

**A logical, independent and international perspective**

# **Musha Research**

**Ryoji Musha**  
**President**  
**Musha Research**

■ **About US**

**Company name** Musha Research Co., Ltd.

**President** Ryoji Musha

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**Home Page** [www.musha.co.jp](http://www.musha.co.jp)

**Date of establishment** 1<sup>st</sup> Jul, 2009

**Activities** Provision of research reports and other information for economic and financial market analysis and determination of medium and long-term outlooks



■ **A word from Ryoji Musha**

I have established Musha Research for the purpose of providing more direct assistance to individuals who wish to use my analysis and forecasts. The activities of Musha Research are guided by three principles: adhering to consistent logic, reaching conclusions based on our own beliefs, and using a viewpoint that incorporates history and a global perspective. Our research reports and other information will always reflect these principles. Musha Research will supply a constant stream of reports that use as the starting point discussions and theories concerning why past outlooks were right or wrong. I believe that this information will be useful to corporate executives as well as investors for gaining a better understanding of current economy and market trends and determining the best strategies for achieving their objectives.

## Members

### **Miyuki Kihara**

US CPA  
Researcher

1991 Deutsche Securities, Japan Research  
1997 Commerz Securities, Assistant for Chief Strategist  
1995 Merrill Lynch Japan Securities, Research  
2003 Japan Turbine Technologies. Co., Ltd.  
2007 Thomson Reuters Markets KK  
2009 Musha Research Co., Ltd.

### **Lhamsuren Sharavdemberel**

Researcher

2004-2008 The University of Tokyo (Economics)  
2008 Barclays Capital Japan Limited  
2009 Musha Research Co., Ltd.

### **Yasuko Komatsu**

Director

1997 Japan Airlines Corporation  
2000 JAL Finance Corporation  
2003 Orix Corporation, Investment Banking  
2005 Deutsche Securities Inc. ,Japan Research  
2009 Musha Research Co., Ltd.

**Ryoji Musha**  
**President**  
**Musha Research Co., Ltd.**

- Jul 2009 Established Musha Research Co., Ltd.  
Advisor, Deutsche Securities Inc., Advisor, Deutsche Bank AG Tokyo Branch, Advisor, Deutsche Asset Management (Japan) Ltd.,
- May 2005 Vice Chairman and Chief Investment Advisor of Deutsche Securities
- Jan 1997 Joined the Research Department of Deutsche Securities as general manager and chief strategist
- May 1993 Chief Analyst and General Manager of the Equity Research Department of Daiwa Institute of Research (DIR) Japan
- Jan 1988 Chief Analyst and Research Director of DIR America for the US macro economy, micro economy, and financial markets
- Mar 1973 Joined the Research Department of Daiwa Securities Co. as a sector analyst for the textiles, construction, real estate, automobile, and electronics sectors (In 1982, the Research Department of Daiwa Securities was reorganized as an independent entity that was renamed Daiwa Institute of Research in 1989.)
- Mar 1973 Graduated from Yokohama National University with a major in economics
- Mar 1968 Graduated from Nagano High School
- Sep 1949 Born in Nagano Prefecture

- Ranked #1 in Japan equity strategy in the 2002 and 2003 Institutional Investor poll.
- Served as the head of the Overseas Section of the Cabinet's Economic Analysis Deliberation Team, a member of the Cabinet's International Economic Research Committee, a member of the Ministry of Finance's International Fund Flow Research Committee, and a member of the consulting committee of the Institute of Energy Economics
- Served as a part-time lecturer at the Economics Department of Shinshu University in 2002 (Course title: "Japanese economic theory and forecasting share prices in the practical economy")
- Currently serving as a Visiting Professor at Saitama University Graduate School.

**Major books written by Mr. Musha**

- The Big Comeback of Japanese Stocks (July 2009), PHP Research
- A Study of New Imperialism (April 2007), Toyo Keizai
- The Revitalization of American Capitalism (1993), Toyo Keizai
- The Composition of Friction and Reorganization (1982), Kyoikusha

■ **Overview of Services**

- **Top-down macroeconomic strategies**
  - Medium and long-term market forecasts based on global macroeconomic analysis and provision of asset allocation strategies (primarily for Japanese equities)
  - Provision of database for establishment of global macroeconomic strategies
  - Scenarios for the global economy and financial markets
  - Investment ideas and key points based on qualitative analysis
  - The Musha approach: Outstanding logic and complete independence
  
- All Musha Research reports and other information reflect the principles of adhering to consistent logic, reaching conclusions based on our own beliefs, and using a viewpoint that incorporates history and a global perspective.

