NEWSLETTER 27th of october 2006 http://japoninvestissements.free.fr

Market still foreign buying led however the scope is expanding nicely.

More insights and tips to detect value targets.

Foreign investors buying spree continues unabated; according to TSE 26th of October 3rd week of October (16 –20) statistics for TSE, OSE, NSE and second sections foreigners bought net 199,5 billion which makes a four weeks cumulated 1 trillion 119 billion Yen net buying making them current core buyer. Foreigners buying easily absorbed Japanese individual's cumulated 200 billion Yen net selling for the past four weeks.

Individual's financial health barometer loss margin ratio is improving slowly for the first time in three weeks and is back to April 28th level. Japanese individual's favourite low priced stocks usually bought on margin have bottomed out suggesting individual's psychology is gradually improving and selling pressure receding.

For the three main market (Tokyo, Osaka, Nagoya) the loss margin ratio was – 7,8 % a 3,26 points improvement relative to previous level, JASDAQ loss margin ratio was – 21,02 % on the 20th of October a 5,37 points improvement. Heavily margin traded stocks Softbank, Mizuho trust bank were bought back. When individual's favourite stocks go up margin settlement selling pressure eases gradually. As a standard when loss margin ratio reaches – 10 % loss realization usually pops out therefore current improvement is important. Market participants are confident that individual's buying on New Growth Markets is recovering (it started the 13th of October). In addition the advance/decline ratio (advancing stocks/declining stocks) improved to 104,16 % on the 26th of October a new high since the 22cd of September, the same ratio was 70 % by mid October.

Small to mid growth stocks are not only Japanese individuals favourite, foreign asset managers are sometime acting like 'day traders'. Fidelity Investments Japan for example has bought like crazy Index just before Lievedoor shock back in January (at some point Fidelity Japan was number two shareholder with 12,81 %). When Index revised down in august Fidelity sold off quickly the holdings abruptly decreased from 10,71 % to 3,29 % in less than two weeks! This said there are well known domestic investors like Ishihara Tatsuro's Tower Investment (famous for ranking nation's top tax payer) who buy contrarian; Herakles listed (8699) HS securities (which I included in my previous PEDY list) is a good example. When Merrill Lynch Securities and JPMorgan asset management turned net sellers the stock went down the tube. Nearly 70 % down from its earlier peak! Then Tower came in to buy. Judging form the stakeholder public declarations Tower had increased its stake to 14,16 % on the 27th February and then further increased it to 22,24 % in July. (I still personally rank the stock as good value investment).

Considering the lower volumes traded on new Growth Markets large institutional buying impact is important. Such large value investors are slowly coming back to the market. Mid small caps specialist Tosaki Hirotaka (who transferred from Cosmo to Shinko Securities recently) is representative of my favourite value approach. Mr Hirotaka has been ranking number one for two years in row in Nikkei Financial popular analysts poll. Part of his methodology is to follow on a daily basis stocks that have been battered down, when negative elements have been factored in this create opportunities for investors. This is based on the principle that Good fundamentals stocks will be bought back at some point. There are signs that both New Growth Markets and second section listed stocks are offering such value opportunities Screening is always based on P/e multiple x Pbr **<** 22,5x. Such investment style has proved its efficiency however stocks like (4842) USEN, (4835) INDEX holding recent downward revisions put such logic to the test again.

Now what to buy?

Friday 27th October core event was US activist steel Partners launching a TOB offer to acquire noodle manufacturer (2900) Myojo Foods following earlier failed MBO attempt proposal. TOB offer was set at 700 Yen setting a 14,9 % premium with 26Th October closing. I already mentioned that despite Murakami eviction activists had been swiftly back in business in *my newsletter dated 30th July 2006*. As usual targets are stagnant owner type businesses. (Myojo foods CEO Nagano Hironobu answer was 'don't know about it, don't approve it'). As mentioned earlier Japanese food sector has a high concentration of owner type idle companies awash with cash at hand . Consider (2806) Yutaka Foods for example another good example.

Follow our basic screening advices and you will make money detecting potential targets.

On the large caps front my favourite (6752) Matsushita announced impressive interim earnings on the 27th of October; based on US accountancy standards consolidated interim current earnings rose + 21 % at 27,13 billion Yen a high for the past 16 years. Interim sales rose + 3 % at 4 trillion189 billion Yen. The new CEO Nakamura Kunio is applying at full speed his renovation plan based on moto 'destruction & creation'. I believe this strategy deserves appraisal . Up to now Matsushita was focusing on domestic sales. New products were always targeted worldwide but Matsushita suffered from a standard one year time lag between product launch in Japan and USA/Europe, this has now changed with worldwide simultaneous marketing of new products. Buy on weakness.

When will (6758) Sony woes end? Troubles are piling in for the electronic giant. First the Ion lithium batteries recall, then the next generation game machine and finally the next generation DVD recorders. Some investors and consumers have doubts on Sony. Although large international blue chips like Toyota and Canon register new highs Sony has been totally left behind large caps rally. Some investors are nevertheless convinced the worst is behind and buy in advance. However the stock remain top heavy. Sony still appeal to 'fan club' investors and poll surveys show that individuals still place Sony alongside Toyota on their prospective buying list but market professionals believe that Sony core problem is Sony itself. Large electronic conglomerates Per should go down (Sony and the others) to the valuation level achieved by auto or steel makers. Sony must correct until priced at 15 times earnings, point final. Stay out.

Pascal Jeannenot