

Japanese Stocks —A Basic Guide for the Intelligent Investor

By Toru Matsumoto

Published by Kodansha International Ltd.

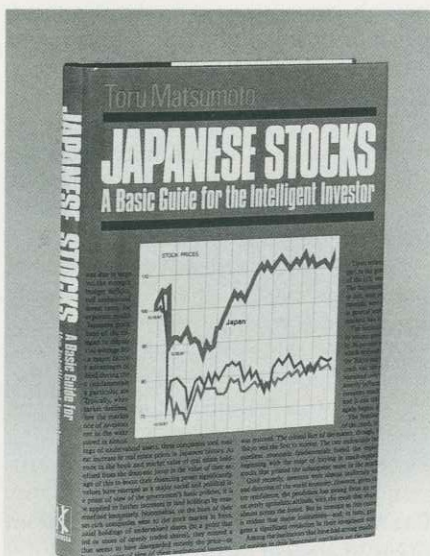
1989; Tokyo

212 pages; ¥3,000

We should all thank Toru Matsumoto for explaining in a clear and colorful way many of the mysteries of the Japanese stock markets. If knowledge is power, then any investor who is serious about the Japanese market must understand the forces that drive the market. This book tells us about all key elements of the market—who the investors are, what they are looking for, how they behave. And for the future, Matsumoto believes that the individual investor—the salaried worker and the housewife—will play an increasingly important role.

We also learn about the Big Four Japanese securities companies: how they make money, the kinds of transactions that motivate them, the information they produce, and how they control it. He also touches on the pervasive influence of the government and securities industry legislators.

It is encouraging that Matsumoto believes in investing in companies with good fundamentals and that despite



short-term "theme" movements in the market, stocks of well-managed companies with good future prospects will perform well in the long run. He also is enthusiastic about following speculative runs in the market and about the future of the currently neglected OTC (over-the-counter) market. The potential returns look mouth-watering.

I think it should be obvious from reading this book that risk-averse investors should stay clear—the inherent volatility of the market is the source of opportunity for astute investors such as Matsumoto. He makes it clear that stocks will go up and down—in some cases there will be dramatic movements in the same day. Skilled investors can make money when stocks rise and when they fall (by selling short) and at any point in time there may be a powerful speculative movement to depress the price of a particular company's stock. If a drop in the value of your investment causes you to lose sleep you should remain on the sidelines and watch from a safe distance.

A very convincing case is made for a continuation of the bull market into 1992. As Matsumoto points out, the stock market is the only rewarding investment alternative for most Japanese investors. With land prices out of reach and bank interest rates dismally low, individual investors

and corporations should continue to move surplus cash into the market. As long as these conditions exist (until 1992, according to Matsumoto) there will be growth in the market.

There is lots of meaty detail about the structure of the market, the industry sectors, the "bellwether" stocks in each sector and the market as a whole. It is fascinating to learn the importance of the proportion of freely floated shares to total issued shares, the degree of margin buying allowed and other factors that drive speculative maneuvers. Also fascinating is the description of the different types of foreign investors and their influence. Although we usually hear that foreign investors are relatively small participants in the Japanese market, Matsumoto suggests there is a lot of hidden and powerful foreign investment, particularly from Hong Kong and the Middle East.

As a practical matter I would like to have heard more about access to information. For fundamental analysis on First and Second Section companies it seems there is plenty of accessible information produced by the securities companies—but how does one obtain reliable information about speculative runs in the market or about OTC stocks? It has been my experience that the speculative information available from stockbrokers is unreliable and often designed to misinform. This brings me to a second area that I would like to hear more about—Japanese stockbrokers. How are they trained, how are they paid and motivated, how do they obtain information, and what "hidden agendas" do they have that we need to be aware of when evaluating recommendations?

There is so much to learn and understand about the Japanese market. Matsumoto's book, *Japanese Stocks—A Basic Guide for the Intelligent Investor*, is more than a basic introduction—it is insightful and very interesting reading. I strongly recommend it to anyone interested in investment in the stock market or even in understanding more about Japan.

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