real estate securitization company Urban Corp whose earnings statement was delayed; the stock felt form 1800 ¥ before GW to a low of 900 ¥ on the 10th of may ! It hurts. In addition the 29th morning Painthouse ‘bankruptcy’ was

reported…, later the same day around 10:00 am MOTHERS listed (4797) I-CF Inc revised down for the third time in a row, the stock which was priced 250 000 ¥ back in January went stop low to 45,800 ¥.
Turnaround points are always born from desperate situations but the impact of MOF/FSA new accountancy hard guidelines brought tears and fears to New Growth Markets recently. For new growth equities addicted individual investors this week turned out to be hell on earth…

The market is overacting to accounting frauds and lays the ground for good buying opportunities...
In English to list on the market is translated as '...going public....' There is a wide gap between the type of information management has and third parties may posses. Using such discrepancies to have investor's money blindly directed to the stock market is against law. This said putting aside accountancy frauds, most Japanese accountants and auditors have to go through difficult official examinations. Therefore it is quite understandable that chartered public accountants using public trust to falsify accounts be treated as criminals.
The Aneha default construction fraud was the same type of rule breaking. Furthermore when such frauds occur the authorities respond by tightening the regulations and this has a cost.
Most asset collaterals have been standardized as real estate securitization or SPE (special purpose company) which made it possible to sell them to cash rich (but weak in control) institutional investors. Such newly developed securitized products inflate quickly profits but mislead investors in believing companies profits are strong and sustainable , this in turn allow companies to raise capital at low cost. No doubt that most newly listed company in the New Growth Markets have such policy.
But there are also companies with rapidly expanding reputation. Such companies need to quickly raise their profile in order to strengthen the core business in the long run. The stock of those companies deserves to be bought on lows.