**I. Establish a hypothesis**

We retain a tight focus on establishing the most persuasive hypothesis based on global, long-term economic data and a historical perspective.

**II. Reach conclusions that include no speculation**

We use hypotheses to eliminate preconceptions and any conflicts of interest in order to create the most logical outlooks and strategies (solutions). Forecasts and investment strategies are revised only when a hypothesis has been revised. Adopting this approach ensures that all conclusions are firmly rooted in facts and logic (hypotheses), thus maintaining consistency and coherency.

**III. Use a checking process to rebuild hypotheses**

We use the accuracy of past forecasts to verify the persuasiveness and suitability of a hypothesis for the purpose of ensuring that we are always using the most persuasive hypotheses. We firmly believe that using past experiences, whether a success or failure, is vital to establishing the most persuasive hypotheses.

■ **Service Menu**

**(a) Standard services**

1. Periodic reports and other materials = weekly strategy bulletin, monthly Key Strategy Issues
2. Presentation materials (summary) updated weekly/Presentation materials (complete version) updated monthly
3. Periodic presentations and consulting = Hour-long meetings held quarterly or once or twice each year
4. Market and economic analysis consulting, project studies

**(b) Intensive services (limited to no more than 10 corporate clients)**

1. Standard service items 1 and 2
2. Regular meeting at the client's office
3. Quarterly Musha Salon gathering, research discussions with a small number of participants, events featuring guest speakers
4. Annual Musha Salon with overnight stay

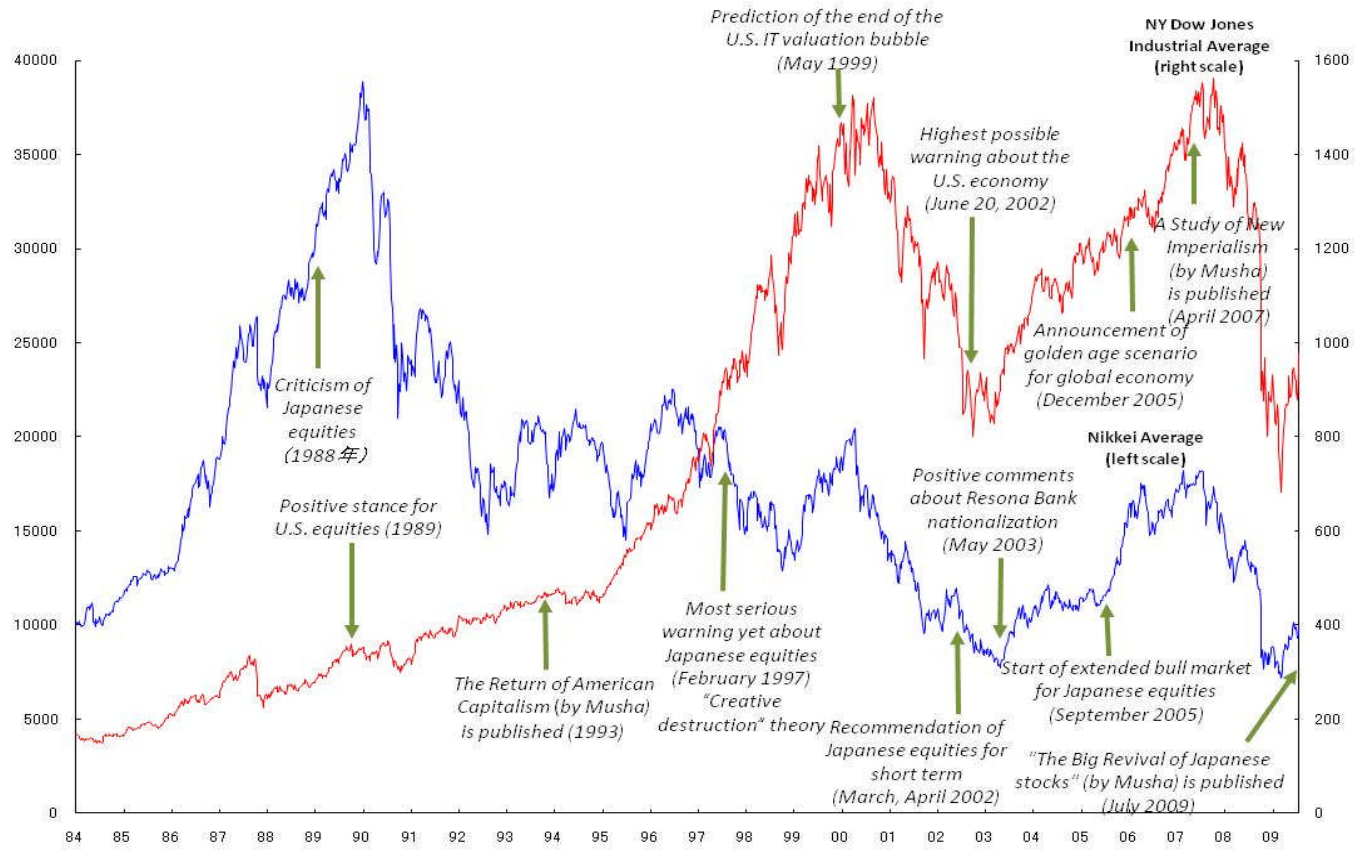
**(c) Research report and lecture video service on the Internet = Pay per view**

