


Era of “Unexpected”
- FY 2000 -

Monthly Economics Overview

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<Introduction>

Tokyo Mutual Life Insurance Co., filed for court protection on the March 23, 2001, due to the financial failure. Tokyo Life was the fourth insurance company to be bankrupt this fiscal year, and the reaction of the market was very claim.

There is “solvency margin” to indicate the risk management of the insurance companies. The definition of the “solvency margin” is “financial strength (reserved fund or asset backed) to deal with the extraordinary unexpected risk”. When the value is 200 or more, the company was supposed to be capable of paying the insurances.

However, the solvency margin of Tokyo Life was 370 at end of September 2000. And solvency margin of over 200 was said to be capable of handling the “expected” risk. So, were recent drop of stocks and expansion of operational back-drop exceeded the “unexpected”?

<Tokyo Stock Index>

The top “unexpected” event of FY 2000 must have the dramatic drop of Japanese stocks. Both Nikkei average and TOPIX fell some 30% in a past year.

According to the Financial Times, there are only three banks (Bank of Tokyo-Mitsubishi, UFJ, and Sumitomo Trust & Banking) which would have unrealized profit assuming the TOPIX stock price is 1250 points. The unrealized loss of Mizuho would be over 500 billion yen. (Current TOPIX is 1281 points as of March 23, 2001).

“The bank would have to increase the reserve due to the unexpected fall of stock . . . “ was the comment for the a certain bank’s deficit.

<US Stock Index>

In one year, Nikkei-Dow average fell 15%, NASDAQ fell 60%, and S&P500 index fell 25%.

I was personally investing on “S&P500 Bear Fund” (standard price rises when S&P500 falls), but this fund finished last April before the maturity. The reason was that the fund operation was not

efficient due to the decrease of investors in this open-ended fund. Therefore, I was forced to end up with losses (commissions etc.). I cannot stop thinking “if I still had that fund, I would be receiving an annual return of 25% . . .”, however, was drop of US stock so “unexpected” that it halts the operation of Bear Fund?

<Professional>

Japanese Financial Institutions are finally adapting the direct write off (i.e. sales of collateral properties in the market) in order to prepare for the “pay-off”, which will start from April 2002. The time for “settling the debt of bubble economy” has finally arrived.

The FY 2001 will no doubt bring a huge opportunity for us real estate investors.

However, this “settlement” also bring us a higher investment risk.

Investment risks such as, credit risk of the tenants, risk that tenant would move out due to the restructuring, risk of rent reduction, must be examined even more carefully than FY 2000.

What is the border line of “expected” and “unexpected” of investment risk.

This border line varies between individuals. Therefore, the professional asset manager must assume the “unexpected” and prepare a strategy when it occurs.

In any investment, ability of the manager determines the response at time of risk.

I believe that ability of the asset manager will be judged even more severely in FY 2001.

Nomura will not use the phrase that “this event was unexpected . . .”, and operate a true real estate investments.

Note:

This year, we had to hear so many company executives say the phrase “we are very sorry for this unexpected event . . .”. Such as in the case of food poisoning of food processing company, and recall of defective products of tire manufacturer.

It is easy for the company management to define the event “unexpected”, but “unexpected” would not do for the investors and stock holders.