

Two attempts by the Nikkei to move back above its 10-week moving average have failed in the past ten days. The medium-term cycle has thus not turned up yet. The key support is above the 40-week m.a. at about 9,700 and resistance is still at 10,400.



Source: Thomson Financial Datastream

- ▶ The Japanese market is stuck between a rock and a hard place. As shown above, the Nikkei is trapped by a declining 10-week m.a. and a rising 40-week m.a. Trading is erratic, but the squeeze is on and a breakout from the triangle thus formed should take place in the New Year.
- ▶ One assumes the eventual break will be to the upside, but there is a risk of a head and shoulders top crystallizing. However, the rising 40-week m.a. will have to turn down to give effect to that. The danger is not imminent therefore.
- ▶ At the sector level, there is less differentiation as might be expected with the market going into a trading range. However, a defensive rotation is evident hence the pick-up in CTS for Utilities and Consumer Goods. Basic Industries also retain some relative strength, in line with global trends.
- ▶ The ACTS score has encountered a lot of "resistance" in the 3.5 area, as we would expect if the next intermediate-term upswing is not ready to begin yet.
- ▶ There are a few potentially interesting individual stock situations as ever in this deep market. Nintendo (7974) has perhaps the most compelling chart, subject to completion of the trend change process. Maybe a good "stocking filler" !

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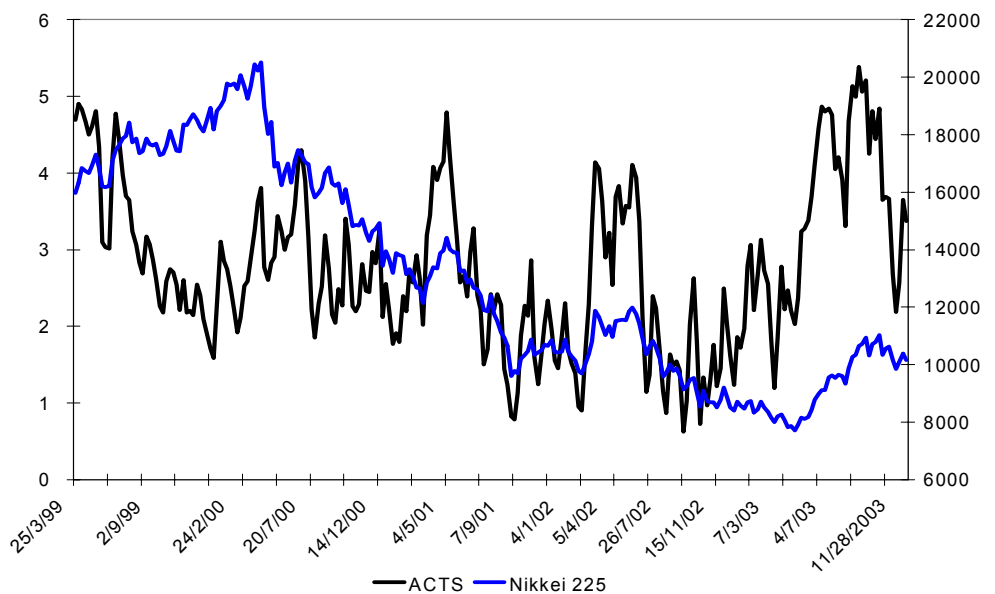
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The retreat of the intermediate-term trend score postpones the next upswing probably until the New Year we suspect:

- The ACT Score for the 225 Stocks briefly exceeded the pivotal 3.5 level but failed to hold it for more than a day. Most stocks hit their 50-day moving averages and reacted sharply at that point.
- While the short-term trend score jumped to above 1.0 (i.e. a small majority of stocks in short-term uptrends), the medium-term trend score failed to exceed 0.8 before turning down again.
- The timing of the next attempt is unlikely to be before early next year. February is traditionally a bullish month in Tokyo ahead of the fiscal year end, although it failed miserably this year.

