Pascal Jeannenot Newsletter 8th of June 2006

Feeling uneasy about it…

I really can't help to feel more than uneasy about the forced step-down of Yoshiaki Murakami; this insider case seems dubious to say the least.
Having admitted to insider trading Yoshiaki Murakami is probably now going to retire and the largest Japanese onshore activist fund quickly dismembered. At March 2006 end MAC asset had 444 billion yen assets under management (domestic institutional investors 73,9 billion ¥, and foreign institutional investors 370,5 billion ¥). As I speak numerous institutional investors have already retrieved (or are in the process of retrieving) their funds allocation. Ironically the Murakami shock rendered possible the birth of Hanshin Hankyu Holdings scheduled for October 06. Postwar this is a 'premiere' and the new private railways holding will rank third domestically.
FSA and Securities Exchange Commission have both been all over the place since the Livedoor affair behaving like near rogue institutions. The new tough guidelines imposed to all onshore audit companies by the MOF already led to a wave of downside revisions for new growth markets listed mid small size caps.
I do not share the 'conspiracy' theory currently en vogue in Tokyo, rather I feel some kind of normalization has been under way since late 2005 to squash any 'would be' neo bubbly market in the egg. The biggest success for civil servants so far is the new Financial Instruments and Exchange law which will take effect by summer 07. Although the new framework is supposed to bolster protection of the individual investor its prime target seems the so called 'silent partnerships'.
Beware! The simple fact that MAC asset fund will disappear from the shareholder's activist scene by no way means that shareholder activism in itself will disappear.
For now foreign or onshore funds loudly pushing forward the corporate governance principles will adopt low profile.
However there are plenty of other funds (offshore or onshore) still willing to impact the financial strategy of idle cash rich companies. As Kimura pointed in his 5th of June newsletter Murakami's fund strategy evolved to the point

he exposed himself to the wrath of the establishment. However provided funds targeting corporate governance principles stick to the initial strategy the virtuous cycle will start again.

All this being said on the 8^{th} of June closing the fall/rise ratio felt to as low as 54,4 % , a level not seen for the past 11 years.
More than ever my prime target remains value search. All industries based FY 07 forecasted PER is now below 19x with a forecasted dividend yield of more than 5 %.Some Larges caps start to become interesting at such level and could be considered as good buy opportunities.