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THE TOKYO STOCK EXCHANGE: WHO IS SELLING ? WHO IS BUYING ? THE WHYS AND THE WHEREFORES

Over the past fortnight, there have been rather remarkable gyrations in the value of the key index of The Tokyo Stock Exchange, Asia's largest equity market, and, one is told, it is due in large part to increased net purchases of stocks and shares by foreign investors/entities.

This is a very similar refrain that has been making the rounds in Tokyo over the past months, in fact.

Put another way, it could be held that the rather remarkable gyrations in the value of the key index of The Tokyo Stock Exchange are due in large part to increased sales of stocks and shares by domestic investors/institutions to foreign investors/institutions.

According to the statistics of **TOLFIN (泰達資訊)** (The Computerised Online Financial Intelligence Service and Web-Based, Credit-Checking Provider), for the 10 trading days, ended December 9, 2005, The TOPIX Average, the key index of The Tokyo Stock Exchange, suffered 3 days of falls, against 7 days of gains.

The gains, in nearly all cases, followed confirmation of large-scale, foreign-investment activity on The Tokyo Stock Exchange.

Therefore, if one excludes the foreign-investment factor from the trading statistics, it is clear that The TOPIX Average would have declined or, at best, held steady on the days that it was recorded that foreign investors were in the market, as net purchasers.

Since the purchases of stocks and shares by foreign investors were all transacted, openly, on The Tokyo Stock Exchange, their activities were well known by domestic investors and Japanese institutions which, clearly, took the opportunity to unload some of their holdings onto these investors while the going was good.

During those 2 trading weeks on The Tokyo Stock Exchange, ended December 9, 2005, it was announced that JP Morgan Chase and Company had dumped most of its holdings in Mitsubishi Motors Corporation: From 11.35 percent of the Issued and Fully Paid-Up Share Capital of this ailing motor-vehicle producer down to about 0.66 percent, as at last Friday (December 9, 2005).

Last Friday, alone, it was reported that JP Morgan had sold 525 million shares of Mitsubishi Motors.

On that day, The TOPIX Average rose 1.43 percent.

The generally held belief in the West is that Japan is going to be one of the best equity markets in 2006 and, perhaps, even cascade into 2007.

That is to say that the bets are on that The TOPIX Average will rise, spectacularly, in the next 12 months, at least, and it is likely to outperform most, if not all, other indices of major equity markets, worldwide.

Which raises the question, of course, as to the reason(s) that Japanese investors are obviously keen to allow foreign investors in at such relatively low levels, relative, that is, to the perception that Japan is going to be a hot stock market in the coming few year(s), at least.

Logic suggests that it must be that Japanese investors are of the opinion that indices of Japan's 3 equity markets have risen too much too quickly and that, since there are large profits for the taking, let the foreigners buy in, now, allowing Japanese investors to put their profits into banks, and, then, wait for another material correction before returning to the market.

Conversely, foreign investors must be taking the view that there will not be a material correction of The TOPIX Average and, even if it should come to pass, there is no guarantee that these hot-to-trot foreigners will be able to become fully invested if they have to compete with domestic investors on the trading floor of The Tokyo Stock Exchange.

It is a well-known fact that, in Japan, foreigners are the last investors to be allowed into a fast-rising market; and, they are the last ones to be let out of a rapidly falling one.

Japanese brokerage houses look after their own – although they would never admit to this, openly.

Normally, in most equity markets, when there is a strong element of foreign buying activity, especially, as one is told that, of late, foreign interests are purchasing record levels of stocks and shares on The Tokyo Stock Exchange, one sees the price of select counters rise, usually blue chips and gilt-edged stocks and shares.

But, in the case of The Tokyo Stock Exchange, it is the key index of the market that is rising rapidly: The TOPIX Average.

Actually, it should make little difference to The TOPIX Average who – domestic or foreign – is buying what, but it is fact that, when foreigners enter the Japanese market en masse, this key index rises, sometimes, quite spectacularly.

In terms of most other major stock markets, around the world, Tokyo is overbought and, that being the case, one would expect that well-experienced, foreign institutions and individual investors would steer clear of Tokyo, at this time.

In terms of dollar-for-dollar value, European and US gilt-edged stocks offer better value for money than those of Japan, all things considered, yet statistics, such as these, do not appear to be deterring the West from buying into the East.

But ardour declines with the passage of time: It is a well-worn axiom.

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