

Kimura Dreamvisor Newsletter Summary 15th of august 2006

The next long term cycle peak will be in 2008 second half

Following current week rise it looks we have entered a new 3 years cycle upward trend.

Market entered its top postwar upward trend last year 8th of august when the lower house was dismantled on the post office privatization problem. Incidentally market also entered a bull trend in March 1993 when LDP vice president Kanemaru Shin was arrested. Such events, although negative, have no real impact and were used by large investors to trigger their come back on the market. Yesterday's power failure in Tokyo (without consequence from a stock market point of view) may be sized by investors in the same way.

The power failure which occurred before market opening should have dampened investors mind. I thought this plus summer market slackness, last week US equities weakness and Koizumi's Yasukuni Shrine visit would have led to a market short term fall. However it was the reverse, when power went back at 9:30 am the mood was totally different. Nikkei 225 recovered to the 4th of July high (15710) and kept above the 200 days moving average. The Chart renewed the mid high point forming a double bottom between 14th of June and 18th of July; this mean bottom has been confirmed. With one day's delay TOPIX shows the same pattern and I believe market is going to test new highs for now.

Technically speaking the fact that market recovered to 4th of July previous high is important. This is the mid point reached in the 9 weeks upward trend that formed since the 14th of June. The mid point of the 17 weeks cycle has already passed, this also mean that within next two months market will go up from the next cycle bottom. The downward correction usually last no more than 2-3 weeks, in addition the fall equals only 50 to 61,8 % of the rise in most cases.

At the same time the bottom of the three years cycle that started in March April 2003 should have been touched on the 14th of June 2006. Should this prove correct then we have entered a new 3 years cycle and this mean that very soon a powerful uptrend will develop. Maybe this also releases the market from the 8 years cycle October low pattern (1974, 1982, 1990, and 1998).

Usually the rise at the start of a new cycle is quite powerful but current rise obviously lacks energy. Therefore I do not believe all different cycles are moving upward

simultaneously. This may even put in doubt cycle beginning's double bottom. Furthermore previously mentioned US 4 years cycle is setting an obstacle to the Japanese 8 year's cycle, therefore this cannot translate into a straight rise. However such a case also suggests that after October bottom a very powerful upward trend will materialize.

On a very long term basis next economic peak should come by 2010.

In all cases for investors currently on the buy side the renewal of this mid cycle high point is good news. As the upward trend will be slow and lasting the downward correction would be equally limited so let's keep our mind up!

Finally based on June bottom the 3 years cycle has finished.

Therefore if we base ourselves on the beginning of a new 3 years cycle we can predict when the next high price will form. 2003 bottom converge with previous cycles bottoms: 3 years (previous low October 1998), 9 years (previous low august 1992), 18 years (previous low October 1982), 36 years (previous low July 1965), 54 years (previous low august 1945 but this was wartime and Tokyo stock exchange was closed plus we can assume that equities value was close to nil).

Different cycles overlap each others, short term cycles always differ from the average cycle length so I have extended the 3 years cycle to 4 years and a half. If June is the starting point the next key point is mid 2009. Normally the high should be sometimes later than this in-between However the Japanese market shows obvious 18 months cycles. Therefore if we assume the expected bottom before and after 2008 year end then the 3 years cycle high price overlaps with the 18 months cycle and give autumn 2008 (with a margin of 4 months before and after). *Up to that point it is highly recommended to be long.*

This must be consistent with economic cycles. For this I am going to refer to Professor Shinohara Sandai economic department publication that I have in great esteem. The professor theory is not on short term economy but rather focus on grasping with accuracy a 10 years view. He is using investment in equipment per GDP ratio as the main barometer and labor supply demand ratio as an alternative. As a result the Japanese long term cycle which was originally 10 years time has been extended to 20 years and he believes than the next economic cycle peak will take place in 2010 with a 17% investment in equipment/GDP ratio and the labor supply demand ratio will increase to

1,2x. .

Investment in equipment ratio is not supposed to grow during recessionary periods. Therefore tentatively if economy comes at a standstill it is considered to last shortly. To reach the targeted 17 % the investment in equipment ratio has to grow further 15 % compared to current level which is quite an optimistic level. I personally doubt such level can be reached however considering the Asian high technology industries it is conceivable. When it comes to energy resources saving, efficiency, environment importance there are no countries able to rival Japan.

We should not worry too much about US economy slowdown. Japanese economy degree of dependence toward US economy is decreasing and the US economy world market share is trending downward. Bipolarization is also progressing in US but demand for Japanese made products from upper end classes will not slow down.