

JAPAN ASIA INVESTMENTS

1001 BOUL. DE MAISONNEUVE O., BUREAU 950, MONTREAL, CANADA H3A 3C8
TEL: (514) 939-2221 FAX: (309) 417-0942

e-mail: sidklein@sidklein.com

www.sidklein.com

It's in the Pudding

Aug. 1, 2003

Nikkei: 9611.67

*April low: 7603.76

JAPAN:

Summary:

The stock market is thus far unfolding in a manner consistent with recent letters, with respect to the intermediate term. While this initial and explosive Nikkei rally may be approaching a temporary end, agreement is setting in that Japan is the place to be, not New York. Economic indicators are shocking the marketplace, due to their strength, causing bullish economic and stock market revisions. At critical junctures over these past 15 years, SKC and its previous versions, was contrarian, when such reporting would indeed become news. The preceding may be consistent with previous good fortune.

Economy:

The June Tankan survey was stronger than virtually all forecasts. May manufacturing took off. Deflation indicators continue to improve. The May **current account** surplus increased **28%**, a new seasonally adjusted high.

Meanwhile, current account in-flows were a record and consistent with a much higher Yen! The trade balance has resumed its up-trend, aided by weaker imports. These outcomes, or "surprises" to the marketplace, are consistent with previous SKC forecasts.

Of the most rewarding facts for SKC and its readers, as is always the case, is

watching the “experts” reverse course on **BOTH** the economy and stock market. **The about-face forecasters are even acknowledging now that the future for long-term investment is now Japan, not the US.** The latter should be viewed with concern, whether with respect to the economy or stock market, the experts now feel, joining SKC in its long held views regarding asset allocation.

Moreover, the combination of this newly found bearishness on the US markets, along with the newly found bullishness on Japan, suggests that the most appropriate investment is that theme represented by this letter’s premiere choice, JDDOVS.

Stocks:

There are now 16 consecutive months of net in-flow into Japanese investment trusts (mutual funds). Moreover, there are now 3 consecutive months of equity investment trust valuation increases, as the Nikkei index has finally joined the party.

Also consistent with our repeated forecasts, foreigners have continued to be big buyers of Japanese stock, due to extreme under-weight positioning, as Japanese fortunes have clearly turned bullish. June net equity investment by foreigners was around 1¼ trillion Yen. Foreigners have also been net buyers 14 weeks in a row.

The stock market’s short-term view and strategy remain unchanged. An intermediate term correction is still deemed here to have begun or be beginning and when it ends depends on the depth of the decline. Whether it ends very soon or a little later, in other words, depends on whether the decline is swift, to SKC’s preferred support levels. If the decline were not swift and sharp, then the time taken for the correction to run its course would be a bit longer. In either instance, the effects are not major, with respect to portfolio management.

NEW YORK:

Summary:

SKC still views wave-A in this cyclical bull market as ending at these levels. For the amount of risk, sticking around for a few hundred points (at best?), say, may not be worth it, for most. Either way, whatever form this move takes, everything is still on course for a peak around 10,400 in Feb. – Mar. 2004. Who believed this scenario in October and the first quarter?

Stocks:

SKC has enjoyed good fortune from the October lows, when this cyclical bull market was initially forecast. Recently, the March 13 missive pinpointed the low, 7 ½ hours in advance in a special interim report. There is no change in SKC's secular, cyclical, intermediate or short-term views. This month's abbreviated version of SKC follows several lengthy and timely market letters. As there is nothing to add at this time, please draw on these recent reports for guidance (see "previous comments" folder).

* see March 31 & May 30 reports

GOLD:

Summary:

Here, too, there is no change from previous comments. Gold is still seen as completing a wave-C correction to the \$335 – 340 zone, before blasting off toward \$500 per ounce, as forecast so often in these pages since January 2002.

Strategy:

There is no change in strategy (see "previous comments" folder). Two stocks that were recommended in these pages approximately doubled, before exit and re-entry. Of the two, Golden Star is here referenced as a stock that has recently doubled again, with a very bullish pattern.

Due to major price changes in this letter's favoured equities, there are no recommendations here this time but GSC's move to \$4 portends the coming blast-off in the metal (certain stocks, taken together, act as leading indicators).

As regards how to best profit from the move with leverage going forward, such discussion is designed for individual requirements.

DOLLAR:

Here, too, there are no changes in SKC's forecasts for the Euro, Yen, Swiss Franc and Dollar Index (see last month's letter, "previous comments" folder). The July SKC report wrote:

“...As SKC has stated, the Yen is now our currency of choice, deemed to be the strongest fiat currency, from today’s levels going forward.

“The \$CDN will breakdown as the US Dollar index rallies to 103, through the Dow’s rally into the 1st quarter of next year.”

Sid Klein

This newsletter is solely the work of the author for the private information of intended recipients only. Although the author is a registered investment advisor at MCA Securities Inc., this is not an official publication of MCA Securities Inc. The views (including any recommendations) expressed in this newsletter are those of the author alone and are not those of MCA Securities Inc. The information contained in this newsletter is drawn from sources believed to be reliable but the accuracy and completeness of the information is not guaranteed, nor in providing it do the author or MCA Securities Inc. assume any liability. No solicitation to buy or sell securities should be inferred from either the contents of this newsletter, nor its dissemination. Each potential investment decision and its appropriateness, must be considered within the context of the entirety of the individual investor's circumstances. This information is given as of the date appearing on this newsletter and neither the author nor MCA Securities Inc. assume any obligation to update the information or advise on further developments relating to the information provided herein.