



October 31, 2005

Market Vane		Closing Values		
Indicator	Direction	Indicator	Week Close	Prev. Week
Market Technicals	MA Support	Topix	1,419.84	1,385.37
Market Trading Volume	At Historical Highs	NK225	13,346.54	13,199.95
Yen-Dollar	Weakening	TSE 2	4,244.33	4,175.40
Interest Rates	Rising	JASDAQ	104.59	103.86
Best Sector YTD	Iron/Steel	JGB Price	137.50	137.22
Worst Sector YTD	Pulp/Paper	Yen-Dollar	115.65	115.89
Economic Momentum	Stable	MSCI EAFE	56.15	55.00

Sources: Tokyo Stock Exchange, Nikkei Financial, TheFinancials.com

Japan's Internet Entrepreneurs—Where's the Value ?

"High Flyers" Need to Substantiate Growth Expectations

In 2003, inflation was bottoming in the U.S. and G7 nations just as economists and the central banks became worried about a Japan-style deflation. The over-reaction by the Fed to perceived deflationary pressures sowed the seeds of the current commodities boom. Now the Fed is apparently willing to tolerate a recession to avoid the kind of inflation seen in the 1970s, ostensibly because of soaring energy prices.

But high oil prices in the 1970s didn't cause the 1970s inflation, only simply made it slightly worse. The real cause of high inflation in the 1970s was cock-eyed monetary policy which caused a stubborn wage-price spiral, supported by the equally cock-eyed economic theories that a stable trade-off could be achieved between inflation and unemployment.

In effect, misguided Keynesian and monetary policies have destabilized economies and caused more booms and busts post 1920s depression than so-called laissez faire capitalism.

Japan's BOJ will be the last to move from deflation countermeasures to fighting inflation, even though they are also near a turning point. This lag by the BOJ is fostering a cheaper yen as prices rise faster in the U.S. and Europe, and real interest rate differentials expand.

Still loose monetary policy and a recovering economy are behind the new money games being played by home-bred corporate reformers (M&A Consulting) and Google/Amazon wanna-bees (*Rakuten* and *Livedoor*). Rather than achieving rapid growth through unique internet-based revenue models, the cyber mongul wanna-bees in Japan have essentially become conglomerates after a wave of takeovers. Indeed, most of their real cash is being generated by online brokerage services.

The most telling evidence of how much shareholder value-added is being created by their antics is the falling stock prices of these companies, which have been declining as confidence in Japan's economy recovers and trading on the Tokyo bourse soars—mainly driven by old "bricks and mortar" companies once believed to be on the brink of extinction.



Revisiting Inflation and Commodity Prices

U.S. consumer prices, after bottoming at 1% in 1999 and again in 2002 (and tracked closely by the consumer prices in the G7 economies) have now surged close to 5% per annum, the highest since 1990, when the CPI surged above 6%. With globalized, integrated economies, the real driver of inflation is more the global balance between supply and demand than domestic shifts in unemployment and capacity utilization.

That said, oil, copper and other CRB index futures indicate that demand (even factoring in speculation) basically remains above or near the global capacity to supply these products. The emergence of global giants has increased the supply of finished goods, while at the same time has increased demand for raw materials such as oil.

What Commodity Prices are Saying About Inflation

The Fed under the last months of Alan Greenspan's tenure have made it very clear they are now fighting inflation, and are determined to raise interest rates to get ahead of the inflation curve.

Prices of certain commodities, for example copper and aluminum, tend to follow the business cycle. But this is less the case for other commodities, such as crude oil, where the price is also dependent on other factors such as climatic conditions, global conflicts, and OPEC decisions.

The conclusion of a study by the Fed itself (Furlong and Ingenito, FRB San Francisco) concludes that the simple two-way relationship between CPI inflation and the commodity price indexes has changed

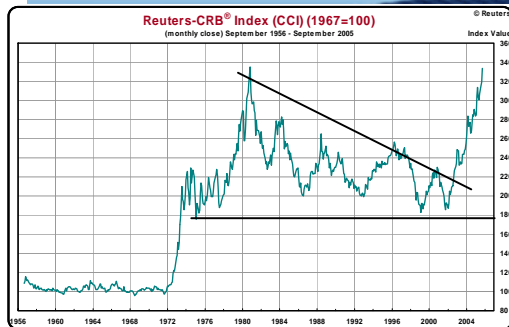
significantly over time. This again leads general credence to the conjecture that the nature of inflation has changed because of globalization. Irregardless of what the academic studies say about the real links, however, the Fed is increasingly wary of inflation and the combination of rising price pressures instigated by soaring commodity prices. This is simply because the U.S. CPI is now higher than at any time since 1990, for whatever reasons.

As for commodity prices as a whole, the economist's metal index is at its highest level in 17 years on strong demand from the BRICs versus finite supply capacities for basic commodities, with the price movement being exacerbated by purchases from investment funds.

Consequently, there is the potential for a false "inflation scare" which drives up bond yields and could cause an over-reaction by the Fed. Needless to mention, this would be the straw that broke the camel's back for the U.S. market, which remains heavy on the upside and is already very much sensitized to continuous Fed FF rate hikes.

