



January 31, 2005

Market Vane		Closing Values		
Indicator	Direction	Indicator	Week Close	Prev. Week
Market Technicals	Improving	Topix	1,140.70	1,132.18
Market Trading Volume	Neutral	NK225	11,320.58	11,238.37
Yen-Dollar	Strong	TSE 2	3,229.74	3,185.12
Interest Rates	Stable	JASDAQ	96.18	94.73
Best Sector Since June	Shipping	JGB Price	138.34	138.76
Worst Sector Since June	Pulp/Paper	Yen-Dollar	103.32	102.70
Economic Momentum	Peaking	MSCI EAFE	155.60	154.66

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

TJI Still Loves Materials, Hates Tech

Not Giving Up on Commodity Stocks...

News last week that China has replaced the US for the first time since the world wars as Japan's largest trading partner, and a surprisingly strong 4Q China GDP gave assurance to investors that China was not on course for a hard landing.

In addition, while world GDP growth will slacken somewhat, underlying demand for commodities remains strong enough to absorb additional supply and still produce a supply deficit.

The price movements of major commodity indicators also suggest that the secular bull market in commodities is far from over, even though commodity prices and the stock prices of commodity stocks in some cases have quadrupled over the past couple of years. Considering that commodities are emerging from a 20-year bear market, **TJI** believes that gloom and doom predictions of a commodity bust are far too premature.

Consequently, **TJI** continues to love basic materials and hate tech. The tech sector had its best rebound rally in 2003, after

confirming a secular bottom in the aftermath of the tech bubble in 2000. But it is premature to assume that this means a sustainable tech rally is imminent.

TJI expects not sustainable tech rally at least through 2005, which is the dark side of the silicon cycle. For the year-to-date, the IT and telecom sectors of the major global indices have been the biggest drag on stock prices. Given their weight of around 17% in global indices such as the S&P Global 1200, a weak tech sector is enough to hobble whole markets.

On the other hand, more than a few foreign and domestic investors are trying to make money in unloved and unwanted Japanese stocks with sleepy management. So far, their investment results have been more promising than the lasting impression they have had in changing the attitude toward shareholders and investor relations.

Such companies may never get the "joke" about the new age of competition for capital. If so, they will continue to be the speculative "toys" of Japan's stock market—with only the names and the faces of the new "speculators" changing.



China As Japan's Largest Trading Partner

The inevitable finally happened. China is now Japan's biggest trading partner in 2004, eclipsing the United States for the first time since the end of World War II. The data were released a day after China announced its economy grew 9.5% in 2004 – the fastest growth in eight years – while inflation slowed.

The fact that China replaced the U.S. as Japan's largest trading partner highlights how the Japanese economy is now leaning heavily on the economy of China, as China emerges as a major consumer nation. In 2004, Japan's trade surplus with China posted a 20% annualized increase to ¥1.45 trillion. On the other hand, Japan's trade surplus with the U.S. was mostly flat at slightly below 7 trillion yen. Meanwhile, the U.S. trade deficit with China totaled about US\$150 billion in 2004, accounting for a quarter of the U.S.'s entire trade deficit, with a portion of this including not only Japanese companies' products exported through China, but US company products as well.

China's Q4 Surprise...Strong Growth

Despite investor misgivings, Japan's exports to China remain solid. Just nine months after the Chinese economy seemed on the verge of an upward spiral of higher wages and prices, Beijing appears to have kept growth at a brisk pace while bringing inflation under control. Growth had declined to 9.1 percent in the third quarter, and had been expected to fall further in the fourth. Instead it re-accelerated to 9.5% growth. That is not exactly a major slowdown. The growth figures released were so strong that global investment banks are raising their forecast for China's growth in 2005 to 8.5%.

Last winter, ships had to wait up to a month to discharge iron ore and other bulk cargos at overcrowded Chinese ports, power failures were widespread because of inadequate generating capacity and food prices leaped as demand grew faster than farmers could increase production.

But according to the New York Times, shipping industry leaders, power company executives and manufacturers alike said over the last two weeks that the port delays, power disruptions and food price increases had diminished, though they had not disappeared. Companies have also learned to work around problems like blackouts. The Chinese government managed to expand the capacity of many ports 30% to 60% within months, a task that would take years in practically any other country.

Commodity Stocks Rebound

Commodity stocks such as **Rio Tinto Group** and **JFE Holdings** rose after the bullish China report. Surging demand from China helped drive a 23% increase in the price of zinc and a 37% percent jump in copper prices last year, not to mention US\$55/barrel for oil.

