Kiyoshi Kimura Dreamvisor Newsletter Summary 5th of may 2006/05/09

Back In 2003 both commodities and stock markets registered a twin bull trend.

By comparing most markets mid to long term charts it appears that relatively simple structures materialize.
If more than 70% of invested money keeps tracking this mid long term trend. Adopting, time to time, a contrarian stance (short selling when the market is overheating) then such a relatively passive approach would prove successful.
Tracking world main indexes; US S&P 500, NASDAQ hit lows on March 2003. At market closing TOPIX registered a low the same day. UK Footsie 100, German Dax registered lows next day, Singapore straight Times the day before. The Hang seng registered lows on the 25th of April, Nikkei 225 on the 28th of April. After while most markets embarked on upward trend. By market close S&P 500 registered +64,0%, NASDAQ +86,5%, FTSE 100 +86,6%, DAX +177,2%, Hang Seng + 102,5%, Strait Times + 119%.
India and Russia are still on a very strong upward trend, Japanese market has embarked on a solid upward trend since summer 2005. Those markets were lagging behind which explain the recent surge.
Looking on a somewhat shorter time span with 2005 mid October as starting point, US market low was 12th of October; Japan/UK/Germany was 21st, South East Asia the 28th . However against a 11,4% rise for US S&P 500, TOPIX rose 29,6%, DAX 27%, UK/Hong Kong/Singapore around 20%. Due to rate increase concern the US rise was somewhat weaker but European and Asian markets registered 20% plus increase.
Not only equities went up. Most commodities indexes also registered lows in 2003; crude oil barrel 25,24 $ (NY WTI), Gold 319,9 (London metal exchange), CRB futures index 228,42. From lows Oil price tripled, Gold doubled. The price of manufactured products is held at bay due to still low income export countries like China but as employees income rise industries will have to hike their prices to keep margins afloat.

Are the savers back in favor?

It is quite obvious we are in the midst of earnings driven market, at that point of the cycle rate increase should put a brake on economic expansion, however :

1- The unusually long ultra low interest rate period offered by Japan

2- The US fine tuning of monetary policy to keep low long term rates …led to a prolonged worldwide economic expansion. Said in other words one cannot compare past earnings driven markets to present earnings driven market.

Finally United States are in a tightening mood, Japan is on the verge of ending the zero rate policy by summer which means we are entering the standard earnings driven market cycle leading to higher rates. In short that would mean that sooner than later the whole range of variable and fixed costs (salaries, debt, raw materials prices, pension funds etc...) will emerge again adding pressure on earnings. Said in other terms those companies that have superior management and niche technologies will emerge form the pack.

US real interest rates rise will impact investments flows targeting 'expected' inflation .Most investors outside Japan made good returns on their investments during the past 10 years, Japan being the exception due to the bubble burst.

To summarize it all, exception made of Japan, real estate and industrial profits rose strongly, savers lost and leveraged investments won upper hand. This background led developed countries to cut labor cost and delocalize in low income countries production of industrial goods. The peak of that game may have passed. This long term trend is certainly not going to reverse suddenly but should the saving rate start to rise again economies will undoubtedly slow down, such long trend reversal need to be taken into account when considering investment strategy.