Excessively Loose Monetary Policy (Excess Liquidity) Let the Dogs of Inflation Loose

In May 21, 2003, Stephen Roach of Morgan Stanley defied Milton Friedman's maxim that inflation/deflation was "first and foremost a monetary problem" in publishing a report titled "***This Deflation is Not a Monetary Phenomenon***". Strangely enough, the CRB Index was just in the process of confirming the secular bottom of a 20 year-plus bear market in commodities. In addition, consumer prices had already bottomed in 2002 and were headed higher.



In other words, inflation was bottoming in the U.S. and G7 nations just as economists and the central banks became worried about a Japan-style deflation after the bursting of the IT bubble in early 2000. As a result, FF rates in the U.S. were aggressively pushed downward from 6.51% in November 2000 to a mere 0.98% in December 2003.

In short, in the post IT-bubble world, monetary discipline broke down. To quote Stephen Roach; "central banks dusted off the script of the 1930s, eased aggressively, and injected more and more liquidity into dis-inflationary economies..." As a result, real interest rates dipped back into negative territory, and the developed world stumbled from one asset bubble to the next -- from equities, to bonds, to property. As globalization and technological innovation continued to pressure prices for goods and services, the surplus liquidity flowed into the asset economy."

In other words, the over-reaction by the Fed and other central bankers to perceived deflationary pressures sowed the seeds of the current commodities boom. The Fed was also instrumental in the immense bubble in the US stock markets between 1995 and 2000 when they flooded markets with liquidity to avoid a so-called "Y2K Computer Glitch" boondoggle. The Clinton/Greenspan boom of the late 1990s did not have any

extreme effect upon producer/consumer prices because the new paper money produced by the credit creation was invested in other paper (mainly stocks).

But commodities are not paper assets. They are the upstream of a long chain, the final downstream stage of which is consumer prices. Ostensibly, sharply rising commodity prices produce inflation. But the conclusion of many studies is that oil prices actually didn't cause runaway inflation in the 1970s. It actually was what the Fed was doing before oil prices began to soar, i.e., following easy money and credit policies that cause the economy to repeatedly overheat, creating stubborn wage-price spirals and a pervasive inflationary psychology.

Will Overzealous Central Bankers Now Strangle the Goose that is Laying the Golden Eggs?

Despite all of the hype about inflation now, U.S. equities have been trading essentially sideways all year, as seen by cumulative trading volumes (red bars in the graph below) and flat-lined trading levels.



Source: BigCharts.com

The DJI has been holding pretty firm on the downside between 10,200 and 10,000, but has recently broken down below its 50-day and 100-day MA. The general picture is that the U.S. market is slowly



but surely turning over as the Fed continues to gradually tighten the noose.

Mr. Bernanke (who is virtually a shoe-in as the next Fed governor) will need to tread carefully in establishing a dialog with the financial markets regarding the new "style" of a post-Greenspan federal reserve. He has promised "continuity" and a more open (understandable?) dialogue with the markets. But he has made no secret in the past that he is a proponent of inflation targeting, a methodology that is already being used by many OECD nations.

Misguided Keynesian and Monetary Policy, Not Uncontrolled "Capitalism" Is at the Root of the Problem

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In terms of how the Fed's shifting of gears yet again is now playing out in terms of equity market sectors, the S&P 500 would have been down much more were it not for soaring energy-related and basic material stocks. The recent three-month performance the Dow sector indices has been led by mining, precious metals, mining, gold mining, coal and non-ferrous metals, i.e., metals and mining. However, this move has recently topped out.

Hidden in the three-month performance numbers however is an out-performing Internet sector, aided by a surprisingly good earnings report. The other sectors rebounding as the U.S. market waffles are those sectors supposedly hurt by high energy costs, i.e., the airlines, trucking, transportation services and industrial supplies—this suggests they may be room for a "positive" surprise on oil prices, i.e., a more significant correction.

Japan Will be the Last to Tighten Monetary Policy

While Japan's BOJ is believed to be near ending its quantitative easing policy and ZIRP (zero interest rate policy), they are likely to do so with typical caution, especially as the Koizumi government will resist any move to "normalize" Japanese monetary policy that they believe is premature.

Ironically, this noticeable lag between the Fed's shift to inflation fighting and the BOJ's declaration that deflation in Japan had been beaten (i.e., the ending of the ZIRP) is causing the yen to weaken against both the U.S. dollar and the Euro, as the gap in real interest rates in the U.S. and Europe versus Japan continues to widen.



So where does all of this macro-economic musing lead us in terms of equity investing? What we have is;

- a) Growing concern about inflation caused by an across-the-board rise in commodity prices that is much broader than just crude oil prices,
- b) Increasing tightening by the Fed to ensure that real U.S. interest rates remain positive,
- c) A recovering U.S. dollar supported by Fed tightening,
- d) The prospect that Japan's BOJ will at some point in the near future move to normalize Japanese monetary policy, and
- e) The need for Japan at some point in the foreseeable future to begin to address fiscal deficits (i.e., fiscal tightening).

The implications are;

1. Slower but still relatively high U.S. economic growth vis-à-vis other OECD nations (although some worry that U.S. GDP growth could slow to 2% in 2006).
2. Continued relative strength in the dollar vis-à-vis the Euro and the Yen until the Fed completes the current tightening cycle.
3. A decreased risk appetite by institutional investors on the one hand, but,
4. Continued high growth in the BRICs nations, and therefore of demand for commodities, and
5. Continued structural recovery in Japan's economy, property and stock markets.