Chinese iron ore statistics, released following Beijing's revelation of sizzling December quarter gross domestic product growth of 9.5%, show another facet of the fast-changing balance between Asia's two most important economies. Despite a government clampdown on new steel-making, aluminium and cement production, China last year became the world's biggest iron ore market, owing to a 40% increase in imports to 209 million tons.



Despite all the concern about a slowing Chinese and world economy, expectations that oil prices would peak and decline, and of a general bursting of the commodity market "bubble" (*"From copper to coal, Chinese demand and the Federal Reserve's meddling have driven prices unsustainably high. This all will end badly"*, Forbes May 2004) the CRB futures index is nearing the completion of its second consolidation since April of 2004. The April correction was around 7% following a 26% rally from April 2003, while the latest correction has been much more shallow.



CRB Futures Index

According to the United Nations, global economic growth is expected to experience a growth rate of 3.25 percent in 2005 following an increase of 4 percent in 2004. That is not exactly a major slowdown either. The United States and China continue to be the principle engines for the global economy at present. GDP in the United States is estimated to have grown by at least 4% in 2004 and is expected to grow by 3% in 2005. Growth in China reached 9.2 percent in 2004, and is forecast to fall to 8.75 percent in 2005 as China has taken actions to bring the economic expansion to a more sustainable rate.

China's demand for raw materials has had a significant impact on metal prices. Its demand for ores and metals has increased

fifteen-fold since 1990, and as China continues to urbanize its population and modernize its economy, its demand for raw materials is likely to increase by orders of magnitude.

ICSG 2004-2005 Forecast

The International Copper Study Group in September 2004 forecast a 5.7% increase in demand for refined copper usage in 2004, and another 4.1% gain in 2005. Despite substantial increases in output in 2004, the deficit of refined production increased from 376,000 tons to 701,000 tons in 2004, and a deficit of 220,000 tons is expected to continue in 2005.



High Grade Copper Prices

Copper, the metal most widely associated with global industrial activity, has soared 111% since Q2 2003 almost without interruption, after lagging the rallies in other commodities markets. Copper prices give no evidence of a serious slowdown in demand for industrial metals, i.e., global economic activity is not as weak as some forecasters (or the US stock market) would have investors believe.

Global Crude Oil Production Still Short of Demand

Meanwhile, China's appetite for oil keeps increasing and the world economy continues to grow. OPEC has said that they hope to add another 3 million barrels



of daily capacity by the end of 2005, but there are doubts about that.

On January 11th, the EIA said that world supply would fall short of demand by 100,000 barrels per day in 2005. West Texas crude prices are expected to average \$43.30 in the first quarter of 2005, up from \$35.24 a year ago. As of January 21st, U.S. crude stocks were up 9% from a year ago.

The surge in prices has not led to a marked increase in spending on exploration, as happened in oil price run-ups in the past. Part of the reason is the time needed to develop new sites. The industry overall, especially in the United States, has a problem with access issues. In other words, they know where the oil is, but there are issues with accessing this oil.



Light Crude Futures

How Are Commodity Stocks Faring?

A typical metal commodity stock is **Freeport-McMoran Copper & Gold (FCX)**. FCX soared from \$10 to \$45/share from Q3'02 to Q4'03, but has been consolidating for essentially the past year, as trading volume continues to accumulate between \$45 and \$35 a share.

The "street" consensus is still generally bullish, but the stock saw a noticeable amount of downgrades from "buy" to "neutral" in Q4 '04, ostensibly on the

prognosis for slowing US and Chinese economies.

If anything, however, the stock is now better-positioned for a rally following the last year of consolidation, as is shown in the following chart.



Freeport-McMoran Copper & Gold

Sumitomo Metal Mining (code: 5713) quadrupled between 2000 and early 2004, when the Japanese market as a whole peaked, and has subsequently been trading in a narrow range between ¥800 and ¥600.



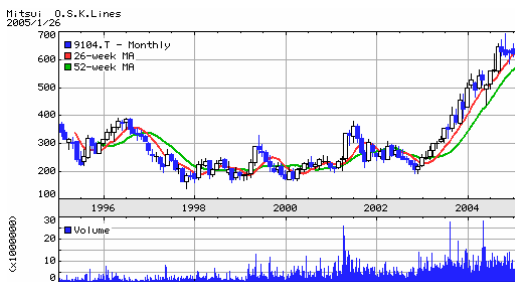
Sumitomo Metal Mining

The longer-term view however is that SMM hit a major secular bottom in 2000, still has a ways to go before hitting its 1996-1997 highs above ¥1,000, and remains in a solid secular uptrend. Recent trading volume also seems to be picking up again.



