

# JAPAN ASIA INVESTMENTS

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## DDOVS & the Yen: All Systems Go The Foreign Idiot Gold & Silver: The Ascent to \$850



May 7, 2006

Nikkei: 17,153.77  
\*April 2003 low: 7,603.76

\*- See March 31, May 3, & May 30, 2003 reports linked on homepage.

### **JAPAN:**

Japan's fundamentals are strong and consumer confidence continues to power ahead, as it has for so many months now. Today, we'll keep it simple and focus on one major investment theme.

The Yen's secular bull market has resumed and is today the fiat currency which offers the greatest reward potential, as recent letters have described. This also means that Japanese Domestic Demand Oriented Value Stocks (DDOVS) should again commence a steep out-performance versus the Nikkei issues, which, in fact, should actually decline. Remember what happened in the 1990s and the beginning of this decade. Simply, a strong Yen means bad news for

exporters and good news for domestic equities, as the latter benefits from an influx of capital seeking Yen-based investments.

Never has Tokyo been so flush with cash for investment. So, an influx isn't even necessary. This next move merely requires internal reallocation decisions and, if that weren't enough, Japanese domestic investors are about to become singularly focused on such investments, as they watch foreign currency-based investments lose money. This is a repetitive history in Japan. Remember too that the retailers there aren't even in the market yet. Finally, regarding reallocation and investment in Japanese domestic equities, **it takes far less to move them than it does to move the Nikkei. Again, potential abounds. Here comes the Yen.**

So, today, the big story is the resumption of the DDOVS secular bull market and, as it coincides with the resumption of the Yen's secular bull market, our Japan coverage is largely found in the currency section below.

As a sampling of the opportunity, let's look at some stocks. SKC is not mandated to look at individual equity names. Therefore, nothing below officially constitutes a recommendation and readers are advised to do their own due diligence. In fact, fundamental and valuation data are omitted here, so research certainly is a must.

Before looking at the four names below, allow me to add that I am very bullish on condo and property management companies, though none are mentioned here. The real estate sector is at the turning point of a new secular bull market in Japan. Just as real estate-related issues peaked a couple of years after the Nikkei did in the early nineties, now they have bottomed on a lag.

### STOCKS:

**Tokyo Denpa** is a value technology company that enjoys a great deal of price leverage, due to its position in the market as a supplier to wholesalers. The recent extraordinary and trend-confirming volume was sparked by a technological breakthrough that will add significantly to the bottom line after 2008. This was an unforeseen event. As with all the stock links that follow, you are free to use BigCharts' drop-down menu to select the time period of your choosing:

[http://bigcharts.marketwatch.com/quickchart/quickchart.asp?symb=jp%3A6900&sid=0&o\\_symb=jp%3A6900&freq=2&time=13](http://bigcharts.marketwatch.com/quickchart/quickchart.asp?symb=jp%3A6900&sid=0&o_symb=jp%3A6900&freq=2&time=13)

**Gakken's** recent volumes have eclipsed total outstanding shares, as it has started a new partnership with a games maker seeking to tap into the company's market access (client base) as an educational services provider. Educational services indicators have only recently broken out (!) and, in addition, Gakken has also now invested in the nursing home market, thus positioning itself at both ends

of the demographic spectrum. Two charts of this superbly valued company follow:

[http://bigcharts.marketwatch.com/quickchart/quickchart.asp?symb=jp%3A9470&sid=0&o\\_symb=jp%3A9470&freq=2&time=20](http://bigcharts.marketwatch.com/quickchart/quickchart.asp?symb=jp%3A9470&sid=0&o_symb=jp%3A9470&freq=2&time=20)

[http://bigcharts.marketwatch.com/quickchart/quickchart.asp?symb=jp%3A9470&sid=0&o\\_symb=jp%3A9470&freq=2&time=13](http://bigcharts.marketwatch.com/quickchart/quickchart.asp?symb=jp%3A9470&sid=0&o_symb=jp%3A9470&freq=2&time=13)