Investors must always keep in mind that the one thing that Wall Street truly fears is the Fed, thus the "three steps and a stumble" rule. History shows that periods

of Fed rate increases on average result in an S&P 500 index decline of 5% in the six months after the initial rate increase, and of 6% in the 12 months after the first rate increase. ***In other words, the U.S. stock market does not tend to anticipate the degree and extent of rate changes very well.***

The Case for Japan Remains in Place

As **TJI** expects Japan to be the last to tighten monetary policy, and will do so cautiously as it has yet to convincingly defeat deflation, rising interest rates that crimp corporate profitability are not expected to be a problem for the foreseeable future because Japanese rates remain ridiculously low.

Secondly, corporate break-even ratios have been significantly lowered, to the point that noticeable profit growth can be wrung from even modest top-line growth. Consequently, any acceleration in sales growth leads immediately to higher earnings growth.

Thirdly, recovering global competitiveness will give Japanese companies more leverage to global demand growth, and thus boost top-line growth as domestic demand recovers.

Fourthly, Japanese companies are now much more sensitized to shareholder returns, and are boosting dividend payouts, thus enhancing total returns to shareholders. Management is being kept "honest" by a generation of young, entrepreneurial lions on the hunt for business expansion opportunities and/or simply to make a quick buck.

In Play: Japan's Media Industry

This "keep them honest" factor is recently most noticeable in Japan's media sector.



Telecommunications, telephone, radio, TV and movies are in the process of radical change as technology moves towards digitization and multimedia. Heretofore, the business models included;

1. Telecommunication services evolving from regulated local and international monopolies to alternative providers like electric power companies and now to the Internet.
2. Radio and TV broadcasting evolving from regulated terrestrial broadcasting to cable and satellite, and now to the Internet.
3. Movie distribution has evolved from the box office and TV to the VCR and DVD rental, and now to the Internet.

With the Internet, radio and TV programming is going digital, which removes the artificial barriers of both telecommunications and media. With the diffusion of broadband, live content can now be streamed over the Internet. The next movement will be neither channels nor flow, but programs and services *on demand*, combined with Internet-based telephone services. Users will transform themselves from passive consumers to active creators able to choose the content and presentation to their liking. Radio broadcasts can now be distributed via AM, FM, DAB (Digital Audio Broadcasting), DRM, and the Internet. TV broadcasts can now be distributed via analogue terrestrial, satellite and cable, digital satellite (DVB-S), digital terrestrial (DVB-T), digital cable (DVBC), digital MMDS (DVB-MC & DVB-MS), as well as the Internet and its successors (UMTS, broadband radio services like WLAN, etc.).

The consumer benefits of this shift from analog to digital have been widely advertised: free long-distance phone calls, video phone calls, movies on demand, TV,

radio and movie programming and even the Library of Congress accessible by home computer, bill-paying and plane-booking, etc., etc.

Overseas, the media business has been converging and consolidating steadily for more than a decade. The hard news is that there is at least one failure for every one corporate "media convergence" experiment. Just ask Matsushita (who failed in its takeover of MCA), and AOL (whose takeover of Time Warner was one of the biggest disasters in corporate history).

In the U.S., the 1996 deregulation of radio virtually ended local ownership in that medium. *Clear Channel* (NYSE code: CCU) now operates 1,240 radio stations nationwide.

The U.S. Federal Communications Commission has rewritten many of the key rules governing U.S. media.

- Cross-ownership rules governing the common ownership of newspapers, television and radio stations.
- Broadcast networks can own a group of TV stations reaching 45% of the national audience.

Presently, less than 20% of newspapers are independent and local, and the 10 largest owners of local TV stations have tripled the number of stations they own. In addition, one-third of the U.S. population listens to radio stations are owned by one company. While one of the four broadcast networks (ABC, CBS, etc.) is prohibited from buying one of the other four, there are no restrictions on companies from other industries buying one of the networks. For example, NBC is owned by General Electric.



A Protected Species...

Japan's traditional broadcasters have long been protected from foreign takeovers by restrictions prohibiting foreigners from owning more than 20% of these companies' outstanding shares, and the government just made these regulations tougher, approving legislation to prevent a foreign company and its Japanese affiliate from gaining control of a domestic broadcaster.

This has given the management of Japan's broadcasters a false sense of comfort from potential takeover. Analysts and fund managers who follow Japan's major broadcasters have long recognized the unrealized value of their property holdings and of their programming libraries, but have been equally frustrated by the obvious lack of interest in providing competitive shareholder returns by the management of these companies. These broadcasters have been myopically focused on traditional viewer ratings which have a direct link to the advertising rates they can charge for programming versus overall profitability.

In terms of current EBIDTA (earnings before interest, depreciation and amortization) valuations for **Nippon TV Network (9404)** appear to be the most attractive, while the stock has yet to receive the attention of value funds and/or takeover artists..

TBS (9401) has been the best performer because Rakuten is still bidding for more shares (they already own some 19% and would like more so they can consolidate TBS's numbers in their consolidated results), all of the major broadcasters are being pulled up by the bidding, and have been performing even though the Nikkei 225 has peaked and is consolidating.

