Look for gems, go contrarian!

Ok ZIRP terminated and so what! It is high time to go beyond the first wave of investments which led to the FY 05 historic earnings in Japan economic expansion and focus on late cycle stock picks.

No much reason to argue over long awaited ZIRP end, although the quarter percentage rate increase in the overnight call rate was long awaited more surprising is the hint to further quarter point increase later this fiscal year (futures are seemingly already discounting this). Let's hope that the 'old guard' hawkish BOJ staff does not misuse the opportunity given to them by Japanese economy dynamism. Too many awful bad timing mistakes remain attached to previous Japanese BOJ governors (Hayami, Mieno...).
This move has been long discounted in the financial sector. Japanese onshore investment trust had increased banks holding percentage to 8.0 % by the end of May (which is a rise of 1.6 points compared to may 2005). In fact banking sector index already rose + 40 % compared to previous fiscal year. Not much more to expect but banks can now be considered as stable core holdings within portfolios.
More interesting is the fact that upward trend for Japanese companies' profitability is now well entrenched, the Nikkei Sunday edition 23rd of July stressed that average ROE of all listed firms hit a 20 year high for FY05. Upward pressure on variable costs (working force) will remain low in Japan for the foreseeable future (please read Kimura's 10th of July newsletter) allowing Japanese companies to further increase profitability albeit at slower pace. Also despite Yoshiaki Murakami's mauling shareholder value and corporate governance principles are still on the agenda (although low profile for the very short term).
Previously I made a quick review of core Japanese style value investment strategies and I stick to the view that from a strategic angle unpopular/crisis stocks and M&A related value search is a good strategy.
By analyzing in depth the Japanese Toyo Keizai Company Handbook latest June edition earnings & forecasts it appears that late cycle service & non manufacturing companies may take the lead in prospective upward revisions. Therefore careful value based screening and contrarian approach, although painful now, remain the key medium term strategy.
Considering the recent low daily volumes focusing mostly on very large caps trading I

recognize it is tough time to buy and hold the mid to small caps subject to much higher volatility. Nevertheless hold your breath; this is good timing to go contrarian.

Now what to buy?

Considering the recent sacrifice selling of mid caps by traders opportunities are plenty. In addition I do believe that new growth markets have bottomed out for good on the 19th of July which is important for individual's investment mood to spread to the wider market.

Just two examples.

Consider for example earlier mentioned (1729) Sanko Soflan which has been sold to the low of.248 yen in the wake of New Growth Markets renewed fall. However The 18th of July the company announced strong third quarter earnings to august 06. YOY sales +23,1%, current profit x3.8 and net profit x3.7. Despite the company having revised upward may 07 forecast the stock is now trading at 19 times earnings and is 11% below its 25 days moving average.

(8048) Shaddy Co the catalog retailer which was quoted by the Nikkei Money august in the category M&A search (cash rich and -1,27 M&A ratio) looks attractive at this level. (30th June newsletter)

I shall continue to monitor the previous picks given out in 30th of June newsletter but as the earnings season roll-over the screening must be kept on a constant basis.