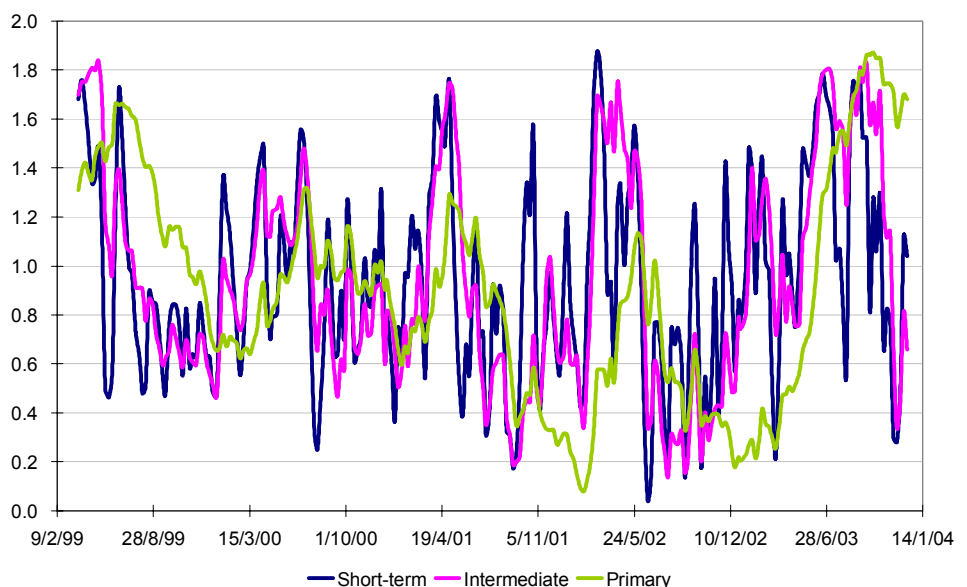
Historical Japan ACT Scores and the Nikkei



The ACTS rallied up to "resistance" in the 3.5 area. It briefly exceeded this level but has started to fall away again.

Source: Thomson Financial Datastream

Historical Japan ACT Scores broken down into 3 components

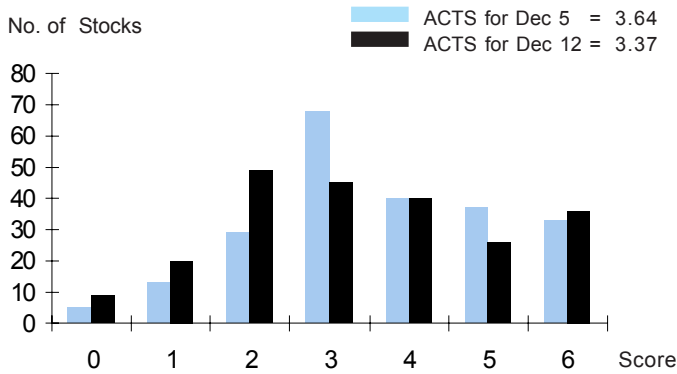


The ACTS' intermediate-term component failed to make much progress as many stocks came up against resistance near their 50-day m.a.s.

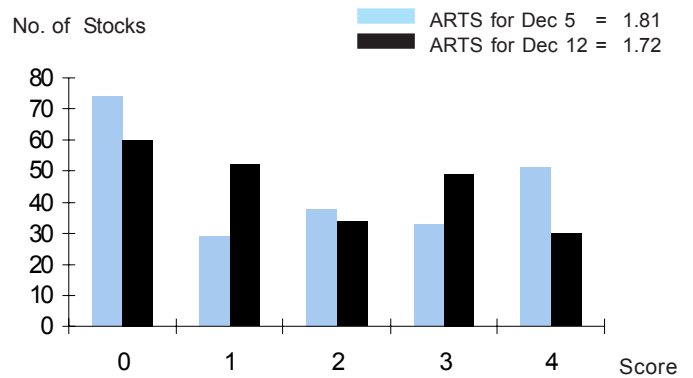
Source: Thomson Financial Datastream

Nikkei 225 Stocks & Indices

Distribution of Combined Trend Scores (225 Stocks)



Distribution of Relative Trend Scores (225 Stocks)



Source: Tempus Investment Research Ltd

Source: Tempus Investment Research Ltd

The distribution of CT Scores has shifted back to the left after the ACTS peaked just above the watershed 3.5 level.

The latest RT Score chart shows a flatter distribution of relative strength. The market is becoming less differentiated.