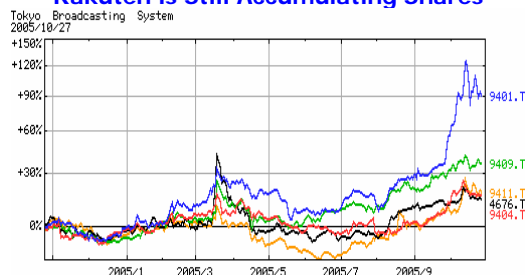
Since **TV Asahi (9409)** is the second-best performer even though there have been no recent bids for the company, investors seem to be betting that someone will eventually go after Asahi. This is because it was Masayoshi Son of **Softbank (9984)** first gave the new Internet upstarts the idea of buying a broadcaster by cooperating with Rupert Murdoch to make a failed bid for Asahi way back in 1997.

Japan's Broadcasters: Now the Target of Speculators and Takeover Artists

9401 TOKYO BROADCASTING SYSTEM								
	Market Cap	EBITDA	Ops Profit	MV/EBITDA	Dvd Yld	P/E (E)	PSR (E)	PBR
2001	443,402	38,975	31,242	11.36	0.59	31.67	1.56	1.86
2002	255,415	34,220	24,326	7.46	0.70	20.43	0.89	0.77
2003	376,194	21,315	25,271	17.65	0.48	125.40	1.29	1.26
2004	376,194	32,345	22,510	11.63	0.48	44.26	1.26	1.15
2005	619,459	32,345	22,510	19.15	0.46	31.77	2.04	1.91
2006			24,000					
9404 HIPPOI TELEVISION NETWORK								
	Market Cap	EBITDA	Ops Profit		Dvd Yld	P/E (E)	PSR (E)	PBR
2001	766,009	68,421	63,573	11.20	0.40	26.41	2.19	2.63
2002	309,701	43,877	47,406	7.06	0.98	14.61	0.92	0.96
2003	471,527	47,360	35,937	9.96	0.85	33.68	1.45	1.44
2004	425,110	52,914	34,325	8.03	0.72	34.01	1.20	1.20
2005	464,171	52,914	34,325	8.77	0.90	42.58	1.36	1.27
2006			36,000					
9409 TV ASAHI								
	Market Cap	EBITDA	Ops Profit		Dvd Yld	P/E (E)	PSR (E)	PBR
2001	252,305	17,909	13,478	14.10	0.40	40.73	1.14	1.19
2002	142,852	11,549	7,430	12.37	0.49	62.11	0.69	0.66
2003	216,290	11,667	6,521	18.54	0.33	196.63	1.01	1.00
2004	249,488	21,322	13,606	11.70	0.44	39.60	1.05	1.13
2005	300,794	21,322	13,606	14.11	0.43	37.60	1.22	1.33
2006			13,500					
4676 FUJI TELEVISION NETWORK								
	Market Cap	EBITDA	Ops Profit		Dvd Yld	P/E (E)	PSR (E)	PBR
2001	743,418	44,112	45,935	16.85	0.25	36.26	1.73	2.07
2002	395,344	41,137	37,268	9.61	0.48	24.71	0.94	1.06
2003	746,742	53,823	44,065	13.87	0.30	31.11	1.65	2.03
2004	644,798	52,526	43,581	12.28	0.40	25.79	1.36	1.28
2005	769,757	52,526	43,581	14.65	1.91	34.67	1.35	1.61
2006			49,000					
9411 TV TOKYO								
	Market Cap	EBITDA	Ops Profit		Dvd Yld	P/E (E)	PSR (E)	PBR
2001		4,989	2,617					
2002		3,942	2,710					
2003		3,961	3,700					
2004	72,051	8,433	5,566	8.54	0.43	24.02	0.62	1.96
2005	84,851	8,433	5,566	10.06	0.73	24.96	0.72	1.88
2006			6,000					

Source: Nikkei Amsu, market capitalization in yen billion, other numbers in yen million.

TBS Has Been the Best Performer Because Rakuten is Still Accumulating Shares





...Sees Attack from "Impertinent" Internet Entrepreneurs

There is a new "unholy alliance" forming in Japan based on a handful of *neuvo riche* entrepreneurs who have banded together in swank Roppongi Hills office spaces. While fiercely competitive among themselves, they are impatient to make their mark in corporate Japan, successively gobbling up companies like rich boys buy toys such as expensive cars, and generally making themselves annoying to long-established "clubs" such as professional baseball teams and traditional media.

First there is **Yoshiaki Murakami** of M&A Consulting, an ex-METI bureaucrat turned corporate reformer who has become the Robert Monks of Japan, ostensibly pushing for shareholder value and corporate governance, but at the end of the day looking to make a tidy buck for the investors in his funds.

The cyber major that is trying hard to surpass the significant first mover advantage of **Yahoo Japan** (code: 4689) and indeed become a major player in global cyberspace is **Hiroshi Mikitani** of **Rakuten**. Yahoo Japan until its listing on the TSE 1 dominated Japan's JASDAQ, with a market capitalization that is currently JPY3.7 trillion, ranking it number 16 in terms of Japanese companies with the largest market capitalization. Rakuten replaced Yahoo Japan as the "king" of JASDAQ in terms of market capitalization, with a market value that is a cool 19X consolidated sales to December 2004. Rakuten derives most of its operating profits from e commerce (48%) and e finance (31%) after purchasing DLJ Securities' online operations in Japan.