Other Basic Materials Stocks

Shipping remains Japan's best-performing sector since June of last year, even though the stocks have recently been consolidating. The consolidation compared to the three-fold appreciation from 2000 has been extremely mild.



Mitsui OSK

Steel stocks, the other knee-jerk China play, have consolidated twice during the massive rally that has pushed up Sumitomo Metal's stock price by nearly four-fold from January 2003 lows. Here again, the rally looks alive and well despite the consolidation, and the recent upside surprise on China's economy has renewed interest in the sector and in all China-related stocks.



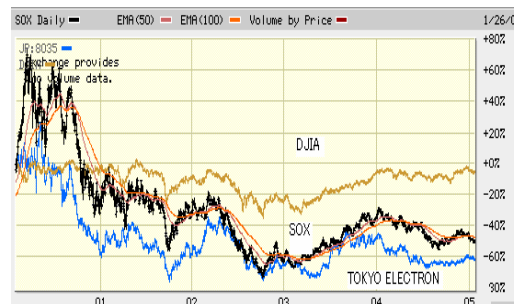
Sumitomo Metal

TJI Still Loves Basic Materials, Hates Tech

Thus any investor who has stuck with commodity stocks through 2004 despite all the gloom and doom about a

"commodity bubble" by pundits are now sitting on some very nice capital gains. What the pundits missed is that this is essentially the best rally in commodities in 20 years. Moreover, this secular rally will not go away that easily.

Contrast this with Tech. Any market analyst/strategist who has suggested that a tradeable rally in tech is at hand over the past two years has been dead wrong (TJI admits being guilty of such a transgression once last year).



Techs Have Been Dogs

In short, tech stocks have been dogs since the bursting of the IT bubble in 2000. While prices generally bottomed in 2002 (as evidenced by NASDAQ and other major indicators such as the Philly SOX semiconductor index). The "dead cat" rally in 2003 was largely reversed in 2004, and most tech indices and stocks look headed to confirm prior 2002 lows.

Downward Revisions in Tech Stock Earnings

The performance of Japanese tech stocks (especially SPE stocks) has been **even worse**, despite a digital consumer electronics boom which helped to support stock prices in 2004. Basically, the pendulum in equipment purchased in late 2003 and 2004 swung too far; as semiconductor manufacturers didn't need a 50+% increase in equipment purchases for only a 27% growth in semiconductor



sales. **TJI** sees the poor performance of tech continuing at least through 2005, despite the occasional relief rally.

On the 27th, **NEC** (code: 6701) downgraded their FY3/2005 forecast by ¥15 billion to a 26% YoY decline. This is the second earnings downgrade. One major reason is poor earnings at NEC Electronics. **Kyocera** (code: 6971) now expects consolidated operating profit for FY3/2005 to decline 13% to ¥95 billion, short of the initial projection by 40 billion yen. The downgrade was attributed to sluggish demand for electronic parts and poor performance of equipment-related operations, which include cellular phones and digital cameras, because of a sharp drop in prices. **Canon Sales** (code: 8060) is now expecting operating profits to decline 15% because of weak semiconductor equipment. **Arisawa Seisaku** (code: 5208) also downgraded their FY3/2005 earnings by ¥7.8 billion because of weak demand for mobile phone and digital electronic equipment related sales of flexible printed circuit boards. These announcements came as Sony (code: 6758) was reporting a 13% decline in operating profit for the October-December quarter of 2004—especially on weak electronic equipment sales. **Hitachi Software Engineering** (code: 9694) now expects it will have a group net loss of ¥7.3 billion yen in FY3/2005, rather than its previous projection of ¥3.6 billion profit. **Elpida Memory** (code: 6665) said consolidated net profit for FY3/2005 is now projected at ¥12-16 billion, short of its initial forecast by almost ¥10 billion. The major chipmaker attributed the downgrade to weaker-than-expected DRAM shipments because of inventory adjustments at digital home electronics makers and falling prices. Finally, **Fujitsu** (code: 6702) downgraded their FY3/05 operating earnings by ¥30 billion due to weaker-than-expected software services

and larger-than-expected price declines in plasma display panels. The problem is not only Japan-centric. The world's largest contract manufacturer of microchips, TSMC of Taiwan, has posted its first quarter-on-quarter drop in profits in almost two years as a supply glut hit orders. According to Chairman Morris Chang, "We expect most of [the inventory] reduction to be done in the first quarter of 2005."