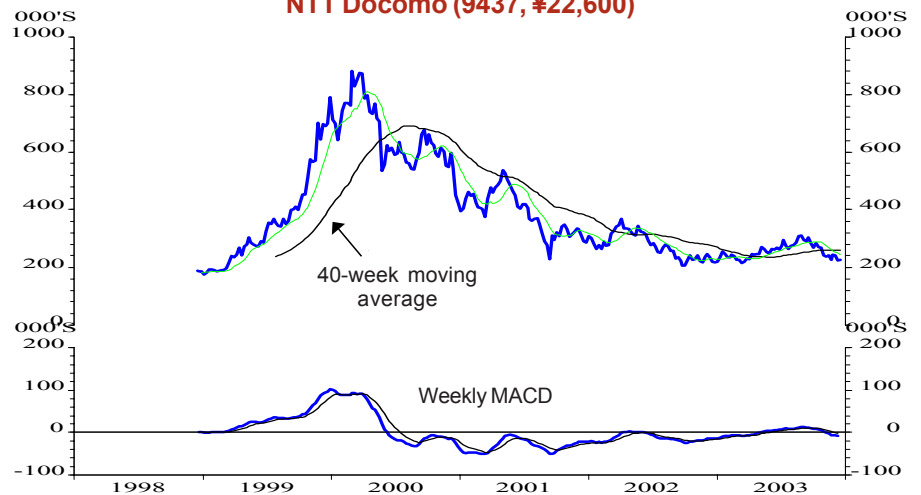
Japan Indices

Index Name	Level 12/12/03	Mkt Cap (US\$ bn)	Short-Term Trend		Intermediate Trend		Primary L/T Trend		Combined Score	Change on	Short-Term Rel Trend		Long-Term Rel Trend		Combined Rel Trend*		Change on	Cont to Mkt Cap	
			5/12	12/12	5/12	12/12	5/12	12/12	5/12	12/12	5/12	12/12	5/12	12/12	5/12	12/12	month		
Resources Sector	881.50	14.85	1	1	2	2	2	2	5	5	0	2	2	1	4	3	-1	0.83%	
Basic Industries Sector	710.81	164.80	1	1	2	0	2	2	5	3	-2	0	1	2	2	3	1	9.26%	
General Industries Sector	761.95	270.78	1	1	1	0	2	2	4	3	-1	0	0	0	0	0	0	15.21%	
Cyclical Consumer Goods	983.02	305.00	1	2	1	1	2	2	4	5	1	1	1	0	0	1	1	0	17.14%
Non-CycConsumer Goods	964.79	152.58	2	2	1	2	2	2	5	6	1	1	1	0	0	1	1	0	8.57%
Cyclical Services Sector	711.86	163.58	1	1	0	0	2	2	3	3	0	0	0	0	0	0	0	0	9.19%
Non-Cyc Services Sector	735.36	231.46	2	0	0	0	2	1	4	1	-3	0	0	0	0	0	0	0	13.00%
Financials Sector	513.57	287.69	2	1	1	0	2	2	5	3	-2	1	0	2	2	3	2	-1	16.16%
Information Technology	690.30	109.87	1	0	1	1	2	2	4	3	-1	1	1	2	2	3	3	0	6.17%
Utilities Sector	1,005.09	79.29	1	2	0	1	0	2	1	5	4	0	1	0	0	0	1	1	4.45%
Nikkei 225 (Mkt Weighted)	15,408.14	1,779.89	2	1	0	0	2	2	4	3	-1	1	1	2	1	3	2	-1	100.00%
Nikkei 225 Index	10,169.66		1	1	0	0	2	2	3	3	0	1	1	2	1	3	2	-1	
Topix Large-Cap 100 Index	740.34	1,560.78	1	1	0	0	2	2	3	3	0	0	0	0	0	0	0	0	57.65%
Topix Mid-Cap 400 Index	962.91	862.13	1	1	0	0	2	2	3	3	0	0	1	2	2	2	3	1	31.84%
Topix Small-Cap Index	870.98	284.61	1	1	0	0	2	2	3	3	0	0	0	0	0	0	0	0	10.51%
Topix Index	998.70	2,744.02	1	1	0	0	2	2	3	3	0	0	0	2	1	2	1	-1	100.00%
MSCI Japan Index (Yen)	609.84		1	1	0	0	2	2	3	3	0	2	2	2	1	4	3	-1	
TSE 2nd Section Index	2,046.21	49.95	1	0	0	0	2	2	3	2	-1	1	0	2	1	3	1	-2	
Jasdaq Index	63.13	0.82	0	0	1	0	2	2	3	2	-1	1	1	2	2	3	3	0	

* The Relative Scores for the Sector Indices are taken against the Nikkei 225 Index (Market Cap Weighted). All other Indices are charted against the Topix except for the Topix itself which is measured against the MSCI AC World Free Index.