Then there is **Takafumi Horie**, president of **Livedoor** (code 4753). Like J.P.

Morgan and Standard Oil in the early days of the oil industry, after being established as a company called "On the Edge" in April 1996 with paid-in capital of only JPY6 million, what is now known as Live Door rode the Internet boom well, listing on the TSE Mothers just at the peak of the Internet bubble in April 2000.

After listing, the Company went on a buying spree amid the chaos that existed in Japan's Internet space after the bubble burst—a buying spree that continues today. Livedoor has purchased over 20 Internet start-ups, a securities broker (Nihon Global Securities), a credit company and futures trading operations. While the company's revenues are broken down into consulting, mobile solutions, network solutions, net media, e commerce, software and e finance, they are losing money on net media and e commerce. **Indeed, Livedoor has essentially become an online finance company**, with its online brokerage and other finance services accounting for no less than 74% of total operating profit as of March 2005.

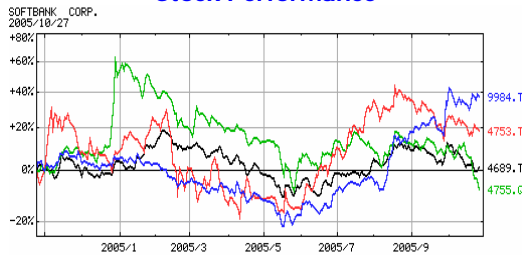
The three hundred pound gorilla in Japan's cyberspace remains Yahoo Japan, whose market capitalization is larger than Softbank, Rakuten and Livedoor's combined market capitalization. Moreover, it boasts an ROA and ROE of 35.9% and 47.4% respectively, versus low single digit returns for the other three.

Yahoo Japan, Rakuten and Livedoor have eclipsed **Masayoshi Son** of **Softbank** (9984) as the "cyber cool" companies in Japan, even though Softbank was considered the visionary leader during the IT bubble of the late 1990s. Softbank now ranks only 28 in market capitalization, while its holdings in Yahoo (which have been gradually sold off to repay debt)



were at one time essentially double the Company's current market capitalization.

Softbank Emerges the Winner in Recent Stock Performance



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Ironically, Softbank—whose stock plunged from a high of nearly JPY70,000 per share at the height of the IT bubble to a humiliating JPY1,00 or so, is now emerging as the winner in terms of recent stock price performance despite all the fireworks by Livedoor and Rakuten. The three second-generation online portals/e finance competitors are struggling with falling stock prices since September. Indeed, Softbank is up 40% YTD, while Livedoor has managed only 20% (i.e., less than the market), and Yahoo Japan as well as Rakuten stock prices are actually down for the year.

Softbank Begins the Long Road to Recovery



Source: BigCharts.com

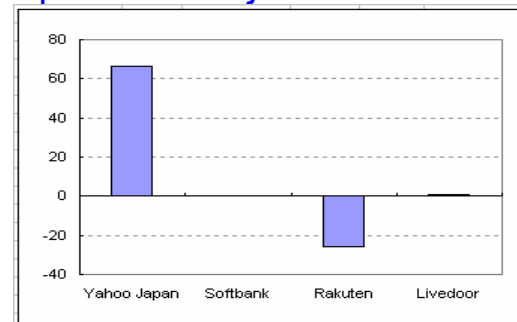
Softbank's fall from dizzying IT bubble heights was due to the inflated values of the mainly internet ventures the company was invested in, and the fact that investors had bit up the company well

beyond any reasonable expectation of future earnings growth by simply measuring the latent value of the Internet start-up company holdings, beginning with Yahoo U.S. and Yahoo Japan. The Company also over-extended itself financially in trying to develop a "bricks and mortar" telecom business.

After bottoming in 2003, however, the stock is now up some six-fold, and recently appears to have broken up out of a JPY4,000 to JPY6,000 trading channel on an upsurge in trading volume. While Rakuten and Livedoor desperately want content for TV on the web, Softbank has already made deals with essentially all TV broadcasters to broadcast programming via Softbank's Internet service.

Given Yahoo Japan's early mover advantage and Softbank's early domination of Japan cyberspace, second-generation "cyber mongul" wanna-bees like Rakuten and Livedoor will have to try much harder to become mainstream conglomerates, and come anywhere near comparing in current value to Sumitomo Metal Industries (5405). Rakuten has negative operating cash flow, while Livedoor has a mere JPY1.1 billion, compared to JPY286 billion for SMI. Meanwhile Rakuten's market cap has fallen to JPY860 billion while the P/E is over 100X while SMI's has surged to JPY1.9 trillion and the P/E is still 17X.

Japan's Internet Majors: Where's the Beef?



Operating Cash Flows-JPY Billions



The TJI Portfolios..Avoiding High Flyers

Fortunately, the original **TJI Portfolio** has held up very well during the recent bout of profit taking in the Japanese market. The stocks in the portfolio are now up an average 62.3% since inception, and there are only two stocks (both recently added) that are showing losses; plant builder **JGC Corp.** and **Itochu Shokuhin**.

On the other hand, the number of two baggers and three baggers continues to increase. There are now four two baggers and two four baggers.

Performance of the **TJI Oil Shock** portfolio has also noticeably accelerated, despite lower oil prices and consolidating energy stocks in the U.S and Japan. The average gain of the stocks in this portfolio is now 38.2%, led by **Japan Vilene** with a 76% gain since being added to the portfolio.

