



January 16, 2005

Market Vane		Closing Values		
Indicator	Direction	Indicator	Week Close	Prev. Week
Market Technicals	Improving	Topix	1,145.39	1,145.76
Market Trading Volume	Stable	NK225	11,438.09	11,433.24
Yen-Dollar	Strong	TSE 2	3,136.32	3,097.54
Interest Rates	Stable	JASDAQ	94.56	93.71
Best Sector Since June	Shipping	JGB Price	138.34	138.76
Worst Sector Since June	Pulp/Paper	Yen-Dollar	102.00	104.85
Economic Momentum	Peaking	MSCI EAFE	155.63	155.11

Sources: Tokyo Stock Exchange, Nikkei Financial, The Financials.com

2005 Surprises: Dollar Rally, Nikkei at 14,000

A Non-Consensus View

As outlined last week, the consensus view for 2005 is basically more of the same—i.e., continued dollar weakness, a yen stronger than ¥100/US\$, waning economic growth, but continued secular strength in commodities including oil and gold. For Japan, a mild cyclical economic correction, but continued a continued secular recovery with ongoing restructuring, revitalization and M&A activity.

TJI's base view is that Japanese steel and shipping will continue to perform, at least through the first half, as China concerns are overblown. Secondly, the banking sector will continue to revalue, on continued consolidation and M&A activity. Finally, 2005 will see more revitalized "zombies" that will contribute to market performance.

But what could be the surprises for 2005? As any long-time investor knows, financial markets have a knack for doing just the opposite of what most market players expect. In 2005, the biggest surprise could be a dollar recovery instead of the crash most investors have heavily hedged against.

Historically, a dollar index at 80 has been a secular trough since the 1970s. This implies only 6% more downside before the dollar completely erases all the gains made in the build-up to the bursting of the IT bubble in 2000. Higher US rates and action on US deficits could change the overly bearish perception about the dollar.

For Japan, the real surprise in 2005 could be that the market moves much higher than the 13,000 consensus on the Nikkei. A strong dollar as opposed to a yen above ¥100/US\$ would be very conducive to such a scenario. Additionally, Japan's major financial institutions have very much been marginal players in the rally from 7,600 on the Nikkei 225 in 2003.

Foreigners and individual investors have accounted for some 80% of trading value and have driven the market so far. But if domestic institutions stop their structural selling and instead begin to actively participate in the rally, 14,000 on the Nikkei is not that much of a stretch, especially given support from a stronger dollar. Basic materials, the financials and revitalized zombies would do even better than **TJI** foresees given such a scenario.

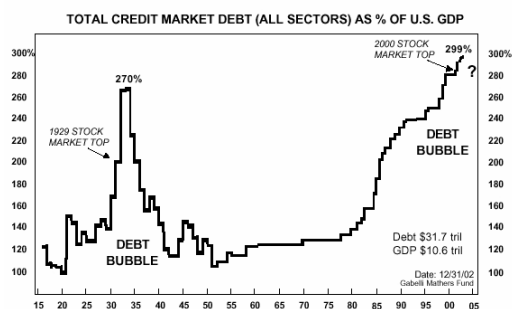


Are the Greenback's Days as the Global Fiat Currency Numbered?

No less than Alan Greenspan has said that the dollar seems likely to fall further: "Given the size of the current-account deficit, a diminished appetite for adding to dollar balances must occur at some point," were his exact words. Mr. Greenspan's comments were very significant because he was not-so-tacitly admitting what an increasing number of economists around the world have come to believe—i.e., the dollar emperor has no clothes. Economists now talk of the end of a dollar era that has essentially been in place since the collapse of the Bretton Woods system in the early 1970s.

In effect, foreigners (primarily in Asian nations) are saving on America's behalf. The question is whether foreigners will be happy to carry on financing this growth with the dollar and asset prices at their present level. The foreign public sector—ie, central banks—(particularly Asian) have been the main supporters of the dollar.

More convincing is the total US credit market debt/GDP ratio, which has continued to soar since the 1980s, to some 299% of GDP, versus a prior peak of 270% in the 1930s.

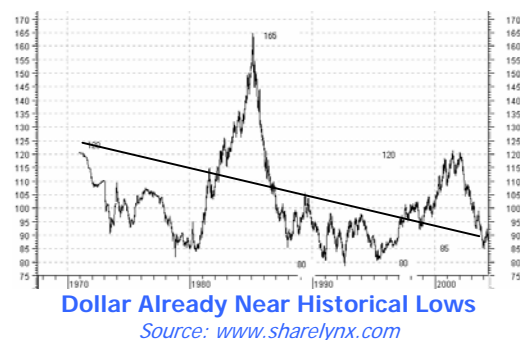


But global pessimism about the dollar is already reflected in substantial dollar bear

positions. The BIS's conclusion is that hedge funds are largely responsible for the dollar decline over the past three years. There have been extensive "carry trades" by hedge funds and other players. Hedge funds have been borrowing dollars and yen at very low interest rates and have investing in the euro, sterling and commodity currencies, notably the Canadian, Australian and New Zealand dollars and the South African rand. These players will have to take profits at some point by purchasing back dollars.

