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The Dow came close to its historic high

Should the Dow break above its 2000 historic high, Japanese index will break above April high.

In the past I have been pretty weak at forecasting US stocks outcome, based on the 4 years cycle I had forecasted that the Dow would nearly break its year 2002 October low of 7000 $ by October 2006. However US companies' earnings have been better than anticipated, long term rates are also stable under 5 % level and as the investment feel good environment continued I had to cool down my bearish forecasts. Bottom target was 8000 $ last year's beginning, I upgraded to 9500 $ last year end and further up to 10 000 $ six months ago. It is now 10500 $.
However while I was rising my bottom target the Dow went up close to2.5 % to its years 2000 historic high (11750 $ in January 2000). The US market has a bias to go up 5 % on a yearly basis. Therefore historic high renewal is just a matter of time. Even if in the near future economic situation deteriorates and a bear market kicks out after 1 or 2 years the Dow will challenge a new historic high.
One can get the S&P500 average forecasted EPS form S&P homepage. As there is no big difference between S&P 500 and NY Dow regarding stock prices and earnings trend those figures can be used upfront. Two years before in august the forecasted EPS for 2004 was 66.6, the 2005 forecast was 72.5. In fact this came out at 67.7 and 76.5 above forecasts. The current year 2006 forecasted EPS is 86.9 and for year 2007 97,1. I believe 2007 year forecast is somewhat over optimist but should US companies share buy back continue apace EPS won't go down that easily.
On the 5th of September closing year 2006 expected Per is 15.0x, year 2007 (E) Per is 13.4 x. Based on next fiscal year profitability is 7.46 %; growth equities are attractive relative to fixed rate at 4,8 % or 10 years US treasuries. Again provided a sudden earnings meltdown does not take place it is obvious companies will further increase share buy backs. Therefore I totally changed my bearish view on US stocks.
In case the Dow registers a new high then market participants will turn quite bullish toward Japanese equities. Investors will sympathize with the fact that it looks odd to leave savings at near zero return when the trendsetting market is going up. At that point knowledge and logic should move people and investors who are not moving by logic will act on feeling.

Companies with common sense should aggressively buy back own shares.

As an analyst I have a lot of contacts with companies, the first company who became conscious of taking the right balance between debt and shareholders equity was TDK. I believe it was in 1987 but during the press conference for analysts the executive in charge of finance said that debtless management was the best. He explained TDK strategy was to expand market share on its own domestic market, keep and increase profitability at high level and diversify in peripheral business fields. TDK understood at that time the logic beneath keeping as high as possible the share price by maintaining a high ROE and controlling the debt level.

The next one was Honda Motor. Just after the bubble peak out they reduced drastically investment in equipment, they got to the bottom of its specific know how business fields and strengths and built a highly profitable structure laying foundations of overseas expansion. On the other hand rivals Nissan Motor and Mazda Motor self destroyed themselves by targeting sole domestic market share expansion. By Looking calmly at the negative financing premium triggered by the weak owned capital relative to Toyota market finally cancelled the premium but this led to putting a brake on own shares buy back process.

Toyota changed gear suddenly just before the banking crisis. I don't know if Honda took the lead in having the sense of crisis but it is clear they awakened to getting the right balance between investment level and internal reserves. At first they were conservative on dividend payout but due to fact previous large equity holders like ex Mitsui bank or Tokai bank type financial institutions were scaling down their holdings it became possible to buy back large quantities of stocks at attractive level.

Currently the company has a policy to pay out in dividends or proceed to shares buy back at 50 % of its consolidated earnings.

Toyota's U turn in share policy triggered a change from other large blue chip companies. Takeda Pharmaceuticals has changed also. Before Takeda was just tackling the payout ratio dividend theory but due to the earnings rapid expansion balance deteriorated and they were forced to rapidly buy back shares. Without doing so they would run the risk to become a target. Canon has also changed. Canon was rather conservative regarding shares buy back but they finally embarked in a complete change of strategy. The owned capital equity ratio of Canon is 62 % compared to Toyota's 37%. The shareholder's equity ratio is clearly excessive and they should now urgently proceed to own shares buy back or dividend increase. Shin Etsu Chemical has changed. From last year they bought back substantially own shares. Shin Etsu Chemical shareholders equity ratio is 67 % above Canon's level. Without buying back own shares or increase dividend payout ratio owned capital ratio deteriorates. Current fiscal year should see large shares buy back and further dividend increases. The logic beneath is simple. For companies having excess cash at hand it is best to give it back to shareholders. Excessive shareholders equity ratio is source of discipline destruction. All companies registering a fall in earnings profitability due to loose management but maintaining a high level of owned capital will face problem one day or another.