

## **Pascal Jeannenot Newsletter 18<sup>th</sup> of April 2006**

### **There is wide scope to purchase Japanese mid small caps at that stage**

Now is the right timing to substantially increase the weighting of mid small size Japanese equities.

Japanese mid small caps tend to follow a certain type of cycle which needs to be taken in account when investing in such asset class. This is especially true for the three growth markets (Jasdaq, Mothers, and Heralkles, TSE, OSE, NGE second sections).

According to the cycle lows are usually registered between October and January of a Japanese fiscal year. Plus as Kimura San pointed in his 13<sup>th</sup> April newsletter small caps are favored when economic cycle approach a short term peak.

Back in January the Livedoor shock accelerated losses in the mid size equities universe therefore end of April to mid-May should prove a good timing to actively search for buying opportunities. Outstanding value can be found within mid small caps universe relative to large caps.

A sensible strategy is to focus on low forecasted per domestic related issues (whatever the business field). Moreover because non manufacturer's capex investment is seen as the next growth locomotive domestic services should be targeted for investment opportunities.

### **Now what to buy?**

Some recycling friendly companies such as Asahi Pretec (5855), Matsuda Sangyo (7456), Daiseiki (9793) which are also Goldman Sachs Securities Japan picks are interesting.

Healthcare related company (9652) NIC is under shareholders equity. (8473) SBI holding looks attractive after recent corrections. (6478) Daibea on OSE 2 is good value. (7220) Musashi Seimitsu the Honda related motorbikes spare parts maker is attractive at that level.

(6423) Abilit is a true value stock although volume is very thin. Financial services related (3772) Dreamvisor has reached a good buying level, (8473)

SBI holding looks attractive after recent corrections.

Osaka listed (3121) asset Investors looks interesting despite current losses.

The Hokkaido based supermarket chain (9928) Arcs Company Ltd is cheap.

Elderly homes builder (1729) Sanko Soflan looks interesting. Baby care related products (7935) Combi are a fundamental buy. (9932) Sugimoto and Co could be picked on correction. OSE listed (3526) ashimori Industries can still be bought on weakness.

TSE 2 (7856) Hagihara Industries is still very cheap but beware of low liquidity. (2734) Sala Corporation the holding company of Chubu Gas affiliated companies is still good value.

On the other hand (6454) Max co has already well performed and is a hold. Same with (7122) Kinki Sharyo.

I do not point at any specific sector, fundamental bottom up stock pick is the right strategy, large capitalizations the likes of banks and real estate plus global blue chips have largely outperformed fueled by regular inflows of foreign institutional money. It is therefore high time to go contrarian considering what I stated above for mid small caps cycle.

In the next newsletter I shall state my views regarding core investment strategy for the large caps always focusing on value search and realization.