



Scarcity

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Last week and in the week before last, each writer expressed their opinions about the investment and market environments after the terrorist attacks on the World Trade Center towers. This week, I would like to express my personal opinions from a slightly different viewpoint.

Changes in stock price after the terrorist attacks – actual demand

It is reported that stocks in companies related to defense, public utilities, and other industries were heavily traded after the terrorist attacks. Actually, the price of shares in Raytheon Company, which develops business in the aerospace field on a global scale, soared by nearly 30 percent, and the price of shares in Northrop Grumman Corp., a manufacturer of stealth fighters, showed a nearly 20 percent rise. Other war stocks all increased in price.

Revival of “gold in time of emergency”

The price of shares in Newmont Mining Corp., Barrick Gold Corp., and other prominent gold mine operators also rose. Market watchers evaluated these rises in stock price as revival of “gold in time of emergency.” Given that the shares in gold mine operators increased in price during the Great Depression of 1929 as well, market watchers view these investments in shares in gold mine operators as an act of insuring oneself against an emergency.

Data show that historically, gold and shares in gold mine operators rose in price when the overall U.S. stock market declined, and vice versa.

<Great Depression>

	1929	1935
Dow-Jones average at the New York Stock Exchange	\$381	Around \$100 (The Dow-Jones average fell to an all-time low of \$40 in 1932)
Shares in prominent gold mine operators (Newmont Mining)	\$65	Around \$490

<After the Second Oil Crisis – Period of steady economic growth>

	1980	2000
Dow-Jones average at the New York Stock Exchange	\$759	\$11,750
Gold price per troy ounce	\$850	Around \$260

Let us take a look at the most recent data. The Dow-Jones average at the New York Stock Exchange and the SP500 both fell by about 10 percent during the half-year period after January 2001. The first six months of this year was a period in which the U.S. economy started to clearly show signs of slowdown. During the interval, the standard price of Merrill Lynch Investment Managers' Mercury Gold Metal Open investment trust, which serves as an indicator for trends in gold shares, rose by approximately 33 percent.

(It should be noted that these data do not reflect the effects of the terrorist attacks on the World Trade Center towers)

Why were gold shares bought during the economic recession or after the recent terrorist attacks? If investors consider investment in gold as a kind of insurance, what is the true reason behind such an act?

<Distinctive features of gold>

- (1) Gold is material and gives one the feeling of being heavy. One can confirm its value by touching it.
- (2) The quantity of gold is limited. It is believed that the amount of gold that has been mined since the dawn of history is equivalent only to the volume of three and half 50-meter-long swimming pools combined. Gold cannot be produced as paper money can be printed as much as wanted.
- (3) Due to its limited quantity, gold is strong in time of inflation.

There is the view that paper money stands at one end of the scale of value while gold is situated at the opposite end. No doubt, gold has the very features that paper money lacks.

It seems that the distinctive features of gold are quite similar to those of first-class land in central Tokyo as an asset. The reason the author, who works in the real estate industry, is interested in gold as the target of investment is such similarity.

<The distinctive features of first-class land in central Tokyo(*) are:>

- (1) Naturally, such real estate has quality that corresponds to its grade. Its value can visually be confirmed.
- (2) Originally, the land of Japan is small as compared to its GDP. Particularly, the area of first-class land Tokyo has in its center is extremely small as compared to the city's enormous GDP. Furthermore, land cannot be reproduced.
- (3) In addition to the fact that Japan is a small country, the amount of land traded in the market is

small, and inevitably, land has served as a hedge against inflation in the past.

(*) First-class land in central Tokyo refers to land in the central part of the metropolis, including the Chiyoda, Chuo, and Minato wards, which is outstanding in value. It is tracts of land that correspond to “the scarcity equivalent only to the volume of three and half 50-meter-long swimming pools combined” of gold.

Hypothesis: What action will individual investors take when the economic recession becomes more serious in Japan?

The long-standing postwar “land myth” collapsed, and real estate traded in the domestic market came to be priced according to the pricing system based on the profitability of real estate. From a macroeconomic viewpoint, this pricing system will continue to hold good in the future as in the past. However, if the Japanese government fails to implement structural reforms in the years to come, causing the ongoing recession to become worse, won't individual investors that possess huge amounts of investment funds direct some of them to truly rare real estate – as investors invested in gold as part of their response to the emergency – as stocks are sold and the value of bonds falls?

If that happens, much of the superior real estate in Tokyo will be traded not by J-REIT and institutional investors but by wealthy people and owners of enterprises at prices much higher than those calculated on the basis of their profitability. The pricing mechanism based on the profitability of real estate, however, will continue to work with respect to large-scale real estate that these buyers cannot afford to purchase.

In time of emergency, confidence in scarcity seems to be valued – not as a result of reasonable corporate activities but as a result of the individual's instinct for self-defense. The author believes that first-class land in central Tokyo has a quality of scarcity that deserves such confidence.