But as the silicon cycle will continue downward in 2005, it is unlikely a major tech earnings recovery will occur in 2005. Moreover, Japan no longer dominates the world's consumer electronics markets. Contrast the earnings downgrades in Japan with **Samsung Electronics** of South Korea. The Company reached a milestone this past business year by netting profits in excess of 10 trillion won (\$9.6 billion). The actual reported figure was close to 10.8 trillion won, and an 81% increase over the 2003 business year. There were only nine companies in the entire world that posted net profits of more than \$10 billion in 2003, and Toyota Motor Corp. was the only manufacturer in that group.

Instead, Make Money in the Unloved and Unwanted

Depending on your point of view, US-based **Steel Partners** is either; a) a vulture fund, b) a new force for corporate governance in Japan, and/or, c) the 21st century version of Commodore Perry's black ships.

Steel Partners finds unloved and unwanted Japanese companies with sleepy management that nevertheless have solid cash-producing businesses. They like their domestic peer M&A Consulting, take significant stakes in such companies and go face-to-face with



management to get them to change their ways.

both to have analyst or investor information meetings, and only complied with the barest minimum of disclosure.

The jury is still out on whether having Steel Partners as a major shareholder makes a lasting difference on how sleepy Japanese management.

Code	Co. Name	01.27.05 Close (Y)	Yen Bln Mkt Cap	Dvd Yld	PER	PBR	ROA
2501	Sapporo HD	¥474	168.8	1.05%	68.2	1.85	0.4%
1928	House Foods	¥1,205	854.8	1.49%	22.6	1.23	3.1%
5943	Noritz	¥1,748	88.8	0.97%	28.5	1.02	2.0%
3591	Wacoal	¥1,153	166.1	1.30%	58.1	0.96	1.3%
8068	Ryoyo Electro	¥1,565	50.2	1.92%	26.1	0.68	2.1%
5463	Maruichi Kokan	¥2,045	201.0	1.22%	30.4	1.06	3.1%
2900	Meisei Food	¥748	31.9	2.01%	61.0	1.18	1.1%
8170	Aderance	¥2,395	99.9	1.34%	20.0	1.31	5.4%
6960	Fukuda Elec	¥3,650	71.4	1.10%	20.3	1.00	3.6%
4526	Riken Vitamin	¥2,680	63.4	1.12%	22.6	1.23	3.8%
5013	Yushiro	¥1,807	27.5	11.07%	21.6	1.47	4.8%
8153	Moss Foods	¥1,551	49.6	1.42%	45.1	1.38	1.9%
6706	Denki Kogyo	¥593	41.6	1.26%	38.0	1.28	2.3%
4619	Nippon Tokushu Toryo	¥772	18.0	1.30%	18.4	1.16	2.9%
3580	Komatsu Seiren	¥585	25.2	1.20%	52.1	0.95	1.2%
4544	Fuji Rebio	¥1,519	68.0	0.86%	13.0	1.46	8.3%
1935	Tohoku Construction	¥955	20.3	2.09%	41.8	1.25	2.2%
9319	Chuo Warehouse	¥1,200	24.6	2.08%	20.0	0.82	3.6%
4514	Teikoku Hormone	¥1,085	26.0	1.11%	93.8	0.77	0.6%
6357	Sensei Transport	¥1,120	21.7	1.79%	26.3	1.03	3.2%
6496	Chuhoku Paper	¥834	16.0	1.68%	29.2	1.20	3.1%
6824	New Cosmos	¥1,600	20.1	0.94%	19.6	1.28	5.5%
4462	Ishihara Pharmaceuticals	¥2,250	16.8	1.00%	23.4	1.56	4.7%
2804	Bulldog Sauce	¥1,296	24.6	1.54%	38.9	1.42	3.1%
7979	Matsufu	¥1,101	18.5				2.9%
3571	Sotoh	¥1,894	28.7	10.56%	37.3	1.23	2.4%
5945	Tenryu	¥3,000	16.7	3.30%	36.4	0.96	2.5%

Steel made a splash with big positions in **Sotoh** (code: 3571) and with **Yushiro** (code: 5013), to which the management of these companies reacted by dramatically hiking their dividend payouts. Sotoh now has a dividend yield of 10.6%, while Yushiro has a dividend yield of 11.1%—unheard of dividend yields in the land of zero interest rates.