In addition, some of the world's largest pension funds such as ABP and the Harvard endowment have built up substantial positions in commodities to hedge their exposure to dollar-denominated equities and bonds.

The cliché reason for the dollar's fall is the current account deficit. But the US balance of trade has been in deficit for years and that gap didn't stop the currency from surging in the eighties and nineties. Foreign trade is only a small proportion of the market that is dominated by cross border money and capital flows ruled by confidence or lack of it thereof.



The major difference between the current dollar bear market and previous ones is that the Fed hasn't begun to raise interest rates. But money supply is slowing, so it is a matter of time before it does so. Even if



the Fed doesn't increase rates, US bond yields are likely to rise, while in the much slower European economy, bond yields will fall.

The question then is what would be a compelling incentive for the hedge funds and pension funds to reverse these positions.

Historical Risk/Reward Looks Positive to US

The outlook for the dollar will ultimately reflect the market's judgment whether the US can continue to display the dynamism of the past decade. But the US dollar is not only the primary reserve currency for the world's central banks. Some 75% of the world's international transactions are also denominated in dollars. As the printer of the world's reserve currency, America is in effect like a central bank that provides most of the world's money supply.

If the dollar were to lose that function, a mass exodus from the Greenback into the Euro and into gold would send the dollar downward to a fraction of its current value, and gold to over \$2,000/ounce. It would also effectively mean a shrinkage of the world's money supply.

Overwhelmingly Bearish Sentiment

Market sentiment toward the US dollar is already overwhelmingly bearish. As one hedge fund manager noted: "Today good, bad or neutral US economic news is used as an excuse to sell the dollar". A recent survey of more than 100 major European asset managers showed that the overwhelming majority expect the dollar to weaken further. Most traders and market strategists have the same view.

Higher US rates will make a cheap dollar more attractive. In addition, the balance

of payments current account deficit will begin to narrow even though the "J Curve" effect (worse first, better later) delays the process. The final incentive could be convincing evidence that the US is beginning to tackle its fiscal deficit as well.

Indeed, **TJI** has trouble believing that the US and indeed the world's central banks would sit and watch a dollar crash without seriously attempting to prevent such an occurrence. The dollar's correction so far has essentially been a reversal of the rally that accompanied the IT-bubble. If the dollar were to break down through the 80 level, for example, we believe the US and other central banks would become seriously concerned about dollar weakness, and move to do something about it.

Since the 1970s, the US dollar's general trend has been downward, but with two massive reversals in the interim. During the 1970s, then President Nixon shocked trading partners like Japan by de-linking the dollar from gold, and the dollar index declined 30%. In the 1980s, the dollar plunged 52%, but this was after a 94% appreciation from the early 1980s.

The secular bull market in US equities in the 1990s was accompanied by a 50% appreciation in the dollar. But the post-IT bubble bear market saw a 50%-plus sell-off in the S&P 500, so it should come as no surprise that the dollar has already fallen some 30% from its "IT-bubble" peak, and is now only some 6% away from its lowest point in the past 35 years.

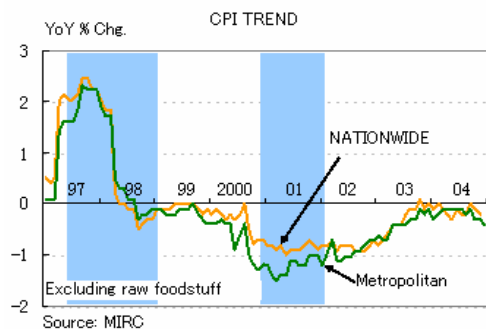
Thus, assuming that the massive debt build-up in the US does not cause a 1920s-like crash in the financial markets (which, by the way, would take global financial markets with it), downside risk in the US dollar in terms of historical risk/reward over the next couple of years



is likely to be more limited than the upside potential. At the very least, **TJI** does not subscribe to the conjecture that the dollar would crash from already historically low levels, and that's a much more benign scenario than what would be implied by a dollar crash scenario and its demise as the central linchpin of global liquidity and money supply.

The Flat Spot in Japan's Economy

Simply put, the Japanese economy is in a temporary funk and will show tepid real-term growth of around 1% in fiscal 2005. Inventory adjustments are taking place in information technology-related areas, but because companies are dealing with this promptly, the correction is likely to be short-lived.

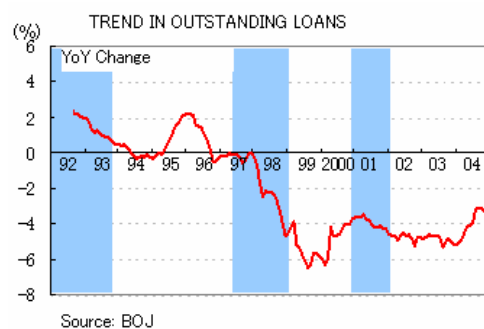


While deflation is abating, it is not yet completely conquered, and indeed has recently begun to re-accelerate.