**Sun Wave** plays into the Japanese need and wish for a better life and, with consumer spending now officially in a major secular bull market after having developed extensive pent-up demand, spending on appliances, etc. will provide this stock with all the leverage that the following two charts make evident:

[http://bigcharts.marketwatch.com/quickchart/quickchart.asp?symb=jp%3A7993&sid=0&o\\_symb=jp%3A7993&freq=2&time=13&x=47&y=18](http://bigcharts.marketwatch.com/quickchart/quickchart.asp?symb=jp%3A7993&sid=0&o_symb=jp%3A7993&freq=2&time=13&x=47&y=18)

[http://bigcharts.marketwatch.com/quickchart/quickchart.asp?symb=jp%3A7993&sid=0&o\\_symb=jp%3A7993&freq=2&time=20](http://bigcharts.marketwatch.com/quickchart/quickchart.asp?symb=jp%3A7993&sid=0&o_symb=jp%3A7993&freq=2&time=20)

**Lopro** (formerly Nichiei) once traded 23x higher, but that was a different company, and industry regulations have changed, too. While it's counter-intuitive to own a finance company at the beginning of a new bull market in rates, the awareness of this new environment and new lending restrictions are in the market. The company has restructured itself and the stock price is attractive, while providing a great deal of price leverage. Finance stocks have done well over the past two years, and now Lopro will benefit because, at the end of the day, a strong economy and a strong consumer spending environment which is constructive for small entrepreneurs, is good for the company.

[http://bigcharts.marketwatch.com/quickchart/quickchart.asp?symb=jp%3A8577&sid=0&o\\_symb=jp%3A8577&freq=2&time=12](http://bigcharts.marketwatch.com/quickchart/quickchart.asp?symb=jp%3A8577&sid=0&o_symb=jp%3A8577&freq=2&time=12)

## CONCLUSION:

The March 5, 2006 report concluded: **“A turbulent process of shifting dominance and leadership that is away from multi-nationals and moving toward domestic value stocks is well underway. With the passing of Japanese yearend, the Yen-bullish themes will assert, on the heels of dynamic economic numbers that will usher in higher rates, as part of a bullish scenario that foreigners will again misunderstand. Japan is a creditor nation whose economic and financial paradigm has little to do with what the silly foreigner is accustomed to.”** (Please see Yen coverage below.)

## NEW YORK:

The following quote is of Bill Fleckenstein, and was taken from the April 25, 2006 issue of Bullion Buzz. I like it for its simple truthfulness:

**"The Fed and Wall Street love the convention of looking at 'core inflation,' which is another way of saying: Take out anything that's gone up in price."**

The following, along with Donald Dross's report ([http://www.gold-eagle.com/editorials\\_05/dross032506.html](http://www.gold-eagle.com/editorials_05/dross032506.html)), highlights the scenario within which Dow prices advance in Dollar terms only. It is also the scenario that recalls to mind SKC's oft-used term, "The Foreign Idiot." In the past it was used in reference to Westerners with regard to the Japanese market.

Now, I use it to suggest that, as foreigners always get hooked at peaks, why not simply view this as another weird story that hooks foreigners at a top: "The foreign governments had to buy US stocks because there was nothing else they could do with the paper that the US government was giving them." So far it has worked, but the Dow is at 6000 in gold terms already, and who knows where it'll be when consumer confidence and spending, along with the foreign idiot, both get wise?

Consumer confidence and spending would align with a Dow at 7000, if they would retreat to levels seen at the end of October. With energy prices returned to present levels, real inflation may cause just that. But let's look at a very simple story for now.

The cyclical rally in the Dollar was caused by one-time events (i.e. – tax scheme-inspired capital repatriation) and thereby created the condition for an equity advance (however relatively muted), while coupled with "the story." Of course, here I reference the fantasy of stocks going up because what else is a foreigner to do?

