2 September, 2020

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THE BUFFETT FILLIP

Although it is fairly clear that Buffett's investment is not just a passive one in that he intends to collaborate on business ventures with these trading companies, the fact that the world's most famous investor has committed to such large sums has ramifications for both domestic and international perceptions about Japanese equities. Included in this are his trust in the accuracy of accounting practices and of corporate governance in general, not to mention in these companies' strong business acumen. He also held true to his maxim of buying good value stocks when they were unloved. Altogether, these should inspire investors in Japanese equities to a significant degree, as much of the market is characterized as "unloved value," and make them wonder if there are other Japanese sectors that he may target.

As for the basics, many analysts cite his purchases being value stocks but don't mention just how much "value": approximately 6% dividend yield in recent quarters and nearly 5% in the quarters before that, when Buffett started accumulating. This is an extraordinarily high return globally for a solid sector in a country with a solid currency. Normally, this would imply major dividend cuts sometime in the future, especially in a time of crisis. However, Buffett clearly thinks otherwise and for good reasons. As a part of continuing efforts on corporate governance reform, in recent quarters I have publicly urged corporations, as a sign to investors of their confidence in their companies' futures, not to cut dividends except in dire circumstances. Fortunately, this "Show Me The Money" governance held true at the trading houses as they maintained dividends at their record high levels, thus proving that they do have business confidence and also care about shareholders. Along with retaining this overall purpose, as they compete among each other to retain Buffett's praise, it seems very likely that they will continue to pay such high dividends. Helping with such, although the sector's earnings have fallen along with energy prices and domestic economic activity, they should rebound along with the global economy.

Why is it important not to cut dividends? Because equity income investing is key to the success of Abenomics via the creation of a risk-taking, domestic equity culture. Indeed, building such a culture was the initial reason for the BOJ's purchases of equity ETFs: improve risk-taking to pull Japan out of deflationary psychology and low asset prices, and letting the wealth effect, both from housing and equities, inspire a virtuous cycle of economic growth.

Fortunately, very few companies have cut dividends during this crisis, so along with this Buffett fillip, the domestic equity-income culture should revive along with the economy from its depths. This news may also quieten those who suggest it is better for Japanese to invest in US than Japanese equities, for Buffett is saying the exact opposite, as he says he can hardly find anything worth buying in the US.

As for international investors, there will always be a plethora of sceptics, likely noting Buffett's not purely passive stance. Indeed, perceptions prevail that Japan's glass is more than half empty on all those fronts, and that to say otherwise is wild-eyed optimism. But among the outstanding concerns: 1) Japan's economy has actually been very competitive with the US and far outstripping Europe this year as per this previous report; 2) Demographics is always a lingering concern among the macro or less-knowledgeable investors, but as I have stated for six years since my piece "Debunking Demographics" , corporate profit margins and overall profits have surged despite this headwind thanks to improved corporate governance, technology and efficiency, successful business implementation and gearing to global economic growth, especially that in China; 3) the new foreign investor law (Foreign Exchange and Foreign Trade Act) worried some investors in the past, but it has had only minor negative effect as a result of well-targeted exemptions. Such certainly did not dissuade Buffett or prevent him from being able to quietly build large stakes; 4) Japan's heavy exposure to capex and automobiles worry some investors, but the diversification of supply chains by corporations globally should boost capex spending, and capex for semiconductors fabs, in which Japan excels, seems ripe for continued growth. Auto stocks may not seem "cool" but auto sales are rapidly rebounding globally towards pre-crisis levels and Japan leads the world in the ESG-friendly hybrid vehicle sector.

In sum, the Buffett fillip, while not solving all issues, likely marks a true turning point for Japanese equities, as no one will be able to speak quite as dourly, as the retort should typically be "But Buffett Disagrees".

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