The financial system is becoming stabilized, so Japan's economy is now able to go through a normal business cycle while the structural health of the economy continues to improve. Consumer spending has done remarkably well given the fact that income is not growing. Progress in corporate restructuring and the absence of positive effects on households are two sides of a coin—the more dramatic the restructuring, the greater the burden on consumer spending.

The good news is that loan growth is beginning to recover as an early sign of reflation, and as the major banks have cleaned up their NPL overhang. Mizuho FG (Financial Group) and the major four megabanks plan to increase corporate loans by ¥2~¥3 trillion in the second half of FY04, meaning the long decline in loan balances during the Heisei Malaise is finally coming to an end. The major banks are now seeking new loan opportunities among small- and medium-sized firms and overseas as they have finally gotten their arms around NPL balances, and are working to prevent over-exposure to troubled borrowers in the future through loan syndication. The efforts by banks to re-expand their loan portfolios will now work to support Japan's economy, instead of acting as a major drag, as NPLs did during the Heisei Malaise.

Outstanding loan balances of the big four banks peaked in 1998 at ¥340 trillion, but thereafter declined by 40% to ¥210 trillion by the end of last year. Excluding the decline in NPLs, however, there was a net increase of 1% in new loans during the period. Thus the main reason for declining loan balances was not that credit was tight, but that the banks were writing off trillions of yen of NPLs.



In addition, while inventory adjustments in digital consumer electronics and slowing exports were commonly given as



factors in slowing production and decelerating growth for the economy as a whole, inventories now appear to be bottoming, meaning that inventory corrections are no longer a drag on production, even though production does appear to have hit its fourth cyclical peak since the Heisei Malaise began.

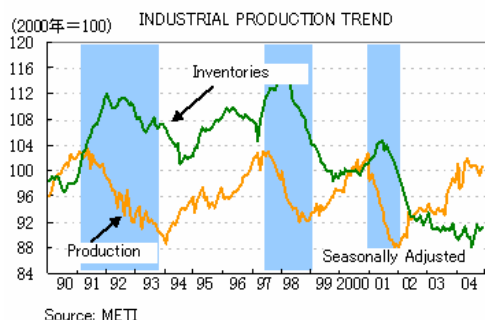
Consequently, unless there is a significant slowdown in the US and China economies, while the Japanese economy will decelerate in 2005, it is likely to be a "growth recession" instead of another serious recession accompanied with pressure on the financial system, as has been the case during the Heisei Malaise.

upside on high trading volume would be the earliest indication that economic activity will pick up in the second half of 2005.

Nikkei 225 Break-Out



Source: StockCharts.com



Bullish Break-out for Japanese Stocks—But is it Short- or Long-Term?

Because the economy is widely expected (and TJI agrees with the consensus) to show a mild cyclical slowdown in 2005, and given evidence of building reflation, the Nikkei 225 should remain well supported at above 10,750.

On the other hand, a serious challenge of the previous rebound high of 12,196 is not likely until there is clear evidence that the economy has again begun to accelerate. Of course, as the stock market leads economic activity by six months or more, a strong market break-out to the

The trend in industrial production however suggests that this may be the best-case scenario, as the production index, as previously discussed, looks like it is peaking for the fourth time since 1990. The major difference this however is that aggregate inventories have already troughed, and did not peak with the recent peak in production, as they did in the first three production peaks in the 1990s. This suggests that the consolidation in production will not last as long as it did following the previous three peaks.

In the last two peaks in particular, the consolidation in production lasted for about a year. Given that inventories are already some 24% below the all-time peak in 1998 and 15% below the peak in 2001, there may not even be a shrinkage in production during the next consolidation.

This leads TJI to suspect that the consolidation in the Nikkei 225 and Topix since April 2004 was primarily a basing consolidation for the next major move



upward, which could surprise investors by the degree of movement to the upside. Indeed, the extremely low level of volatility in the Nikkei since the second half of 2003 and the generally flat trading range during this period suggest that the next upward move could take the Nikkei to the 14,000 watermark once the previous rebound high is breached. This is somewhat higher than the market consensus is currently expecting, and represents 23% upside potential in yen terms.

Five-Year Nikkei 225



Source: BigCharts.com

TJI suspects however that this is more likely to occur in 2006 than 2005, because we have low expectations for a meaningful contribution from the tech sector in 2005, which still the largest individual sector and accounts for nearly 15% of TOPIX market capitalization.

Foreigners and Individuals Still the Main Determinants of Stock Price Formation

In December of last year, foreign investors accounted for 29% of total trading value, while proprietary trading accounted for 26% and individuals 19% of the combined value of trading on the Tokyo, Osaka and Nagoya stock exchanges. Domestic financial institutions on the other hand accounted for a mere 7%.

During the period of heaviest buying last year, foreign investors accounted for up to

50%, while individuals accounted for around 30% of total brokerage transaction. In effect, Japan's financial institutions were nowhere to be seen. If Japanese financial institutions were to become more active in equities, the 14,000 on the Nikkei 225 we suggested could easily be reached.