More than a few foreign and domestic investors are trying to make money in unloved and unwanted Japanese stocks with sleepy management, by buying significant stakes in these companies and then trying to influence management to run their businesses. So far, their investment results have been more promising than the lasting impression they have had in changing the attitude toward shareholders and investor relations. Such companies may never get the “joke” about the new age of competition for capital. If so, they will continue to be the speculative “toys” of Japan’s stock market—with only the names and the faces of the new “speculators” changing.

But has Steel’s investments in other companies many a significant difference in how these companies view their relations with investors? It doesn’t appear so. Of the 30 or so Japanese companies that Steel has invested in, only four are now studying establishing a specialist IR department, or increasing their IR staffing. Some of these companies did not even



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	\$51.32	-1.5%	16.89	2.34	15.95%	0.94%	4,883.9
Kubota	KUB		\$25.87	\$26.97	4.3%	63.53	1.72	3.31%	1.08%	690.5
Matsushita	MC		\$13.85	\$14.95	7.9%	84.79	0.98	1.27%	0.91%	3,959.2
Toyota	TM		\$79.01	\$77.61	-1.8%	11.72	1.54	9.95%	1.12%	15,089.8
MEDIAN					1.4%	40.21	1.63	6.63%	1.01%	4,421.6
Tokyo Shares	Code									
Ryohin Keikaku	7453		¥3,760	¥5,240	39.4%	31.10	3.38	12.14%	0.90%	141.2
Up-Inc.	9630		¥586	¥660	12.6%	9.52	0.70	7.53%	2.27%	5.3
Sumitomo Metal	5405		¥128	¥149	16.4%	23.21	1.73	8.74%	1.49%	668.0
Sumitomo Mining	5713		¥786	¥711	-9.5%	20.45	1.53	8.35%	0.84%	404.3
Mitsui OSK	9104		¥644	¥649	0.8%	14.07	3.04	28.68%	1.69%	748.6
Daikokuten Bussan	2791		¥3,550	¥3,830	7.9%	30.07	4.90	30.20%	0.26%	28.1
Karula	2789		¥2,900	¥3,700	27.6%	na	na	20.12%	na	9.3
Kibun Food	4065		¥1,315	¥2,545	93.5%	40.59	6.41	18.79%	0.47%	64.8
Mitsui Trust Holdings	8309		¥510	¥1,062	108.2%	19.12	13.70	14.2%	0.24%	830.8
Nippon Shimpan	8583		¥340	¥440	29.4%	na	na	na	na	131.6
Nippon Oil	5001		¥689	¥700	1.6%	-7.89	1.21	0.00%	1.00%	987.50
Nippon Building Fund*(000)	8951		¥805	¥869	8.0%	26.50	1.48	2.8%		
Keiyo Bank	8544		¥354	¥484	36.7%	24.22	1.04	4.68%	1.03%	123.60
Denso	6902		¥2,730	¥2,675	-2.0%	20.57	1.39	7.57%	0.90%	2,400.5
MEDIAN					14.5%	21.83	3.21	14.21%	0.87%	136.42

TJI OIL SHOCK PORTFOLIO

Tokyo Shares	Code	Price		Pct. Change	PER	PBR	ROE	YIELD	Market Cap Y Bln
		Add	Now						
Nippon Oil	5001	¥689	¥700	-4.4%	-7.89	1.21	0.00%	1.00%	1060.20
Showa Shell	5002	¥1,013	¥950	-6.2%	16.97	1.47	9.20%	2.63%	358.0
Toyota	7203	¥4,160	¥4,020	-3.4%	11.72	1.54	9.95%	1.12%	14,512.2
Sumitomo Mining	5713	¥786	¥711	-9.5%	20.45	1.53	8.35%	0.84%	406.6
Honda	7267	¥5,190	¥5,320	2.5%	11.05	1.60	7.57%	0.78%	5,054.0
Denso	6902	¥2,435	¥2,675	9.9%	20.57	1.39	7.57%	0.90%	2,364.9
Japan Vilene	3514	¥468	¥675	44.2%	21.65	1.52	7.53%	0.89%	44.0
Aisin Seiki	7259	¥2,390	¥2,340	-2.1%	18.56	1.27	7.43%	0.77%	689.5
Sharp	6753	¥1,554	¥1,592	2.4%	28.75	1.78	6.58%	1.13%	1,768.2
MEDIAN				-2.1%	20.61	1.48	7.53%	1.12%	1,025.3

