

### **Time for the real money to come in...**

Japanese individual's assets have reached 1,509 trillion Yen landmark, this is a historic high. One of the main reasons behind this has been the Japanese equities market surge. Within a year the percentage of assets held in cash went down from 55 % to 51,9 % and the percentage invested in equity mutual funds went up from 14 to 18 %. Domestic money is quietly waiting to buy at lows. Technically the buy/sell ratio is at attractive level around 68 % and a low for 5 years, market is oversold. (According to most analysts consensus psychological resistance line is now around 15500 touched briefly the 24th of May and confirmed the 25th of May).

Earnings season has already peaked: for fiscal year 06 on an all industry basis sales are forecasted to increase + 5,22 % but current earnings are forecasted to rise only around 1 % .It is obvious that such company forecasts are rather conservative and are based on somewhat overstated fixed costs increase (please refer to Kimura Dreamvisor Newsletter summary of the 19th of May 2006), it leaves wide margin for later upside revisions.

I feel that the prime target should be value search (large, mid or small caps), all industries based the average PER is now below 20x. An attractive option is indeed as Kimura pointed in his 16th may newsletter to use the PEDY (PER/dividend yield) in addition to other indicators to pinpoint at stocks that will be targeted by M&A related investment funds and/or shareholder activist funds. Traditional long term investors are also on the move and in that sense the interview of Berkshire Hathaway's Warren Buffet given to Nikkei the 8th of May is of interest; he saw potential for buying whole companies in Japan partly because of the rise of shareholder's activism....

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

I noticed interesting value positions in the **Sparx** very small caps mother fund : (7264) Muro Corporation, (3763) Pro ship corporation, (9748) NJK,(3335) ADM,(7502) Plaza Create,(5819) Canare electric, (5983) Iwabuchi,(2366) Leoc Japan, (6912) Kikusui electronics. As medium to long term holdings I suggest to accumulate.

Considering the market is back to attractive levels no surprise shareholder 'activists' funds showed renewed activity which can be checked through the 5 % rule....

MAC asset PTY (Mac asset migrated to Singapore) increased positions in (4842) Usen (suspended high on the 22 may). It has been long rumored something was preparing in the media sector therefore it is highly recommended to keep an eye on most media related stocks.

Individual stock picks:

I still consider elderly home related real estate development company (1729) Sanko Soflan as a good buy and I did notice that Angel asset Management (the small cap specialist) increased its position through Yasuda asset distributed 'Growing covers' fund, a good point.

I continue to suggest accumulating Financial printing related (8692) Daiko Clearing services Corp on further weakness.

(4628) SK Kaken despite very thin volume needs to be closely looked at. Recently the Chinese 'yellow winds' coming direct from China hit Tokyo. In Fact this company is specialized in high Tech construction protective coatings and paintings, a great market in mainland China.

In the financial services sector I continue suggesting (3121) asset investors, same for (3772) Dreamvisor. An interesting development would be also (2353) Nippon Parking development Co, despite a high PER (151x on FY 06 ) there are expectations in the market for strong upside revisions due to the new forthcoming law for domestic circulation to be launched the 1st of June 06. Other related stocks are Jasdaq (8997) Nihon Parking Corporation, MOTHERS (4809) Paraca Inc but those stocks are already highly valued.

Again it is important to stress that not only domestic money (individuals & onshore/offshore investment mutual funds )is waiting at lows to search buying opportunities but also Japanese companies will use cash at hand to buy back own shares.