Now, though, the Dollar's secular bear is resuming and we will see if a sucking sound is finally heard out of US Dollar-based investments (see Yen coverage below).

#### CONCLUSION:

The March report also concluded: **"If cycles are postponed further by the desperation of the printing press, gold's celestial blast-off would be accelerated into geometric gear (see gold section). This will have been followed by the equity market collapse later than sooner, but with an even greater guarantee of still lower numbers. It's easy to be short the stock market by owning gold stocks that are profitable at higher metal prices (below). This represents an undated out-of-the money gold call. Since it is the same phenomenon that is driving both the Dow and gold, the gold position is a mirror image of a Dow put. The phenomenon I refer to is Fed printing, of course. Still, always holding nine month to one-year Dow puts**

has its deserved place, too. There is nothing wrong with profiting via both avenues.”

That conclusion works just fine today. Technically, all previously explored indicators’ divergences are actually worsening. Our next issue will take a look.

## **PRECIOUS METALS & DOLLAR:**

The following was the March 5, 2006 SKC report’s title:

**“Gold \$850 this year?  
Is the Dow at 6500?  
The “Bull” of Weimar  
Japanese Economic Power”**

The March report wrote:

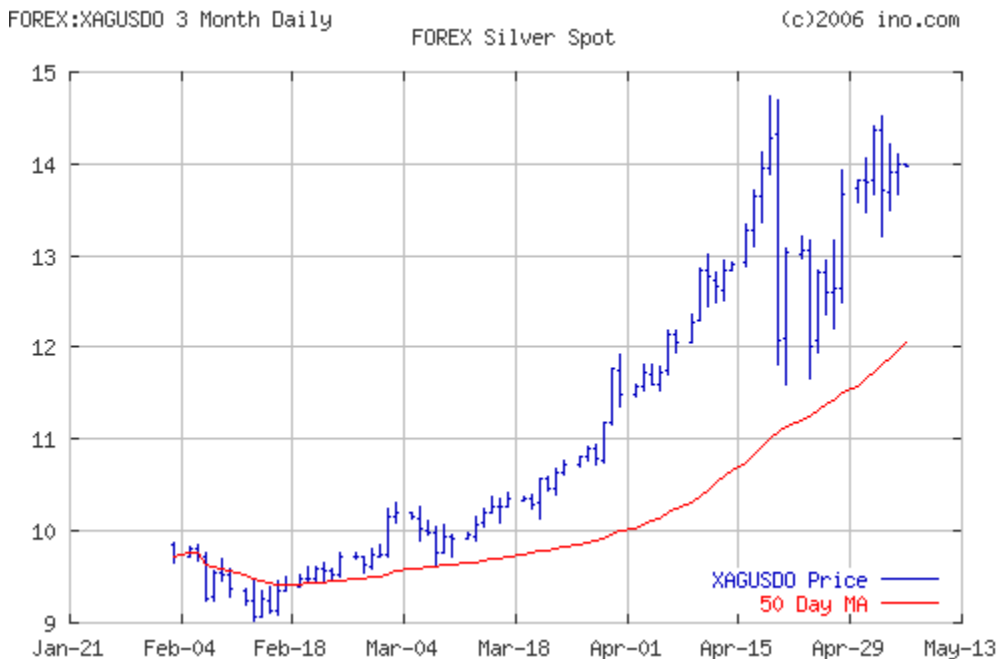
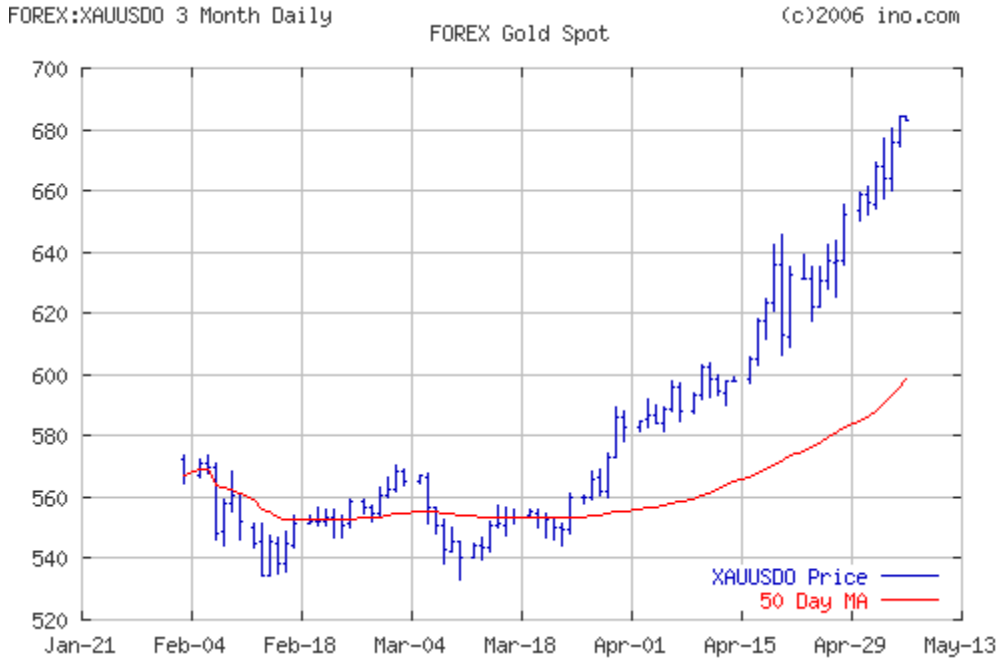
**“So, who is in the mood to still bet that gold and silver are not in the middle of a raging bull market? It’s one thing to miss an investment that makes a lot of money; it’s lost opportunity. Life goes on. However, as discussed in the New York section above, if asset prices maintain nominal values and tread water as the Dow Jones has, merely because of a currency printing spree that debases the value of the currency in which the asset is denominated, not holding the appropriate currency mix, may spell a problem of meaningful nature for those seeking to at least maintain true value, if not make it grow sizably....”**