Foreign Investor Holdings by Sector

While the data is somewhat dated and will not be updated until mid-2005, the sectors which have the highest foreign ownership ratios are; insurance (32.6%), pharmaceuticals (32.3%), brokerage (29.5%), transportation equipment (28.8%), and electricals 28.5%. In 2003, foreign ownership ratios increased the most dramatically in the banks (+11.9 percentage points) and insurance (+9.2 percentage points). While these totals include direct investments by foreign companies purchasing large or controlling stakes in Japanese companies, it does give an indication of which sectors among listed companies in Japan which foreign investors find the most attractive, from either a portfolio investment or direct investment perspective.

Regional Banks as the Leveraged Financial Sector Reflation Play

As explained last week, **TJI** believes that regional banks could be a leveraged financial sector reflation play.

As the bulk of outstanding loans is to small- and medium-sized companies, it stands to reason that further diffusion of the secular recovery in Japan's economy will begin to benefit local economies, leading to recovering demand for regional firms and in turn funding demand. Indeed, some regional banks—such as Kyoto Bank, Shizuoka Bank and Fukuoka Bank are beginning to see renewed growth in



outstanding loans, mainly on demand for residential housing loans, but also small- and medium-sized corporate loan demand.

Banks have also become the main marketing channel for investment trusts (mutual funds), accounting for some 40% of new fund sales. They have also become major funding sources for rehabilitation funds, as a *Nikkei* survey indicates that some 64% of the funds made available for rehabilitation funds were sourced from regional banks.

Regional banks have also begun to sell commodity derivatives such as oil derivatives. Hokuriku Bank began to broker sales of Mitsui Sumitomo Insurance Co.'s oil derivatives in August apparently because there are many client manufacturers, such as aluminum makers, in the bank's home business territory of Toyama Prefecture that are concerned about rising crude prices.

Following the secular market low of 7,600 on the Nikkei in 2003, investors have been quick to re-price the stock major banking groups. The aggregate market capitalization of nation's five major banking groups -- **Mitsubishi Tokyo Financial Group** (8306), **UFJ Holdings** (8307), **Resona Holdings** (8308), **Sumitomo Mitsui Financial Group** (8316) and **Mizuho Financial Group** (8411) -- has ballooned 290% since the end of March 2003.

However, the market capitalization of 88 regional banks has increased only 20% during the same period, and investors have heretofore shunned regional banks because they have been slow to dispose of bad loans compared with major banks.

In fact, however, regional can be categorized into three groups. The first group consists of **Bank of Yokohama**

(8332), **Chiba Bank** (8331) and some other banks that are known for their financial soundness. They have been more aggressive than large banks in disposing of nonperforming loans, and their shares have been performing well.

The second group is made up of lenders that are financially stable but are satisfied with the status quo and thus not taking action to improve their profitability. The third is a group of banks that have been struggling with cleaning up bad loans.

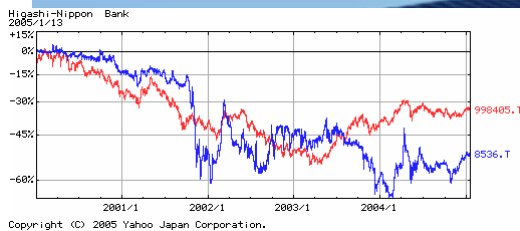
Except for the first group, shares of most regional banks have been lackluster. But sound lenders can take a larger piece of the pie from rival banks through their own efforts, while the pie itself may be shrinking.



Keiyo Bank Relative to Topix



Chiba Bank Relative to Topix



East Japan Bank Relative to Topix

At a time when consumer finance firms are being bought up by banking groups, consumer finance company *Aiful* (8515) has become *Higashi-Nippon Bank's* (8536) leading shareholder by boosting its stake in the bank to 5.78%. The consumer credit company and the bank also plan to bolster their capital alliance in such ways as partnering in guarantor duties for business loans. What this shows is that Japan's financial service sector continues to consolidate and evolve, and that there will be other winners besides the big four megabanking groups.

The TJI Portfolio

Financial stocks were among the best performers in 2004 in the **TJI Portfolio**. *Mitsui Trust* was a home run, gaining 106% since the stock was added early in the year, while *Nippon Shimpan* gained 24.7% although it is one of the financially weaker consumer credit firms. Recently added Keiyo Bank, one of the regional banks which is benefiting from a general revaluation of Japan's banks on reflation expectations, has already gained 29.7%. The other individual winners were *Kibun Food* (+76%) and *Ryohin Keikaku* (+37.5%), i.e., personal consumption related companies. In total, the portfolio as it exists today is up over 12%, which is somewhat better than the 7% gain in the market aggregates last year.

On the other hand, the international blue-chips that have survived **TJI's** 15% stop-loss cutoff rule, have with the exception of

Matsushita have generally been dogs. Thus the ADR group is basically flat.

Performance of the **TJI** oil shock portfolio has also been unimpressive, hobbled by poor performance in the energy stocks that were added, but buoyed by Japan Vilene (+24.8%) and less so by Denso (+11.5%).

Over the last three months, cheap low-priced stocks and the financial groups have provided the best individual performance, while basic materials, capital goods, services and even dividend plays have lost ground.

