

Kimura Dreamvisor Newsletter summary 31st August 2006

US individuals too are heavy sellers...

Without hard study individuals cannot succeed and there is a cost associated with studying.

As in Japan low interest rates environment continues and companies' earnings growth has been conspicuous I believe capital has to shift toward stock market. Especially considering that equities investment business became more profitable and savings piled up creating huge available surplus capital.

However looking at the three main markets trading volume, Japanese individual investors net selling is on the rise. Even if volume picks up I do not believe this pattern will change. Furthermore individuals seem to heavily buy public offerings, in addition individual owners new IPO's rate of detention is high. As a consequence individuals average equities holding rate has been stable at 20 % for the past 20 years.

Individual's interest toward equities is certainly rising but people willing to invest in equities by studying in depth seem scarce. The absolute number of participants is high but relative to the market net inflow of capital it is insignificant. This is my feeling being in permanent contact with Japanese individuals.

I believe there are few people, using one's full resources, able to grasp what is equity.... Whether they do not want to take the risk or found it troublesome does not matter it's a fact. This may be the correct interpretation. I believe one should convert in money the trouble to check on a daily basis stocks, accumulate information on holdings, bear costs associated with related specialized literature acquisition, such cost should then be retrieved from the profits earned from trading. It will prove difficult to make a sensible return by just investing up to Yen 1 million in stocks, and it would be more profitable to entrust money to a well reputed investment trust. If you are not fully convinced that by the next 10 years you can self manage a substantial equities portfolio then it is wiser to concentrate on increasing income and use it effectively for your hobbies.

You may think such an attitude from someone volunteer to enlighten and support individual investors is cynical. However the reality of stock market is to confront oneself with a set of seasoned professionals who combine top class experience, knowledge, and capital, speed and management resources. Comparatively poorly equipped individuals have to fight in the same ringside.

Do you feel you can win on the low price method? Diverse methodologies exist to succeed in stock investment therefore individuals must be ready to watch for a chance patiently finding the right success methodology and improve it.

However the net selling by individuals is not Japan specific. In the USA supposed to be trendsetter individuals direct holding of stocks is decreasing fast and furious. Looking at the year 1980 US equity holders' category breakdown; households held 68 %, pensions 18%, Insurance companies and foreigners 5 %, investment trusts 3 %. For the last 3 months households share has crashed to 29 %, investment trusts share rose to 26%. Pensions 22 %, Foreigners 13 %, Insurance 8 %.

Worldwide shareholders institutionalization is increasing fast

US Households have been selling on average 300 billion US\$ of stocks for the past 10 years, a staggering 35 trillion Yen! In short this mean Investment trusts have swallowed nearly 200 billion US\$, Foreigners 70 billion US\$, Insurance companies 60 billion US\$. This also means that US equities holding are institutionalized at incredible pace. Since the beginning of current calendar year the pattern has further accelerated.

Turning our attention to Japan in 1980 financial institutions held 36 %, individuals and others 28 %, corporates 26 %, foreigners 6 %, Investment trusts 2 %, Pension investment trusts 0,4%. In 1995 this holding ratio became respectively; 37 %, 19.5 %,27 %, 10 ,5 %, 2 %, 2 % . The conspicuous fact was that with bubble burst individual's holdings decreased and foreigners holding increased, this said domestic institutions core holding structure has not much changed. But in the following 10 years things changed a lot: now foreigners hold 26.7%, financial institutions 23.8 %, corporates 21.1 %, individuals 19,1 %, investment trusts 4.4 %, pension funds 3,6 %. Foreigners mostly absorbed institutions selling, Investment trusts and pension funds substantially increased their share. But individuals share has been flat. In short institutionalization of equities holding is also progressing fast in Japan.

Recent TOB battles: Oji paper on Hokuetsu paper and Futata symbolize Japan entrance into M&A century. The most remarkable event was the cross shareholdings meltdown; on this background straight financial value guided decisions have increased substantially. In Japan there are still numerous listed subsidiaries (which is forbidden in the States and if it was for US rules NTT Docomo or Yahoo Japan could not be listed) plus Corporate equities holding is still very high.

First section listed companies cross shareholding come in sight with the mergers and acquisitions increase, holding percentage should have gone down smoothly but the contradiction of having listed subsidiaries over the long term have been severely criticized therefore trend is to downsize fast.

In the recent Hokuetsu paper case I was totally on Oji paper's side. The defensive strategy engineered by Hokuetsu paper was a loss loss situation for the long term holder. The huge third party allocation to Mitsubishi Corp resulted in infamous dilution. Furthermore as Oji paper has embarked to build a new plant in retaliation this will act like a drag on profits. The stocks fall seems inevitable. Not that I cannot understand the position of besieged management categorical turn down of the conditions but their financial adviser should have clearly explained the financial consequences for their own stock. I do not want to see such stupid defensive strategy be repeated again.

Japan Paper is to be specially criticized for having bought Hokuetsu paper at such a high price to obstruct the TOB. In the same business field when the number of entrants decreases and if one single company increases volumes costs decrease and due to smoother price competition margins increase. I wanted to shout at them to study more basic management principles theory.