After a series of correct forecasts for gold, which included the achievement of the \$600 target for quarter-end, after its low and preceding peak were identified, SKC wrote of a partial profit taking opportunity for short term traders, though investors were warned to not touch an ounce. And so, to embellish the above, that same report continued:

**“....Presently, much of the crowd that is aware of the precious metals’ new bull market, consists of those who were bullish ten years too soon. The loss of their credibility has helped the perma-wrong miss this sea-change. In this sense, this is similar to the Nikkei; all the false starts of the 1990’s caused investors to miss an obvious secular low this decade [“Oh, I’ve heard that before about Japan (gold)”]....”**

The above was written with gold trading around \$560 and silver \$10, as evidenced by the following two charts. As we can see, once a market has broken out, acceleration can occur at any time, while what appears to be a completing pattern is actually one that is merely serving as the pre-acceleration advance (i.e. - an apparent wave 5 is actually a wave 1). This is more evident in the silver

chart. This is also why asset allocation is most important, and why I have called all of this a wave-3 acceleration to the upside, ever since and due to the breakout over \$500 (since January 2002, SKC has forecasted that a break over \$500 would be viewed as a crossing over into a wave-3 acceleration).



The significance of the **Yen's** bottom is multi-fold (below).

**JPY ↓ 112.46 -1.20** ANDN 112.45/112.46 RZBC Curncy TAS  
 At 14:33 Op 113.65 Hi 114.01 Lo 112.25 Prev 113.65 Value 5/ 9/06

**Stochastics for JPY Curncy** 1/10

Range **5/ 5/05 - 5/ 5/06** Period **D** Daily  
 Upper Chart: **1** Bar Chart Moving Averages **200 200 1** News  
 Stochastics **K** %K/%D Chart Periods: %K **14** %D **9** %DS **3** %DSS **3**



Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410  
 Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2006 Bloomberg L.P.  
 6275-364-0 05-May-06 14:33:50

**JPY ↑ 112.44 -1.21** WACH 112.44/112.45 RZBC Curncy TAS  
 Screen Printed

**Stochastics for JPY Curncy** 1/11

Range **5/ 5/01 - 4/28/06** Period **W** Weekly  
 Upper Chart: **1** Bar Chart Moving Averages **200 200 1** News  
 Stochastics **K** %K/%D Chart Periods: %K **14** %D **9** %DS **3** %DSS **3**



Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410  
 Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2006 Bloomberg L.P.  
 6275-364-0 05-May-06 14:34:58

From the above, we see that the daily chart's 200-day moving average (MA) has been broken, as has the 200-week's MA [the latter's last chart point is not seen plotted, as it is a weekly chart (updated on Mondays)].

Apart from signaling that a bottom-to-top move of 20% this year may be underway in the Yen, this activity should also be giving the green light to sell major exporters and invest in domestic stocks, particularly since so many of the latter contain such extraordinary price leverage (see Japan section above).

I am fervently making the case that the bottom I called for the **Yen at 120** (after initially having thought that the 115 area would hold) **is now confirmed. The secular bull market for the Yen has resumed!**

This is consistent with the topping formation I have been watching develop in the Nikkei, since the very beginning of the year (any short term and short lived potential in the index should be contained to 5% from here). The Yen's reversal should be the last touch to reversing the exporters, while the Dollar's hit should create a sucking sound out of US investments. Therefore, to reiterate prior analyses, we will now see a repeat of the 2000-2002 period, when the Nikkei and Dow fell (collapsed), while Japanese domestic value stocks had made their lows, and were advancing.

Simply, again, the antithesis of the 1990s: Yen up, exporters down, domestic stocks up, as Yen appreciation causes domestic investors to move into domestically recognized names. And the Japanese domestic investor is not even in the market yet!

The following quote also stems from Bullion Buzz, this time the May 2, 2006 issue, quoting the venerable Richard Russell. While it speaks volumes for gold and silver, it speaks to the resumed secular bull market in the Japanese Yen as well:

**"The Fed may tell us that there's no price inflation. The Fed may take away the M-3 broad money supply figures so that we don't know what's happening to monetary inflation. But the Fed is not going to fool gold. When inflation, galloping inflation occurs, we'll know it. We know that during inflation it takes an increasing amount of junk paper to buy real money - gold."**

#### CONCLUSION:

SKC's March 5, 2006 report concluded:

**"Whatever scenario unfolds, silver will trade at prices dramatically higher than what anyone is presently imagining."**



In Elliott wave terms, insofar as technical analysis is concerned, a wave 5 of 3 is completing in the \$14 - \$15 area, which should precede a consolidation above \$12, and an ensuing wave 5 advance to complete this particular intermediate term move. While silver entries have to-date been timed with gold, SKC's approach may change, as the silver chart is providing cleaner and perhaps less manipulated trading patterns. SKC's view that \$850 gold was possible this year flew in the face of the bulls' own expectations, as a breakout into an accelerating wave 3 pattern went unrecognized. \$850 is where bullishness will finally note that this isn't just a Dollar debasement, but a move that echoes concerns about all-time highs and an imminent \$1000/ounce price. We'll see if I consider another intermediate term call for un-invested investors or short term traders, but fully invested SKC readers will be reminded that this wave 3 is within a larger wave 1. Therefore, \$2000/ounce is a more reasonable wave three target for this cycle in 2007.

The Yen is the best fiat currency in the world and it is signaling huge potential for domestic Japanese stocks. It also confirms a developing Nikkei peak, which will cause large-cap exporters to yield to domestic economy and investment plays.

In this scary phase of the long cycle, Asia via Japanese value is in, while all other non-metal investments are out.

Sid Klein

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