In contrast, the three ADR stocks in the **TJI ADR Portfolio** are only up 15.5% since the portfolio was put together (which was at the same time as the TJI Portfolio). Even this represents a significant pick-up in performance, after the portfolio had been significantly pruned by ADR stocks previously dropped because they broke down through **TJI's** stop-loss rule (i.e., a 15% decline from the price at which the stock is added to the portfolio).

Finally, performance of the **TJI J-REIT Portfolio** has noticeably waned, along with rising expectations of that the Bank of Japan is on the verge of abandoning quantitative easing and eventually moving to push up short-term rates. While TJI believes that Japan's central bank will be the last to move toward monetary

tightening among the developed nations, the prospect of higher rates and falling property yields on high quality properties with a glut of potential buyers will continue to put pressure on J-REIT yields, which have fallen by half since the first J-REIT was listed (i.e., from over 7% to 3.5% and lower recently). As a result, the **TJI J-REIT Portfolio** is now up 7% since inception, and substantially behind all of the other equity-only TJI portfolios.

In addition, there is a growing divergence developing in the J-REITs in terms of share performance. For example, the **Orix REIT** (code: 8954) is up 14% since being added, while performance of the **Premier Investment Corporation REIT** (code: 8956) has turned minus since being added to the portfolio.

We believe the solid performance of the **TJI Portfolio** and **Oil Shock Portfolios** is due to the fact that Japan's stock market, unlike the U.S. market, basically remains well supported by investors, despite evidence of some profit taking by foreign investors (such as hedge funds). Further evidence of continued strong investor support is that the only the large-cap benchmark indices such as the Nikkei 225 are seeing selling pressure, while the mid-cap TSE 2 and JASDAQ indices remain technically well-supported by their moving averages and active individual investor participation, which accounts for the bulk of trading in the TSE 2 and some 70% of trading in the JASDAQ.

Thus while not-so-high flyers like Rakuten and Livedoor may continue to grab the headlines with bold takeover attempts of "old school" companies like traditional broadcasters, **TJI** will continue to stick with stocks that fit well with our top-down, "big picture" secular view, and who have demonstrated market leadership.



PORTFOLIOS

ADRs

Code	Co. Name	Price Add	Current	Pct. Chg.	Market Cap	PER	PBR	Dvd Yield (%)
CAJ	Canon	\$52.08	\$51.88	-0.4%	5,277.8	15.32	2.23	1.09%
MC	Matsushita	\$13.85	\$17.08	23.3%	4,758.9	76.11	1.24	0.77%
TM	Toyota	\$79.01	\$91.25	15.5%	18,772.0	14.63	1.88	1.25%
AVERAGE/MEDIAN				15.5%	5,410.7	15.70	1.84	1.07%

THE TJI PORTFOLIO

10/14/05

Code	Co. Name	Price Add	Current	Pct. Chg.	Market Cap	PER	PBR	Dvd Yield (%)
7453	Ryohin Keikaku	¥3,760	¥7,590	101.9%	213.1	32.7	4.23	0.72
9630	Up-Inc.	¥586	¥761	29.9%	6.5	17.6	0.79	1.97
5405	Sumitomo Metal	¥128	¥401	213.3%	1,927.2	17.4	3.99	1.25
5713	Sumitomo Mining	¥786	¥1,041	32.4%	595.3	16.1	2.09	0.77
9104	Mitsui OSK	¥644	¥820	27.3%	988.4	10.0	3.29	1.95
2791	Daikokuten Bussan	¥3,550	¥5,230	47.3%	37.4	37.6	6.12	0.38
4065	Kibun Food	¥1,315	¥2,720	106.8%	76.9	30.9	5.79	0.66
8309	Mitsui Trust Hldg	¥510	¥1,533	200.6%	1,263.7	14.2	7.46	0.16
8583	UFJ Nicos*	¥340	¥898	164.1%	368.8	77.0	-3.85	0.22
5001	Nippon Oil	¥689	¥975	41.5%	1,427.9	11.2	1.54	1.03
1963	JGC Corp.	¥1,922	¥1,862	-3.1%	482.4	41.4	3.13	0.46
8544	Keiyo Bank	¥354	¥791	123.4%	230.1	19.7	1.58	0.70
3941	Rengo	¥519	¥617	18.9%	149.3	13.7	1.30	1.30
6268	Nabtesco	¥689	¥945	37.2%	120.2	21.6	2.29	0.74
9669	Aucnet	¥2,330	¥2,415	3.6%	25.6	28.0	2.25	1.66
8830	Sumitomo Realty	¥1,571	¥1,795	14.3%	854.6	55.0	2.67	0.50
6902	Denso	¥2,730	¥3,200	17.2%	2,829.0	20.1	1.61	1.00
6472	NTN	¥657	¥757	15.2%	350.5	21.1	2.21	1.12
2692	Itochu Shokuhin	¥4,170	¥3,880	-7.0%	50.6	15.5	1.08	0.57
7732	Topcon	¥1,985	¥3,210	61.7%	148.8	33.4	4.05	0.31
SIMPLE AVERAGE				62.3%	607.3	18.3	2.23	