As previously stated, **TJI'S** sector preference for 2005 remains the structurally recovering financial sector—i.e., regional banks and consumer finance companies in particular—because the sector's share of total market capitalization remains lower than in other developed markets.

Technology on the other hand could continue to be problematic. A good Japan tech sector representative is *Tokyo Electron* (8035). TEL continues to closely track the US technology sector indices, and until US technology has completely worked off the 2000 bubble overhang, Japan tech stocks like TEL will continue to bump along the bottom. **TJI** believes the timing for a general tech rally is 2006, not 2005.



TEL vs US Technology



TJI PORTFOLIO

Co. Name	NYSE, TSE Co. Code	Price		Pct. Change	PER	PBR	ROE	DVD YIELD	Market Cap Y Bln	
		ADR Shares	ADR							Add
Canon	CAJ		\$52.08	\$51.77	-0.6%	17.30	2.40	15.95%	0.92%	4,883.9
Kubota	KUB		\$25.87	\$25.81	-0.2%	61.47	1.67	3.31%	1.12%	690.5
Matsushita	MC		\$13.85	\$15.51	12.0%	87.27	1.01	1.27%	0.88%	3,959.2
Toyota	TM		\$79.01	\$80.21	1.5%	12.10	1.59	9.95%	1.08%	15,089.8
MEDIAN					0.6%	39.39	1.63	6.63%	1.00%	4,421.6
Tokyo Shares	Code									
Ryohin Keikaku	7453		¥3,760	¥5,170	37.5%	30.68	3.33	12.14%	0.91%	141.2
Up-Inc.	9630		¥586	¥650	10.9%	9.37	0.69	7.53%	2.31%	5.3
Sumitomo Metal	5405		¥128	¥145	13.3%	22.59	1.69	8.74%	1.03%	668.0
Sumitomo Mining	5713		¥786	¥709	-9.8%	20.4	1.52	8.35%	0.85%	404.3
Mitsui OSK	9104		¥644	¥621	-3.6%	13.46	2.9	28.68%	1.77%	748.6
Daikokuten Bussan	2791		¥3,550	¥3,850	8.5%	30.22	7.10	30.20%	0.26%	28.1
Karula	2789		¥2,900	¥3,630	25.2%	na	na	20.12%	na	9.3
Kibun Food	4065		¥1,315	¥2,310	75.7%	36.84	5.82	18.79%	0.52%	64.8
Mitsui Trust Holdings	8309		¥510	¥1,051	106.1%	18.92	13.56	14.2%	0.24%	830.8
Nippon Shimpan	8583		¥340	¥424	24.7%	na	na	na	na	131.6
Nippon Oil	5001		¥689	¥659	-4.4%	-7.42	1.14	0.00%	1.06%	987.50
Nippon Building Fund*(000)	8951		¥805	¥854	6.1%	26.50	1.48	2.8%		
Keiyo Bank	8544		¥354	¥459	29.7%	22.97	0.99	4.68%	1.09%	123.60
Denso	6902		¥2,730	¥2,750	0.7%	21.15	1.43	7.57%	0.87%	2,400.5
MEDIAN					12.1%	21.50	3.12	14.21%	0.88%	136.42

TJI OIL SHOCK PORTFOLIO

Tokyo Shares	Code	Price		Pct. Change	PER	PBR	ROE	YIELD	Market Cap Y Bln
		Add	Curren t						
Nippon Oil	5001	¥689	¥652	-5.4%	-7.35	1.13	0.00%	1.07%	987.50
Showa Shell	5002	¥1,013	¥930	-8.2%	16.61	1.44	9.20%	2.69%	350.5
Toyota	7203	¥4,160	¥4,180	0.5%	12.19	1.61	9.95%	1.08%	15,089.8
Sumitomo Mining	5713	¥786	¥707	-10.1%	20.34	1.52	8.35%	0.85%	404.3
Honda	7267	¥5,190	¥5,340	2.9%	20.88	1.41	7.57%	0.88%	2,400.5
Denso	6902	¥2,435	¥2,715	11.5%	20.27	1.37	7.57%	0.95%	2,329.5
Japan Vilene	3514	¥468	¥584	24.8%	18.73	1.32	7.53%	1.03%	38.0
Aisin Seiki	7259	¥2,390	¥2,550	6.7%	20.22	1.38	7.43%	0.71%	751.4
Sharp	6753	¥1,554	¥1,649	6.1%	29.78	1.84	6.58%	1.09%	1,831.5
MEDIAN				2.9%	20.61	1.48	7.53%	1.12%	1,025.3

Sources: Tokyo Stock Exchange, Yahoo Japan Finance

Note: Japan Investor uses an automatic trailing 15% stop-loss rule from the point a stock is included in the TJI Portfolio. Stocks that fall 15% are dropped from the portfolio, regardless of the reason for the drop (stock splits and other corporate actions excepted)