Sources: Tokyo Stock Exchange, Yahoo Japan Finance

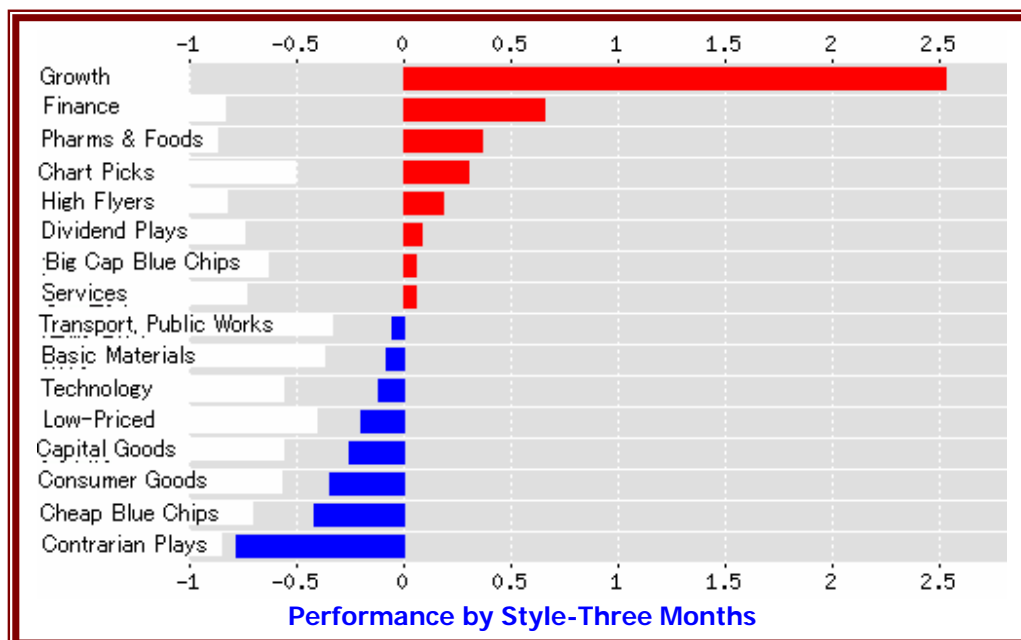
Note: Japan Investor uses an automatic trailing 15% stop-loss rule from the point a stock is included in the TJI Portfolio. Stocks that fall 15% are dropped from the portfolio, regardless of the reason for the drop (stock splits and other corporate actions excepted)

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
1925	Daiwa House Ind.	TSE 1	¥1,212	18.5	1.4	1.24	7.30	667
2579	Coca Cola West	TSE 1	¥2,475	20.5	1.2	1.62	6.04	205
1721	COMSYS	TSE 1	¥963	20.1	1.2	1.25	5.77	141
2264	Morinaga Milk	TSE 1	¥443	14.4	1.3	1.35	8.68	113
2284	Itoham Foods	TSE 1	¥537	16.1	0.9	1.49	5.69	113
1924	PanaHome	TSE 1	¥570	19.6	0.8	2.63	4.06	96
1332	Nippon Suisan	TSE 1	¥342	19.0	1.2	1.46	6.13	95
1881	NIPPO Corp.	TSE 1	¥723	19.2	0.6	1.66	3.16	86
2201	Morinaga & Co.	TSE 1	¥264	17.4	1.3	1.89	7.64	72
2576	Kinki Cola	TSE 1	¥995	17.8	0.9	2.11	4.80	62
1961	Sanki Engineering	TSE 1	¥783	20.2	0.7	1.92	3.47	61
1979	Taikisha Ltd.	TSE 1	¥1,600	17.9	1.0	1.25	5.68	61
1983	TOSHIBA PLANT	TSE 1	¥525	12.8	0.9	2.29	7.21	51
1959	Kyudenko Corp.	TSE 1	¥554	20.0	0.5	1.99	2.72	46
1946	Toenec Corp.	TSE 1	¥470	12.3	0.8	2.34	6.29	45
1868	Mitsui Home	TSE 1	¥570	17.2	1.1	2.46	6.27	38
1515	Nittetsu Mining	TSE 1	¥443	18.5	0.6	1.35	3.38	37
1943	Daimei Telecom	TSE 1	¥890	16.6	1.2	1.35	7.38	37
1950	Nippon Densetsu	TSE 1	¥557	14.6	0.6	1.8	4.14	36
2290	Yonekyu Corp.	TSE 1	¥1,217	17.1	1.2	1.48	6.72	35
2578	SHIKOKU Cola	TSE 1	¥1,377	16.1	0.8	1.45	4.89	33