THE OIL SHOCK PORTFOLIO

Code	Co. Name	Price Add	Current	Pct. Chg.	Market Cap	PER	PBR	Dvd Yield (%)
5001	Nippon Oil	¥689	¥975	41.5%	1,427.9	11.2	1.54	1.03
5002	Showa Shell	¥1,013	¥1,439	42.1%	500.1	10.6	1.99	2.63
7203	Toyota	¥4,160	¥5,200	25.0%	18,772.0	14.6	1.88	1.25
5713	Sumitomo Mining	¥786	¥1,041	32.4%	595.3	16.1	2.09	0.77
7267	Honda	¥5,190	¥6,260	20.6%	5,811.9	12.0	1.59	1.04
6902	Denso	¥2,435	¥3,200	31.4%	2,829.0	20.1	1.61	1.00
3514	Japan Vilene	¥468	¥824	76.1%	53.7	22.8	1.81	0.85
7259	Aisin Seiki	¥2,390	¥3,370	41.0%	993.1	21.1	1.75	0.71
6753	Npn Elec. Glass	¥1,662	¥2,220	33.6%	709.4	60.1	3.26	0.43
SIMPLE AVERAGE				38.2%		16.3	1.8	

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)



TOPIX SECTOR PERFORMANCE

INDEX PERFORMANCE RANKING				
Topix	-2.0%	14.9%	22.5%	27.5%
Topix Sector	1 Mo.	3 Mo.	6 Mo.	12 Mo.
Steel	-4.6%	36.0%	45.6%	66.0%
Banking	-2.6%	33.2%	39.0%	50.7%
Non-Ferrous Metals	-4.7%	21.1%	36.8%	47.9%
Real Estate	2.4%	26.9%	39.6%	47.8%
Insurance	3.1%	31.9%	36.3%	47.2%
Machinery	-2.7%	16.9%	31.0%	45.6%
Oil/Coal	-8.4%	14.5%	25.4%	45.5%
Mining	-11.4%	10.1%	33.5%	45.1%
Warehousing/Harbor	10.6%	18.3%	23.5%	43.7%
Wholesale	-3.5%	18.7%	28.7%	43.3%
Glass/Ceramics	-1.7%	12.5%	16.7%	37.6%
Textiles/Apparel	1.3%	13.3%	25.7%	35.7%
Other Financial	-3.5%	16.3%	24.8%	35.4%
Retail	0.0%	17.7%	26.6%	32.1%
Rubber	-0.9%	9.2%	20.8%	29.7%
Construction	-3.8%	16.2%	21.6%	28.9%
Precision Equip.	-1.8%	7.0%	20.8%	27.4%
Foods	-1.3%	6.8%	10.9%	26.6%
Securities/Commodities	-6.2%	24.3%	22.2%	26.6%
Services	0.4%	7.2%	14.5%	23.5%
Electricity/Gas	-1.0%	5.0%	14.7%	23.4%
Fishery/Agriculture	-4.2%	-6.0%	11.0%	22.3%
Transportation Equip.	-1.7%	15.6%	27.5%	22.3%
Chemicals	-2.1%	9.4%	16.0%	22.2%
Pharmaceuticals	-1.7%	11.4%	17.6%	22.0%
Shipping	-11.3%	6.9%	12.3%	20.4%
Other Manufacturing	-2.4%	5.9%	9.1%	17.4%
Land Transportation	1.6%	15.8%	15.6%	16.2%
Electrical Equipment	-1.3%	5.1%	11.4%	12.3%
Metal Products	-0.3%	2.8%	2.4%	9.3%
Communications	-3.2%	8.1%	15.2%	8.0%
Airlines	-1.8%	-0.3%	1.0%	4.0%
Pulp/Paper	-4.1%	2.7%	0.7%	-1.8%



MARKET VALUATIONS

	10.26.05	YTD						
Index	Close	High	Low	Valuations	PER (A)	PER (E)	EPS (E)	% Chg.
NK225	13,417.08	13,738.84	10,825.39	NK225	25.46	20.79	645.36	22.5%
TSE 1 Simple	489.85	489.31	415.54	TSE 1 Simple	27.03	21.01	23.32	28.7%
TOPIX	1,423.84	1,428.13	1,109.19	TOPIX				202.7%
TSE2	4,232.15	4,128.74	3,041.31	TSE2	61.75	20.40	207.46	
JASDAQ	104.36	104.63	90.64	JASDAQ	47.37	34.51	3.02	37.3%
		Dvd Yld (A)	Dvd Yld (E)	DPS (E)	ROE	JPY Bln	Mkt Cap	
NK225	2.13	0.91%	1.02%	136.9	10.25%	TSE 1	454,345	
TSE 1 Simple	1.99	1.03%	1.08%	4.49	9.47%	TSE 2	8,575	
TOPIX						JASDAQ	18,261	
TSE2	1.57	1.22%	1.24%	37.7	7.70%			
JASDAQ	2.13	1.27%	1.33%	1.21	6.17%			

