Fullermoney Plus

Issue 208
14 May 2003

Global Strategy and Investment Trends by David Fuller **http://www.fullermoney.com**

An 80 percent decline should be enough for the Japanese stock market.

Contrary thinking at the extremes - Had we been told on 29th December 1989, as the Nikkei 225 touched 38,957.44, that it would be 80.5 percent lower 13.4 years later on 30th April 2003, no one would have believed it. Had we been told 2 weeks ago that the Nikkei had bottomed, no one would dare believe it. Do I believe it? I'm not yet convinced, but I've seen enough to suspect that we've seen at least an important low, and I'm buying. Only one thing is certain - when people are convinced that Japan's bear market is over - it will be significantly above its low. As most investors have lost money in Japanese stocks over the last many years, what factors can I cite for at least a strong rebound, other than the triumph of hope over experience?

1) The BoJ - I have long maintained that Japan's prospects would not improve until former BoJ Governor Hayami had been replaced. He left on 20th March, so the central bank is now working with the MoF and the Prime Minister.

2) The yen - Similarly, I have long maintained that the yen would need to be substantially lower before Japan's economy could recover. This has been partially achieved as the yen has fallen a long way against most currencies, the US dollar being the main exception.

3) Sentiment - Most investors have given up, saying, "Japan is a basket case." Yes, but a decline of 80 percent rings a bell for me.

4) Needs must - Stock market performance is a national embarrassment, and there is an important election in September.

5) Reflation - The government is buying stocks, mainly from the banks, although not to the extent that I have often advocated as part of a radical reflation.

6) Valuations - Japan's stock market sells at approximately 60 percent of book value, compared to 3-times book on Wall Street, while Europe's outlook is clouded by the euro's strength.

7) Weightings - Almost every institutional investor is underweight Japan and the public lost interest long ago.

8) Timing - A US-led medium-term stock market recovery is underway.

9) Leadership - No significant stock market rallies occur from bear market lows without good relative performance by bank shares. Having fallen to 7 percent of market capitalization, compared to over 20 percent in most other markets, Japan's banks have begun to reverse their lengthy period of underperformance over the last fortnight.

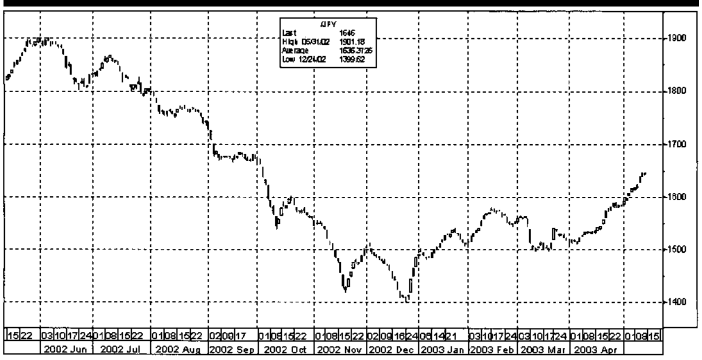
10) Charts - The Nikkei and Topix Indices registered downside failures last month, while the Topix 2nd Section (often a leader in Japan) bottomed in December. In addition to banks, key household name Japanese stocks such as NEC, NTT, NTT DoCoMo and Toshiba have shown both relative and volume strength. Stockcube's EFM Tech Institutional Service has recently closed shorts and/or recommended these shares as buys.

If I'm right - Japan's stock market indices and leading shares will rally faster than they fell to recent lows, in most instances.

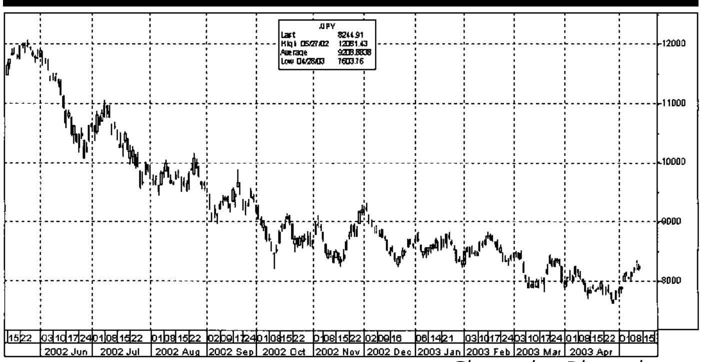
What could go wrong? All bets are off if any of the above-mentioned indices or shares fall to new lows. In terms of policies, Japan's politicians and ruling bureaucrats have seldom missed an opportunity to miss an opportunity. The "big one" (earthquake) hits Tokyo, although that would soon become bullish for construction shares. Meanwhile, I'm bullish and I'm buying, as mentioned recently on the Fullermoney Audio.

Best regards - David Fuller

Topix 2nd Section Index: 1646 (Daily)



Nikkei 225 Index: 8245 (Daily)



Charts by Bloomberg

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Website: www.fullermoney.com ***Email:*** research@chartanalysts.com ***Tel:*** +44 (0) 20 7351 5751 ***Fax:*** +44 (0) 20 7352 3185 ***Single Issue Price*** £3