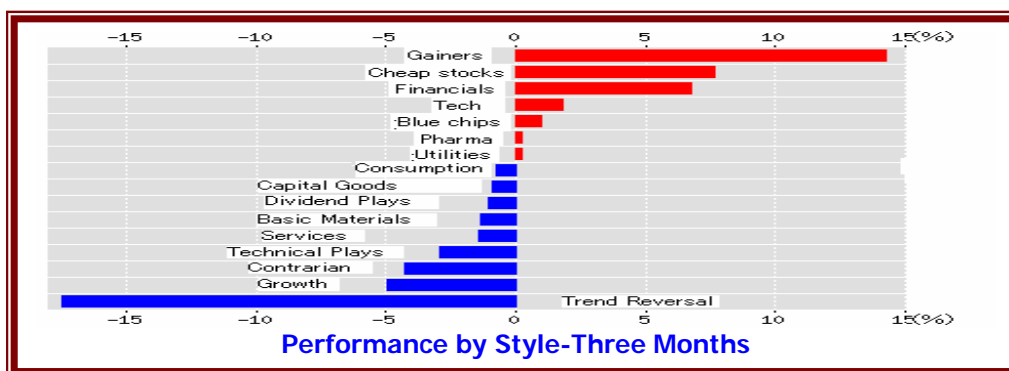


STOCK SCREENS

Cheap PER and PER, High Dividend Yield and ROE Screen

Code	Co. Name	Listing	Close (Y)	PER	PBR	Dvd Yld	ROE	Mkt Cap
5001	NIPPON OIL	TSE 1	654	8.6	1.21	1.53	14.0	990
1925	Daiwa House	TSE 1	1,175	18.0	1.31	1.28	7.3	647
3861	Oji Paper	TSE 1	579	12.8	1.30	2.07	10.2	616
5007	Cosmo Oil	TSE 1	300	10.5	0.93	2.00	8.8	190
4203	Sumitomo Bakelite	TSE 1	646	15.1	1.31	1.55	8.7	154
5101	Yokohama Rubber	TSE 1	405	13.9	1.09	1.98	7.8	139
2873	Katokichi Co.	TSE 1	2,155	15.7	1.29	1.39	8.2	118
3941	Rengo Co.	TSE 1	479	11.6	1.11	1.67	9.6	116
4612	Nippon Paint	TSE 1	434	16.0	1.13	1.38	7.1	115
2264	Morinaga Milk	TSE 1	439	14.3	1.24	1.37	8.7	111
3002	Gunze Ltd.	TSE 1	464	8.4	0.94	1.62	11.2	106
4401	ASAHI DENKA	TSE 1	1,035	15.1	1.28	1.35	8.5	106
4045	Toagosei Co.,Ltd.	TSE 1	355	11.3	1.26	1.41	11.1	94
4403	NOF Corp.	TSE 1	373	15.1	1.05	1.61	6.9	76
5105	Toyo Tire & Rubber	TSE 1	333	12.7	0.94	2.10	7.4	70
2201	Morinaga & Co.	TSE 1	251	16.6	1.27	1.99	7.6	68
4213	Mitsubishi Plastics	TSE 1	284	15.3	1.26	1.76	8.2	61
4548	Seikagaku Corp.	TSE 1	1,417	15.8	1.27	1.41	8.0	55
1983	TOSHIBA PLANT	TSE 1	501	12.2	0.88	2.40	7.2	49
5122	Okamoto Industries	TSE 1	341	14.2	1.19	2.20	8.4	45
1943	Daimi Telecom	TSE 1	817	15.2	1.13	1.47	7.4	34
4633	Sakata Inx	TSE 1	550	9.6	1.10	1.82	11.6	34
4092	Nippon Chemical	TSE 1	364	11.6	1.07	1.37	9.2	32
4342	SECOM JOSHI	TSE 1	2,270	13.9	1.33	1.98	9.6	30
2805	S & B Foods	TSE 1	763	15.7	1.31	1.31	8.4	27
2891	Oriental Yeast	TSE 1	800	16.0	1.25	1.25	7.9	27
5013	Yushiro Chemical	TSE 1	1,781	18.7	1.33	3.09	7.1	27
4097	Koatsu Gas Kogyo	TSE 1	433	13.8	1.00	2.31	7.3	24
2761	Toshin Denki	JASDAQ	1,906	12.6	1.10	1.31	8.7	22
1880	SURUGA	TSE 2	2,000	8.5	1.19	1.50	14.1	19
1870	Yahagi Construction	TSE 1	399	14.4	1.03	2.26	7.2	17
2719	KITAMURA	JASDAQ	925	12.4	1.16	1.62	9.3	16
2819	EBARA Foods	JASDAQ	1,569	11.8	0.91	1.72	7.7	16
3971	Tohcello	TSE 2	520	13.2	1.17	1.54	8.9	16
1835	Totetsu Kogyo	TSE 2	428	9.7	0.71	1.87	7.3	15
2052	Kyodo Shiryō	TSE 2	144	10.7	1.34	1.39	12.6	15
4963	SEIKO PMC	TSE 2	484	11.5	0.89	2.07	7.7	15
5121	Fujikura Rubber	TSE 2	658	10.3	1.13	1.82	11.0	15

