

## Long Term investment. (2) testing time.

### The tortoise and the Hare\*.

Putting aside Japan proprietary technical analysis Japan initial falls bizarrely outpaced those registered in US and Europe (then global markets caught up finally coming to the facts). For Japan herself reliance over external demand (economy) and foreign investors (equity) had to end in some pain I guess, this is now done. 07 fiscal year real GNP was revised to 1,3% below previous official forecasts. Japanese government nominal GDP forecast for 2011 was recently scaled down (and national plus regional long term debt still represent 1,5 times GDP). From a supply demand viewpoint 16<sup>th</sup> January MOF published 07 calendar year domestic equities investment by foreigners which was down 48% YOY. To sum up foreign investors bought Y12Trillion 624 billion in 2005, Y8Trillion 98 billion in 2006 and finally Y 4Trillion 142 billion in 2007. Foreign money flows regular decline coupled with record selling by Japanese individuals in 2007 easily explain current vacuum. Foreigners handled up to 60 % of transactions recently, volatility is no surprise.

Excesses on the downside match excesses on the upside as usual. Japanese equity market consolidated PCFR is now back to 2004 level (8 x) below world average. It is up to each professional 'pain tolerance' level to gauge relative value targets.

Contrary to both American and European markets 'flight-to-safety' type brutal shift from small to large caps is not really happening in Japan. Domestic cycle is lagging by a solid decade, which makes local game rules very unique indeed. I personally feel quite placid in such a highly volatile environment; remember I was educated with the long Japanese bear from which I learnt to hold tight my compass in a directionless market.

### The long, long case (part 7)

*As expected.* Just starting.

### Japanese onshore money management industry snapshot

January 17<sup>th</sup> JITA published calendar 2007 publicly offered onshore investment trust industry figures. Slowdown was confirmed with 07 second half net money inflows totaling Y4Trillion 200 billion or 60 % less than first half (Y10Trillion 400 billions) down 24 % YOY. However total NAV finally increased +15,7 % at Y79Trillion760 billion renewing historic high on annual basis. Despite first AUM fall since 2002 money inflows outpaced 1987 to reach 20 years high, 07 money inflows represent three times 04 year level. Foreign securities invested public onshore trusts NAV increased +3,3 % at Y36Trillion 882 billion, first time ever foreign assets invested trusts reach Y30Trillion. On a monthly basis December 07 NAV decreased 1,9% (October's cumulated Y82Trillion 152 billion remain peak for now). Equities investment trusts\* represent 84 % of total NAV or Y66Trillion 764 billion or + 20 % YOY. Based on product type breakdown FOF, international securities and balanced type total NAV renewed historic high. FOF registered net Y 8Trillion money inflow, international equities type registered net Y 3,9Trillion inflow and balanced registered net Y3Trillion inflow.

<http://www.nri.co.jp/english/opinion/lakyara/2008/pdf/lkr200831.pdf> As repeatedly mentioned on [Japoninvestissements](http://japoninvestissements) the higher the yield the higher the inflow whatever the investment trust category however there is increased risk recognition among individual investors. J-SOX implementation made investors more sensitive to risk. All in all underlying trend remains unchanged. Of particular interest is Nomura Asset Management initiative to launch a virtual [Investment game homepage](#) (this is very serious matter) targeting individuals. The site is called 'The Tortoise and the Hare\*' boasting multiple choice asset classes (domestic, balanced, foreign etc.) and several investment decision tools. Why not put yourself in an individual's shoes and enjoy the game (provided you can read Japanese of course).

## Now what to buy?

I guess large institutions (foreign and Japanese alike) will surely prefer to monitor Japanese larger companies considering more than half of 1<sup>st</sup> section listed stocks are now trading at less than net asset value (or market capitalization is lower than book value if you prefer) and no less than 20% of 1<sup>st</sup> section is trading at less than 10 times earnings multiple. So yes TSE is now a great place for the value investor. Still extracting value remains a daunting task if you are not within the market, which is my job. I shall stick to my universe: mid caps. The universe was already in excessive bear trend since late 2005, therefore risk is purely conceptual.

### Previous quotes snapshot

Recent market plunge opened several opportunity windows. For example TSE listed (7233) Jidosha Buhin Kogyo under Y 500 at 6 times March 08 earnings makes it a crying value buy.

### Publicly offered onshore Investment Trust universe screening (part 2)

Screening the whole universe to dig out gold nuggets is becoming ever more complex. I noticed a promising micro cap: M.o.t.h.e.r.s listed (3756) Mamezou OS Holdings undervalued after a 3 years straight fall since late 2004 IPO. Stock is attractive but consider staff is only 9 at non-consolidated level (244 at consolidated level) so risk level equals the opportunity.

(9977) Aoki supermarket: Sumitomo Trust AM cash flow focus investment trust had built a solid position as of last august and I noticed that the investment trust performance has been consistently doing better than its benchmark Topix.15<sup>th</sup> of January Aoki announced they were launching a 5,99 % (900,000) equity buy back program. Hold.

Jasdaq index broke previous double bottom pattern therefore no surprise stocks valued at less than 7 times earnings increased sharply. Jasdaq listed (9644) Tanabe management consulting co which has been trading between Y850- 750 since early 06 is also worth considering

In the machinery sector Jasdaq listed (6467) Nichidai Corporation boast auto industry metal molds 80 % market share and trades at less than 8 times consolidated earnings for current fiscal year. Chart wise stock price is back to its 2000- 2004 trading range level. Domestic market maybe saturated but production of spare parts for diesel engines worldwide looks promising. Investment trusts have 6,9 % of outstanding shares.

To be continued....