

## Long Term investment.

### Bottom overlap.

We are fast approaching previously aborted market mid term cycle real (this time) bottom if not already over passed (Friday 11<sup>th</sup> January Nikkei 225 closed at 14,110 as I speak). As usual when the last bear leg bites long-term investors have an edge over short-term money movers. I am constantly monitoring local equity investment freelance celebrities. My friend Kiyoshi Kimura set aside few really embrace very long term strategies. Clearly only investors with a true insight or better 'insider view' will make the most of current and next fiscal year opportunities as Japanese market is pushed well below its long term trading range.

Speaking about Japanese domestic investment industry situation has barely changed since last calendar year, a recent poll with Japan most remote island Shikoku resident individuals show that at least 30 % of potential investors still place regular income above risk level. I believe such logic can be extended to the whole Japan savers population. Therefore Japanese money managers to whom Japanese individual savers increasingly outsource part of their wealth continue to seek risk assets diversification. Foreign alternative money managers have long noticed and I shall soon devote a whole newsletter to *the maize of Japan hedge fund flows* (be alert), which epitomizes the relentless search for yield. No surprise that foreign affiliated asset management firms are all bolstering efforts to win over individual investors.

Meanwhile first time in five years public offered investment trust universe registered Yen 4Trillion negative performance stemming from large falls in domestic equities and foreign REITS and the underlying trend is still the same as I speak. Newcomer Postal Bank turned into a major force as distributed investment trusts AUM rose + 86 % by 07 calendar end at Y1Trillion 43,9 billion, mainly fixed annuity type funds but Q3 sales were down 59% like others due to J-Sox implementation.

China catches up. While Japan onshore public investment trust expansion pauses Chinese onshore investment trust universe carries on expanding +280 % (or 3.8 times) for calendar year 2007. Nothing more than predictable and clearly overheating. By December 07 Chinese onshore investment trust universe (all asset classes) reached Yuan 3Trillion 200billion or Yen 50Trillion that is already 60 % of Japanese onshore investment trust balance (Yen 80Trillion). Investment cycle is very early stage so contrary to Japan seeking to diversify in all directions China's engine is purely domestic considering equity market capitalization reached Yuan 9Trillion 300 billion out of which local Investment Trust industry has a 33 % market share. Out of the 10 most popular keyword typed in Chinese main search engine [Baodai.com](http://Baodai.com) 'Investment Trust' ranked 7th but long is the road (the higher they rise the harder they fall) Money managers are hypnotized by the potential Yuan 100Billion that Chinese Qualified Institutional Investors (QDII) can invest direct in foreign securities but as said earlier the excitement looks misplaced in short term.

### Yen REEF

7<sup>th</sup> of January BOJ published monthly Yen Real Exchange Rate or long-run REEF (1973=base 100) at 96,8 down 1,1 bps. I strongly recommend monitoring Yen REEF long-term chart against major currencies rather than nominal exchange rates. Central bankers use this yardstick to gauge the relative value of national currency against a representative basket. Figures compilation it can be found in English on [http://www.boj.or.jp/type/stat/dlong/fin\\_stat/rate/index.htm](http://www.boj.or.jp/type/stat/dlong/fin_stat/rate/index.htm) - forex BOJ homepage. It does prove that Yen nominal weakness against Euro should be taken with great caution. Speaking about the currency I enjoyed the article published in 11<sup>th</sup> January Nikkei titled 'weaker currency spoils overseas retirement dream', just wait it will come back!

### Now what to buy?

#### Update on previous suggestion.

(7522) Watami CEO Miki Watanabe is launching a charm offensive. He was twice interviewed 29<sup>th</sup> December by Japan times edition titled "watami empire built on concept of family 'Izakaya' and on Bloomberg channel 9th of January regarding next fiscal year strategy. I do believe Watanabe-San is part of the new breed of

entrepreneurs whose spirit reshapes Japan. Izakaya or elderly care business may not be exiting stuff but this is good margin business.

(2127) Nihon M&A Center Inc, most onshore investment trust focusing on mid caps already bought or took position in M&A center last calendar year. Reasons behind the surge in money managers holding lies with the domestic network the company was able to quickly build. No less than a 200 strong public accountants network in regional Japan. M&A advises small to mid size companies mergers and acquisitions through close relationship with regional banks, second tier regional banks and credit cooperatives. Large city banks are not cultivating this area, thus by avoiding direct competition M&A succeeded in advising on both ends.

Nagoya listed ([9977](#)) [Aoki supermarket](#) announced solid quarterly earnings (+14 % YoY) 8th of January confirming deep value. Volume is still confidential, buy.

Regarding E-money universe (see [15<sup>th</sup> December newsletter](#)) an increasing number of Japanese consumers are swapping points earned shopping on line for electronic money rewards (double the amount previous year!) which in turn accelerate the number of retailers equipped with read only writers. Whatever the source electronic money flow is becoming impressive, at some point this hidden monetary aggregate should be computed in official statistics. E money consumption is the hidden part of overall consumption that could lead to surprises.

## Death business

Japan population decline was confirmed by MOWH on the 1<sup>st</sup> of January with just 1 million 90 000 new born in 2007 which is postwar second lowest figure (previous postwar low registered in 2005 at 1 million 62,530), the brief upturn registered in 2006 staid put. Number of deceased registered postwar second highest at 1 million 106,000 confirming both retirement and death rate to be important features to grasp money flows in and out of nowadays Japan. For the second year Japanese population registered negative growth like in 2005 (first time ever since statistics were launched in 1899). This should normally have kick-started a large industry for elderly care services sector years ago however individual performances of companies focusing in this area have been disappointing so far, I always found it rather difficult to screen a profitable champion in this sector and prefer to select Japanese companies slowly diversifying in the elderly business. Needless to say Japanese increasing death rate has proved an eldorado for onshore financial industry. Despite Japanese government lack of seriousness to take on ageing population secular trend I have a highly personal contrarian view on this ultra-long term problem and strongly believe a surprising trend reversal will materialize at some point when crisis consensus will reach its nadir. Situation must substantially deteriorate first as usual in Japan.

## Onshore Investment Trust universe screening (part 2)

Delayed again due to year-end position squaring and Japanese mid small caps focused funds accounts closing full details.