Market lacks energy for the short term but piling up slowly, august could be a transition month.
'団塊世代'
Among Japanese individuals 'Dankaisedai' are key investors, it is worth keeping an eye on their behavior.

FOMC was as expected, no surprise. Market is currently driven by Nikkei 225 future players as stated before, this said I do believe this time new growth markets have bottomed out for good. Trend maker Softbank announced the 1st of august that SBAM (Softbank Asset Management) had sold a large chunk of SBI Holdings participation decreasing its holding from 26,7% to 19,2 %. On the 3rd of august Softbank had completely sold its stake in SBI holdings (3,240,000) through Goldman Sachs Securities. The extraordinary profit of 65 billion yen will be booked on 07/03 second quarter. However the point is not here, as the leader finally started to clean up its balance sheer and probably bottomed out this impacted positively traders mind. However Japanese Individuals will need some more time to swallow the heavy losses suffered in the new growth markets downturn.
Now speaking about *Japanese individuals*: a key source of income for all onshore Japanese asset managers (private, public, pension or else) lies with the previous generation baby boomers so called 'Dankaisedai' in Japan. This wealthy investor's class is the core focus of fund manager's efforts to launch regularly new products. The Nikkei reported on the 5th of august that the balance of 'diversified asset classes funds ' had reached 2 trillion Yen within one year (that is 10 times the previous fiscal year balance), such products which usually mix real estate investment, fixed income and equities are a tremendous hit among Japanese individuals. Brokerages have recently announced earnings fall on the April June quarter but try to diversify their income through mutual funds marketing. The 7th of august the largest city banks (MUFG, Mizuho bank, Mitsui Sumitomo bank, Resona bank) published end of June balance for investment trust sold through the national network ; 8 trillion 16 billion Yen a 22,3% YOY rise and this despite the market fall from its April peak toward June low. Short term gains are not what drive these individuals but rather medium term horizon. Japanese Asset manager's imagination is limitless when it comes to attract the 'Dankaisedai'. This is why I strongly believe that the temporary correlation between S & P and TOPIX cannot last for too long.

I won't comment further on the Oji Paper Hokuetsu Paper TOB fight which ended with Mitsubishi Corp taking a sizeable 24, % of Hokuetsu as this has already been widely reported in all financial Medias. Some observers argued that this was the first TOB hostile test battle M&A for Japan. But it was not, there are countless examples of such failed attempts but it does prove things are moving forward even if it requires a totally Japanese approach (something foreign players grasp with difficulty). And this is part of the wider picture I already mentioned for mergers and acquisitions targets in Japan.

Now what to buy?

Let's have a quick look at large to medium caps targeted by value or M&A type investors : Citizen watch (foreign shareholding already high) .The 26th of July Citizen announced that it was transferring to Holding company system by 1st of April 2007 targeting Yen 500 billion consolidated sales by 2008. Currently the Citizen group has no less than 106 domestic subsidiaries of which 58 are consolidated. The main subsidiaries are Citizen Electronics, Citizen Miyota, and Citizen Machinery. In short 1- fragmented capital, 2- corporate structure which lacks focus 3- substantial cash at hand 4-high ROE (and potential for even higher figure) are specificities that make the stock attractive from a value angle. (6448) Brother Industry has enjoyed the same pattern.

Another type of logic, within the PEDY list I outlined in the 30th newsletter I listed 3 small size brokers, apart from their attractive ratios another reason is the financial industry low DER (debt to equity ratio) making it resilient to interest rate tightening cycle. In addition the brokerage sector is still too fragmented with too much players vying for individual's money which make them easy preys for larger companies.

The right balance between low PBR, high shareholding equity ratio (resilience to higher rates), high current profitability and low per really depends on what value style you portfolio is geared. To focus pays in the end.