Source: *KabuMap.com*





TOPIX SECTOR PERFORMANCE

INDEX PERFORMANCE RANKING					
TOPIX	25.3%	11.1%	8.5%	2.3%	-4.8%
Topix Core 30	15.4%	3.2%	1.3%	0.6%	-5.6%
Topix Mid 400	31.1%	14.6%	11.3%	3.4%	-4.4%
TSE 2	73.0%	50.8%	49.0%	4.8%	-4.3%
JASDAQ	89.1%	43.4%	40.3%	7.1%	-7.1%
SECTORS	Fm Jun	Fm Sept	CYTD	Fm Mar	Fm June
Shipping	58.6%	51.7%	18.7%	12.4%	10.1%
Iron/Steel	61.8%	30.8%	17.0%	4.5%	4.8%
Machinery	39.0%	22.9%	20.9%	0.4%	3.3%
Warehsing/Harbor	8.9%	7.4%	7.1%	4.3%	2.2%
Utilities	37.3%	19.8%	16.6%	4.6%	2.2%
Wholesaling	52.4%	22.0%	20.7%	-0.5%	1.8%
Fishery/Agriculture	27.1%	23.2%	19.3%	7.2%	1.6%
Chemicals	22.3%	14.7%	8.6%	2.6%	0.6%
Foods	18.1%	20.0%	31.1%	13.0%	0.4%
Glass/Ceramics	80.8%	34.2%	22.1%	0.9%	-0.1%
Banks	72.1%	44.1%	45.9%	4.0%	-0.2%
Other Finance	45.2%	31.3%	22.0%	0.2%	-0.2%
Pharmaceutical	32.4%	33.6%	21.6%	8.8%	-1.2%
Construction	27.1%	33.9%	36.9%	20.2%	-1.4%
Rubber	27.4%	10.9%	8.1%	2.6%	-1.6%
Oil/Coal	27.6%	7.4%	17.7%	-8.3%	-1.8%
Precision Instru	18.5%	17.4%	11.6%	1.8%	-2.0%
Mining	35.3%	22.1%	11.4%	3.1%	-2.6%
Nonferrous Metals	85.5%	39.5%	37.9%	-2.0%	-3.1%
Transport Equip.	19.0%	6.1%	3.7%	1.4%	-3.5%
Textiles/Apparel	32.1%	19.9%	13.9%	0.6%	-4.4%
Real Estate	23.4%	16.4%	10.3%	4.8%	-5.0%
Airlines	32.3%	10.9%	20.5%	-6.3%	-5.2%
Services	24.6%	6.8%	4.1%	-8.7%	-7.6%
Insurance	28.8%	15.1%	9.2%	-8.1%	-8.0%
Electric Appliances	24.0%	8.6%	6.1%	-5.2%	-9.3%
Metal Products	11.0%	-1.0%	-2.5%	-10.8%	-9.3%
Other Products	61.6%	20.5%	11.1%	-8.3%	-9.4%
Communication	-6.1%	-15.5%	-10.5%	-17.6%	-10.9%
Securities	2.2%	-1.2%	0.7%	-9.6%	-12.1%
Trucking	10.5%	-9.7%	-12.7%	-23.1%	-12.6%
Retail	26.5%	9.0%	10.3%	-12.2%	-13.2%
Pulp/Paper	6.4%	-6.0%	-11.9%	-15.8%	-17.2%

Source: Tokyo Stock Exchange

MARKET VALUATIONS

	01.28.05	YTD		Valuation	PER (A)	PER (E)	EPS (E)	% Chg.
Index	Close	High	Low	s				
NK225	11,341.31	12,163.90	10,365.40	NK225	28.87	18.53	612.05	55.8%
TSE 1				TSE 1				
Simple	426.85	471.89	394.15	Simple	29.06	19.61	21.77	48.2%
TOPIX	1,141.94	1,217.87	1,022.61	TOPIX				
TSE2	3,236.80	3,144.13	2,168.85	TSE2	21.38	20.33	159.21	5.2%
JASDAQ	96.09	103.98	68.07	JASDAQ	62.04	30.18	3.18	105.6%
	PBR	Dvd Yld (A)	Dvd Yld (E)	DPS (E)	ROE	JPY Bln	Mkt Cap	
NK225	1.70	0.93%	1.04%	117.9	9.17%	TSE 1	357,150	
TSE 1								
Simple	1.64	1.09%	1.18%	4.65	8.36%	TSE 2	8,368	
TOPIX						JASDAQ	13,102	
TSE2	1.29	1.40%	1.42%	30.8	6.35%			
JASDAQ	1.91	1.50%	1.45%	0.99	6.33%			

