

## A moment of truth for Japan's stock market

**The capitalisation-weighted Topix Index, comprised of 1489 stocks is leading a break of former lows.** In an unforgettable scene from the Oscar-winning blockbuster film Titanic, Leonardo DiCaprio, having scrambled to the outside railings of a now vertical bow section, shouts, "This is it" to Kate Winslet just as the doomed ship commences its final descent beneath the waves. Looking at the charts for Japan's beleaguered stock market indices, one cannot help wondering if this is it - the beginning of another slide. It certainly looks like it because Japan has long underperformed most other stock markets, including only a modest rally in October. The Topix Index, generally regarded as the most representative of Japan's overall market, had been ranging just above its 1998 low since September, but broke this floor in late January and is extending the decline. The minimum now required to suggest a downside failure is a rally to 1015, although this would not break the progression of lower rally highs. The tech-weighted Nikkei 225 Stock Average took out its 1998 low nearly a

year ago and is now challenging the September trough. For the Nikkei, a close over 10400 is needed to remove pressure from the low and 11200 for this pattern to look like a base. The TSE Second Section Price Index of smaller companies shows the best medium-term relative performance among Japanese indices, remaining well above its 1998 low of 1026.68. However, it fell beneath its September trough in December and a brief yearend rally failed at initial resistance from the former low. The downtrend has just been reaffirmed and a move above 1725 is now needed to question the lower bias. I think it would take radical measures by the Government, perhaps including support buying of Japanese stocks, to prevent another and potentially steep slide. Gradually downward sloping chart patterns, which then break a former and significant low, often culminate in a rout. This would drag down Asia's recently high-flying indices such as Taiwan and South Korea, and could also damage sentiment in the West. The silver lining is that it would probably force policy changes by the Japanese Government.

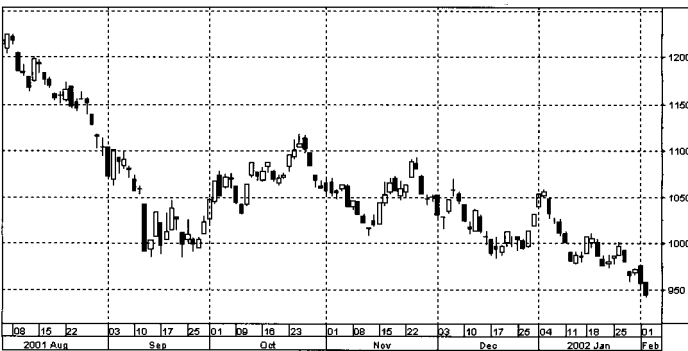
Best regards - David Fuller

*Charts supplied by Bloomberg*

**Topix Index: 943.51 (Weekly)**



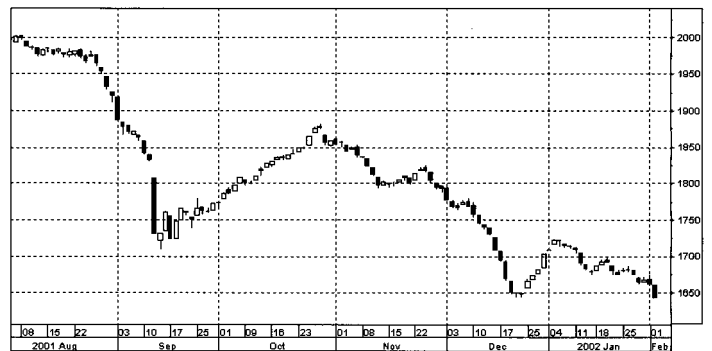
**Topix Index: 943.51 (Daily)**



**Nikkei 225: 9631.93 (Daily)**



**TSE 2nd Section Price Index: 1641.34 (Daily)**



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