

Lateral thinking on stock markets

Once reviled Japan is now flavour of the month. How could this be, when its politicians and bureaucrats are so inept and deflation persists? The answer, I believe, has less to do with Japan's near-term economic recovery prospects, although I expect the economy to show some evidence of improvement when 1Q's GDP figures are released on 7th June, thanks mainly to increased exports and earnings, helped by the yen's earlier weakness. Japan's re-rating in investor's minds commenced when the Government stepped in to support the market in February, following new bear market lows for the Nikkei 225 and Topix indices. After these failed to maintain breaks beneath the important 1998 lows, one-way traffic followed on the upside. Those gains have now been consolidated in a V-bottom, right-hand extension base formation. The fuel for Japanese stocks' next upward leg is coming from global investors, who are less than enchanted with the US market, following too many instances of accounting sleights of hand and the cynical cabals formed by investment banking/research departments, in order to ramp dubious stocks during the TMT bubble. Investors could flock to Europe but past evidence indicates that the UK and Euroland stock markets slavishly follow trends on Wall Street more often than not. Some bought gold shares but the total capitalisation of this sector is so small that no big institutional investor could park more than a tiny percentage of its funds in mining stocks. Capitalisation is also a problem with Russia - the best performing emerging market. This leaves Asia, and the first forays were in Taiwan, South Korea and the other smaller markets. However the best of these have had quite a run since last September and now show some loss of upside momentum. Consequently, it's Japan's turn by default. The TSE 2nd Section is leading on the upside, just as it did in 1998. Topix has resumed its recovery and the Nikkei appears poised to follow. I have purchased the futures near current levels and continue to hold the UK-quoted

Atlantis Japan Growth Fund, which is an investment trust. I also like Morant Wright Management Limited's MW Japan Fund - a unit trust (mutual fund). FM216 will be released on Tuesday 28th May.

Best regards - David Fuller

Charts supplied by Bloomberg.

TSE2 Topix 2nd Section Index: 1880 (Daily)



TPX - Topix Index: 1139 (Daily)



NKY - Nikkei 225 Index: 11976 (Daily)