Source: Tokyo Stock Exchange

Sector	Mkt Cap	% Total	MTD	QTD	YTD
Energy	1,695,868	8.5%	1.48%	1.48%	1.48%
Materials	1,083,057	5.4%	-2.32%	-2.32%	-2.32%
Industrials	2,037,227	10.2%	-2.50%	-2.50%	-2.50%
Consumer Discretionary	2,280,252	11.4%	-3.66%	-3.66%	-3.66%
Consumer Staples	1,910,866	9.5%	-0.66%	-0.66%	-0.66%
Health Care	2,027,661	10.1%	-2.92%	-2.92%	-2.92%
Financials	4,848,857	24.2%	-2.85%	-2.85%	-2.85%
Information Technology	2,299,806	11.5%	-6.02%	-6.02%	-6.02%
Telecommunications Services	1,069,408	5.3%	-4.59%	-4.59%	-4.59%
Utilities	770,007	3.8%	-0.99%	-0.99%	-0.99%
SP Global 1200	20,023,010	100.0%	-2.73%	-2.73%	-2.73%

Source: Standard & Poor's

Sector	Mkt Cap	% Total	MTD	QTD	YTD
Energy	1,729,125	0.8%	5.18%	5.18%	5.18%
Materials	16,209,573	7.7%	1.12%	1.12%	1.12%
Industrials	35,771,832	17.0%	1.82%	1.82%	1.82%
Consumer Discretionary	45,979,587	21.9%	-1.22%	-1.22%	-1.22%
Consumer Staples	12,750,660	6.1%	-0.27%	-0.27%	-0.27%
Health Care	11,670,209	5.6%	-3.39%	-3.39%	-3.39%
Financials	35,638,169	17.0%	-1.87%	-1.87%	-1.87%
Information Technology	31,367,461	14.9%	-2.99%	-2.99%	-2.99%
Telecommunications Services	8,907,281	4.2%	-5.44%	-5.44%	-5.44%
Utilities	9,895,660	4.7%	-0.48%	-0.48%	-0.48%
SP Japan 500	209,919,557	100.0%	-1.09%	-1.09%	-1.09%

Source: Standard & Poor's

**** The IT and Telecom sectors have been the biggest drag on global indices, while energy has been the only gainer YTD globally, and the materials/industrials sectors have managed to hold their own in Japan. As IT and Telecom are a full 17% of both indices, these sectors have been a major drag year-to-date.**

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



Nikkei 225

Source: BigCharts.com



TSE 2

Source: BigCharts.com

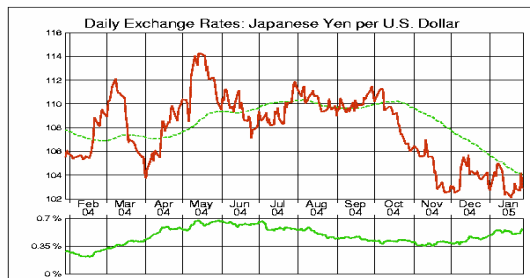


JASDAQ

Source: BigCharts.com

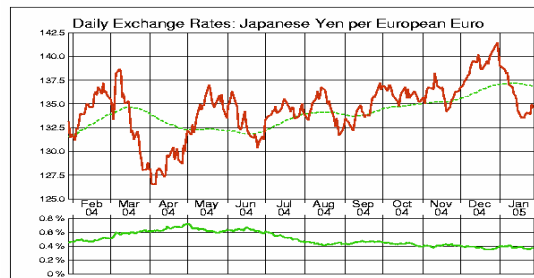
Nikkei should trade between 12,000~10,500 for the time being, while the JASDAQ should trade between 100~80.

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

The yen continues to test ¥102/US\$ hard, but has so far held twice. Yen resistance vs Euro is 132.5. The toppiness in commodities is not expected to last, especially given assurance that China's economy is not on course for a hard landing.



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