Large-cap stock charts

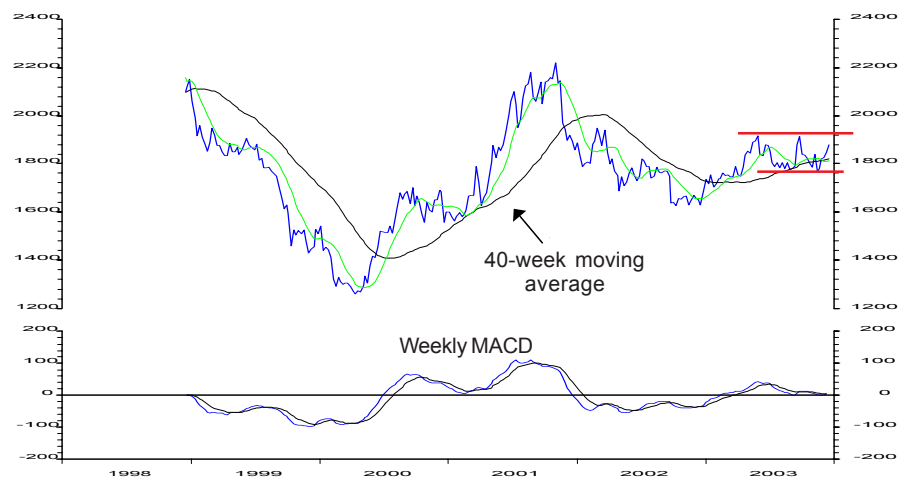
NTT Docomo (9437, ¥22,600)



Index heavyweight NTT DoCoMo is an outright sell once more, as all moving averages are down, and the MACD has crossed below zero.

Source: Thomson Financial Datastream

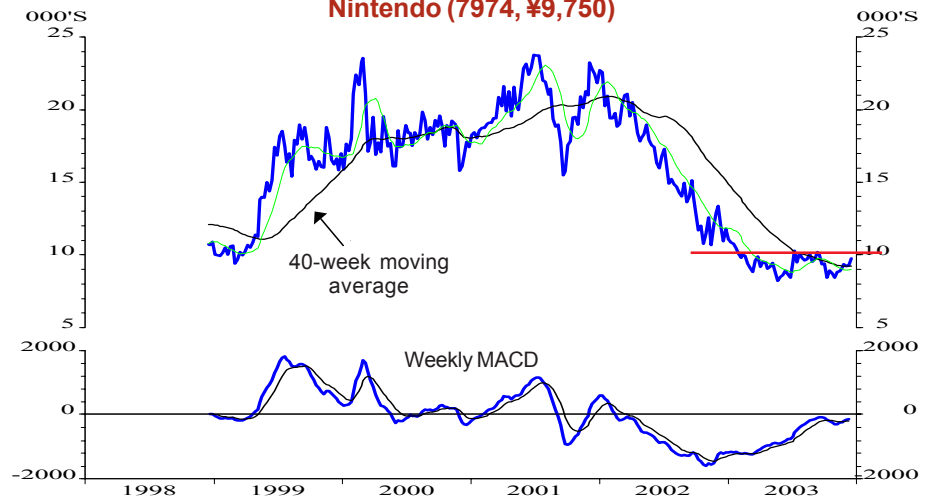
Kyushu Electric Power (9508, ¥1,879)



Utilities' trend scores have jumped, as they usually do when general market sentiment sours. Kyushu Electric Power is a good example.

Source: Thomson Financial Datastream

Nintendo (7974, ¥9,750)

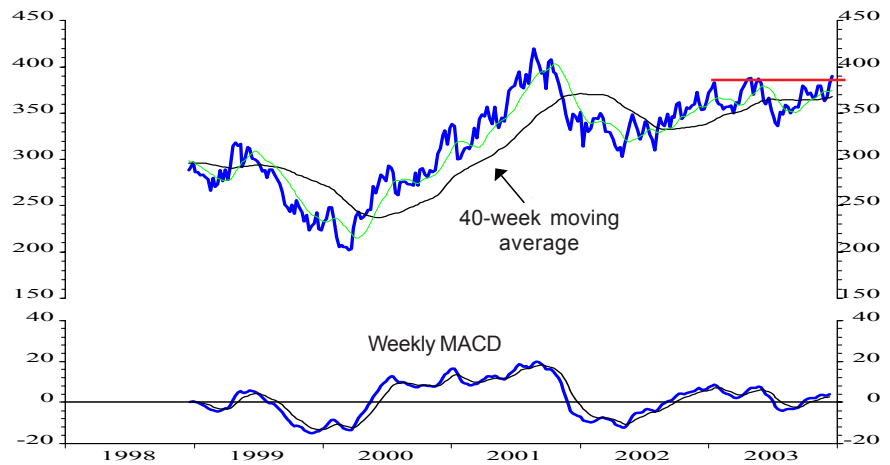


Nintendo is trying to change trend but the job will not be complete until the MACD has crossed above zero and the neckline of the base at ¥10,200 has been exceeded.