Source: Tokyo Stock Exchange

Global 1200 Sector	MKTCAP	Share	MTD	QTD	YTD
Energy	2,045,043	9.9%	-10.10%	-10.10%	22.40%
Utilities	854,844	4.1%	-5.87%	-5.87%	5.70%
Materials	1,158,096	5.6%	-4.51%	-4.51%	3.90%
Health Care	2,146,432	10.4%	-2.50%	-2.50%	2.49%
Consumer Staples	1,825,132	8.8%	-1.58%	-1.58%	1.53%
Financials	5,143,207	24.9%	-0.59%	-0.59%	0.72%
Industrials	2,051,451	9.9%	-2.51%	-2.51%	-0.32%
Information Technology	2,239,506	10.8%	-4.19%	-4.19%	-3.96%
Consumer Discretionary	2,159,959	10.4%	-4.10%	-4.10%	-7.33%
Telecom Services	1,050,597	5.1%	-3.23%	-3.23%	-7.66%
S&P Global 1200	20,674,267	100.0%	-3.41%	-3.41%	1.07%

Source: Standard & Poor's, \$mm

Japan 500 Sectors	MKTCAP	Level	MTD	QTD	YTD
Energy	2,706,436	1.0%	-4.25%	-4.25%	55.43%
Materials	22,567,522	8.0%	-0.18%	-0.18%	37.53%
Financials	66,758,018	23.6%	1.96%	1.96%	35.10%
Industrials	47,982,625	17.0%	1.06%	1.06%	32.31%
Consumer Staples	15,616,445	5.5%	1.25%	1.25%	18.82%
Consumer Discretionary	56,575,888	20.0%	0.02%	0.02%	18.03%
Utilities	11,764,910	4.2%	-0.99%	-0.99%	17.41%
Health Care	13,971,042	4.9%	-5.66%	-5.66%	13.57%
Telecom Services	10,617,266	3.8%	-2.41%	-2.41%	12.26%
Information Technology	34,256,973	12.1%	-1.79%	-1.79%	5.50%
S&P Japan 500	282,817,126	100.0%	0.00%	0.00%	23.30%

Source: Standard & Poor's, Ymm

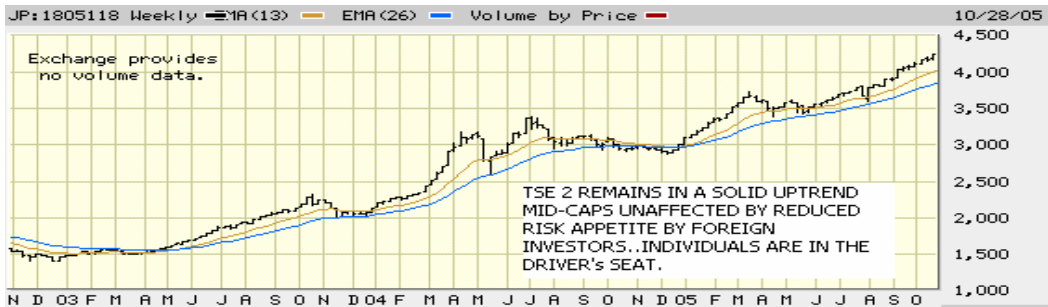
**** Despite being hobbled by a waffling U.S. market, Japan continues to outperform even during the current consolidation. YTD, Japan is leading in virtually all global sectors.**

MARKET TECHNICALS—Only Nikkei is Correcting
Benchmark Indices and 13-week, 26-week Moving Averages



Nikkei 225

Source: BigCharts.com



TSE 2

Source: BigCharts.com

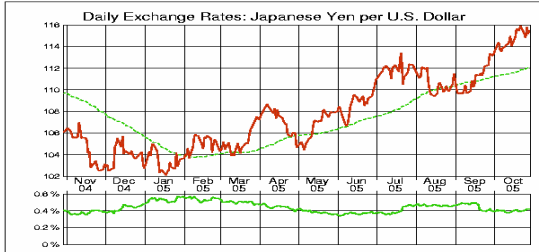


JASDAQ

Source: BigCharts.com

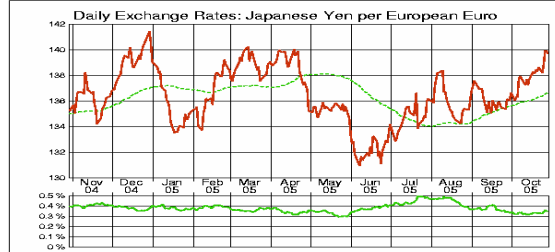
The Nikkei 225 has already found support at its 13-week MA, while the TSE2 and JASDAQ have ignored shrinking foreign investor appetite for risk and profit taking in the larger cap benchmark indices.

EXCHANGE RATES AND COMMODITIES



Yen-Dollar

Source: Pacific Exchange Rate Service



Yen-Euro

Source: Pacific Exchange Rate Service



CRB Futures

Source: TFC Commodity Charts



Light Crude

Source: TFC Commodity Charts



Gold

Source: TFC Commodity Charts



High Grade Copper

Source: TFC Commodity Charts

Contrary to the "consensus" at the beginning of 2005, the yen has depreciated from JPY102 to JPY116/US\$. Here again, markets failed to anticipate the extent of Fed monetary tightening. CRB futures are pushing 340, versus 240 a year ago, which represents a 42% appreciation—i.e., there are no signs of a significant correction in commodity prices. Light crude is struggling to hold \$60/bbl, and may correct to \$50/bbl, where upside resistance was seen on the upside of the rally. The rally in gold is also fizzling. Copper has also finally seen some profit taking. All of this is indication of a reduced appetite for risk by global investors. Washing out the speculative positions will give us an indication of where real demand lies.



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