Source: KabuMap.com





TOPIX SECTOR PERFORMANCE

INDEX PERFORMANCE RANKING					
TOPIX	26.8%	12.5%	9.8%	3.5%	-3.7%
Topix Core 30	17.2%	4.8%	2.9%	2.1%	-4.2%
Topix Mid 400	31.3%	14.8%	11.5%	3.6%	-4.2%
TSE 2	70.3%	48.5%	46.7%	3.2%	-5.8%
JASDAQ	88.8%	43.2%	40.1%	6.9%	-7.3%
SECTORS	Fm Jun	Fm Sept	CYTD	Fm Mar	Fm June
Shipping	61.7%	54.6%	21.0%	14.5%	12.3%
Iron/Steel	61.9%	30.9%	17.1%	4.5%	4.9%
Machinery	38.9%	21.2%	18.0%	5.8%	3.4%
Warehsing/Harbor	39.1%	22.9%	21.0%	0.4%	3.3%
Utilities	9.6%	8.1%	7.8%	5.1%	2.9%
Wholesaling	52.2%	21.8%	20.5%	-0.7%	1.7%
Fishery/Agriculture	19.2%	21.2%	32.4%	14.1%	1.4%
Chemicals	23.0%	15.4%	9.3%	3.2%	1.2%
Foods	26.4%	22.5%	18.6%	6.5%	1.0%
Glass/Ceramics	46.6%	32.6%	23.1%	1.2%	0.7%
Banks	82.1%	35.2%	23.1%	1.7%	0.7%
Other Finance	73.0%	44.9%	46.7%	4.6%	0.4%
Pharmaceutical	19.4%	18.3%	12.4%	2.5%	-1.3%
Construction	27.2%	7.0%	17.3%	-8.6%	-2.2%
Rubber	26.2%	32.8%	35.9%	19.2%	-2.2%
Oil/Coal	31.0%	32.1%	20.3%	7.7%	-2.2%
Precision Instru	19.7%	6.7%	4.3%	2.0%	-2.9%
Mining	25.1%	8.8%	6.1%	0.7%	-3.5%
Nonferrous Metals	34.0%	20.9%	10.4%	2.2%	-3.5%
Transport Equip.	24.7%	17.5%	11.4%	5.9%	-4.1%
Textiles/Apparel	32.5%	20.3%	14.2%	0.9%	-4.1%
Real Estate	82.6%	37.3%	35.7%	-3.6%	-4.6%
Airlines	29.4%	8.4%	17.9%	-8.4%	-7.3%
Services	24.3%	6.6%	3.9%	-8.8%	-7.8%
Insurance	64.3%	22.5%	13.0%	-6.8%	-7.8%
Electric Appliances	12.8%	0.6%	-0.9%	-9.3%	-7.8%
Metal Products	28.9%	15.2%	9.2%	-8.0%	-7.9%
Other Products	25.8%	10.1%	7.6%	-3.8%	-8.0%
Communication	-6.1%	-15.6%	-10.5%	-17.7%	-10.9%
Securities	12.5%	-8.1%	-11.2%	-21.7%	-11.1%
Trucking	2.4%	-1.0%	0.9%	-9.5%	-11.9%
Retail	26.6%	9.0%	10.3%	-12.1%	-13.2%
Pulp/Paper	7.3%	-5.2%	-11.2%	-15.1%	-16.5%