Source: Thomson Financial Datastream

Large-cap stock charts

Tokyo Gas (9531, ¥390)



Tokyo Gas is showing one of the few positive trends in the market. We can reasonably anticipate a successful clearance of the previous high at ¥390.

Source: Thomson Financial Datastream

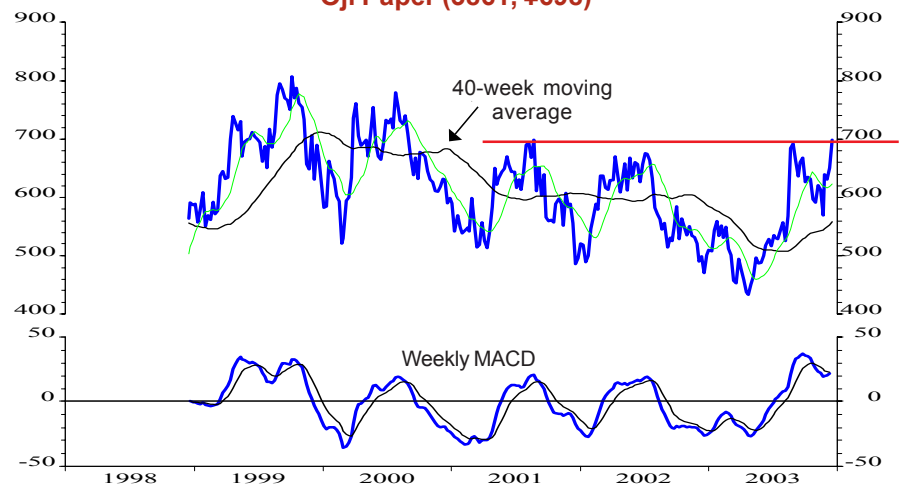
Sanyo Electric (6764, ¥528)



Sanyo Electric is also a rare example of a stock with a decent trend as it appears to have regained its 10-week m.a. quite comfortably.

Source: Thomson Financial Datastream

Oji Paper (3861, ¥698)



Basic materials stocks are enjoying a revival globally, and Oji Paper may rise further if it breaks through resistance at 700.

Source: Thomson Financial Datastream

Explanatory Notes

The Trend Screen approach is a development of our Seven Step Trend Change model, first introduced in September 2000. The original model explored the likely sequence of events as a market changes trend, using a line chart and a pair of moving averages, with due allowance for natural variation in the timing of, inter alia, moving average crossovers. The current Trend Screen is a more general version of that model derived from assigning a binary numerical score to conditions relating to the three time frames as follows:

For the short-term trend:	<i>Is price above its 20-day moving average? Yes = 1, No = 0</i> <i>Is the 20-day moving average rising (two-day comparison)? Yes = 1, No = 0</i> <i>Possible total Trend Scores 0, 1 or 2</i>
For the intermediate trend:	<i>Is price above its 50-day moving average? Yes = 1, No = 0</i> <i>Is the 50-day moving average rising (five-day comparison)? Yes = 1, No = 0</i> <i>Possible total Trend Scores 0, 1 or 2</i>
For the primary trend:	<i>Is price above its 200-day moving average? Yes = 1, No = 0</i> <i>Is the 200-day moving average rising (ten-day comparison)? Yes = 1, No = 0</i> <i>Possible total Trend Scores 0, 1 or 2</i>

The combined score is the simple addition of the three individual trend scores, giving range of a possible Combined Trend Scores (CTS) from 0 to 6. This gives seven possible outcomes, which accords loosely with the seven states identified in the original model. A maximum score of 6 equates to a fully confirmed uptrend. That requires price to be above all three moving averages, and for those averages to be trending up, one above the another. The inverse applies for a score of 0, which equates to a strong downtrend. The MTS model however has many more permutations (30) depending on which of the three trends is changing, giving it more flexibility.

We have now added a Relative Trend Score (RTS) based on the same idea, using the relative chart with 50 and 200-day (relative) moving averages. In this case the scores range from 0 to 4. The purpose of this enhancement is clearly to enable us to identify the top and bottom performers within a strongly trending market. We can therefore have stocks with maximum Trend Scores of 10 (6 absolute plus 4 relative)

Action to buy or sell may be indicated when trend scores change, although this is always subject to confirmation. For example, a CTS change from 0 to 2 may mean that a long-term cycle is bottoming, but may equally indicate merely that a technical rally is taking place in an ongoing long-term downtrend. Therefore the screen is used to alert us for possible changes in trend, and to prompt further analysis of the stock or sector using the full-range of technical tools, such as *Cycles, Elliott wave theory, Dow theory, Chart patterns, Relative strength, Momentum indicators, Market breadth and Volume.*

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