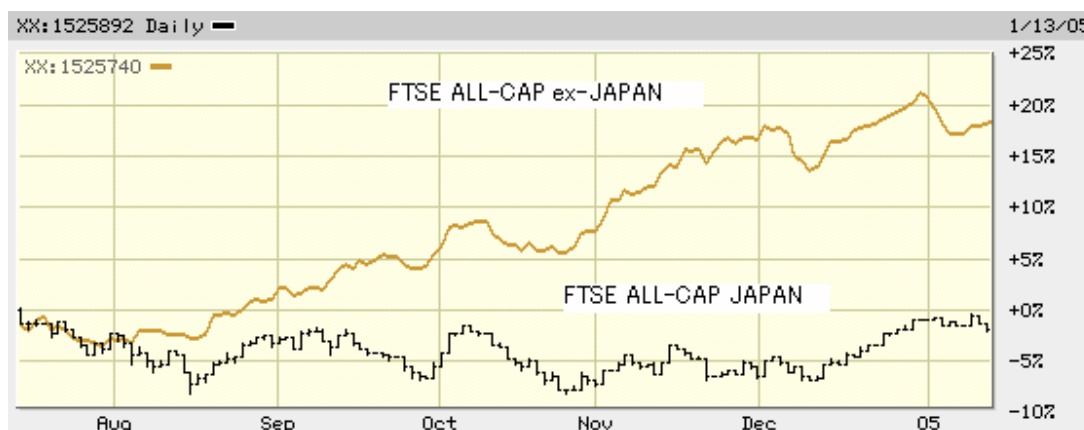
Source: Tokyo Stock Exchange

MARKET VALUATIONS

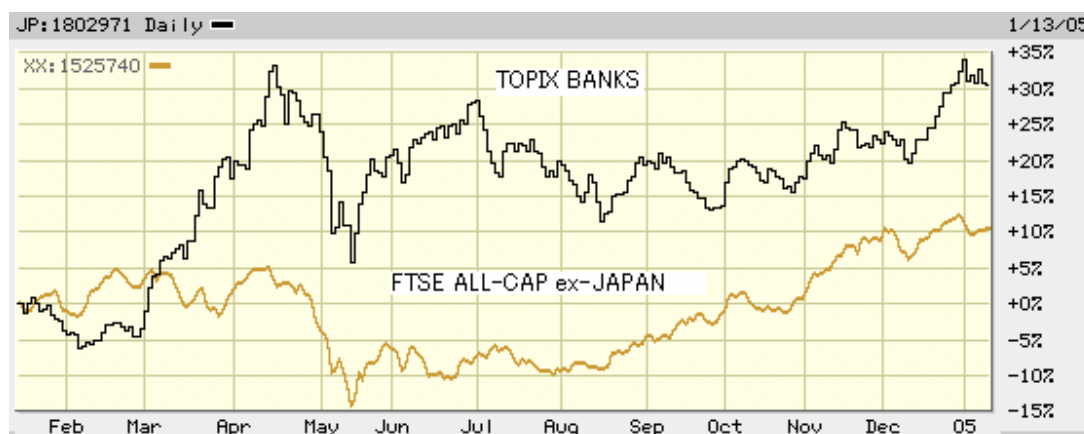
Index	01.14.05	YTD		Valuations	PER (A)	PER (E)	EPS (E)	% Chg.
	Close	High	Low					
NK225	11,358.22	12,163.90	10,365.40	NK225	29.01	18.69	607.72	55.2%
TSE 1 Simple	420.89	471.89	394.15	TSE 1 Simple	29.01	19.58	21.50	48.2%
TOPIX	1,140.04	1,217.87	1,022.61	TOPIX				
TSE2	3,129.93	3,144.13	2,168.85	TSE2	20.52	19.63	159.45	4.5%
JASDAQ	93.99	103.98	68.07	JASDAQ	61.25	29.42	3.19	108.2%

	PBR	Dvd Yld (A)	Dvd Yld (E)	DPS (E)	ROE	JPY Bln	Mkt Cap
NK225	1.71	0.94%	1.05%	119.3	9.15%	TSE 1	356,643
TSE 1 Simple	1.65	1.10%	1.19%	4.69	8.43%	TSE 2	8,134
TOPIX						JASDAQ	12,866
TSE2	1.27	1.53%	1.46%	31.7	6.47%		
JASDAQ	1.9	1.50%	1.45%	0.99	6.46%		

Source: Tokyo Stock Exchange



Source: Big Charts.com



Source: Big Charts.com

**** Japan continues to lag the global benchmark indices, but the financial sector continues to outperform.**



MARKET TECHNICALS

Benchmark Indices and 13-week, 26-week Moving Averages



Nikkei 225

Source: BigCharts.com



TSE 2

Source: BigCharts.com

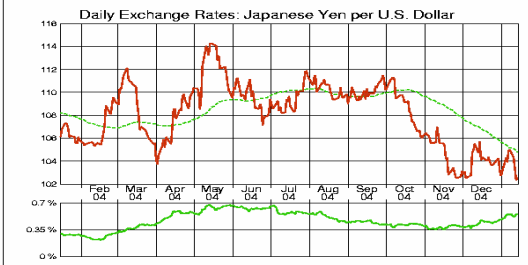


JASDAQ

Source: BigCharts.com

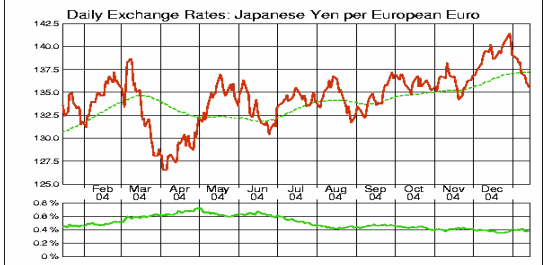
Nikkei support at 10,500 stronger than we believed. JASDAQ has seen support at 80 and now is poised to rally, while TSE 2 is pointing toward a future golden cross. Looks like Q1 2005 will be strong for the markets.

EXCHANGE RATES AND COMMODITIES



Yen-Dollar

Source: Pacific Exchange Rate Service



Yen-Euro

Source: Pacific Exchange Rate Service



CRB Futures

Source: TFC Commodity Charts



Gold

Source: TFC Commodity Charts



Light Crude Oil

Source: TFC Commodity Charts



High Grade Copper

Source: TFC Commodity Charts

Major commodity markets are starting to look somewhat toppy. If the dollar rallies short-term as **TJI** suspects, consolidation could linger in the commodity markets. The consensus working assumptions for 2005 are; 1) Oil prices decline and then stabilize. 2) The dollar declines gradually and improves U.S. competitiveness, 3) Fed rate hikes are gradual and aren't overdone. What if the dollar rallies? Commodities sell off and hedge funds may have to reverse the carry trade that has pushed the dollar lower for the past three years.



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