## **MR** Musha Research

### ■ Past Investment Opinions of Ryoji Musha

<b>1990-1999</b>	<b>Positive stance on the return to health of the U.S. economy and investing in U.S. equities</b>	<b>CORRECT</b>
Reasons:	<ol style="list-style-type: none"><li>1. Belief in the efficiency of the U.S. restructuring process and the faith of the U.S. public in capitalism that was behind this restructuring</li><li>2. The power of the information revolution led by the United States</li></ol>	
<b>Since May, 1999</b>	<b>Criticism of the “bubble economy”</b>	<b>CORRECT</b>
Reason:	Problems involving the U.S. Internet valuation bubble and the self-fulfilling increases in ROE backed by rising stock prices	
<b>1997 – 2002</b>	<b>Negative outlook for Japanese equities</b>	<b>CORRECT</b>
Reasons:	<ol style="list-style-type: none"><li>1. Large volume of hidden non-performing loans (financial assets that produce no cash flows) in the financial sector</li><li>2. Decline in Japan’s global presence due to strengthening economies in other Asian countries</li><li>3. Unreasonably high expectations for returns on investments</li></ol>	
<b>Oct. ’02 – May ’03</b>	<b>Switch to medium/long-term positive outlook for Japan</b>	<b>CORRECT</b>
Reasons:	<ol style="list-style-type: none"><li>1. Japanese government established an effective system to deal with non-performing loans</li><li>2. Attractive valuations of Japanese equities</li></ol>	
<b>2005</b>	<b>Very positive stance regarding Japanese and U.S. equities</b>	<b>CORRECT</b>
Reasons:	<ol style="list-style-type: none"><li>1. Belief that the world was entering a golden age backed by globalization and the Internet revolution</li><li>2. Extremely low valuations of Japanese equities</li></ol>	
<b>Since Jul. 2007</b>	<b>Consistent positive outlook for Japanese and US equities</b>	<b>BIG MISTAKE</b>
Reasons:	<ol style="list-style-type: none"><li>1. Failure to recognize the magnitude of financial crisis originating with subprime loans</li><li>2. Inability to foresee the catastrophic breakdown in supply-demand that caused financial markets to collapse</li><li>3. Failure to anticipate the destructive power of the market collapse and the speed at which the shock waves expanded; inadequate insight concerning the impact of the market collapse on the real economy</li></ol>	
<b>Since Mar. 2009</b>	<b>Start global equity bull market</b>	<b>So far CORRECT</b>

### Changes in Investment Opinions



Source : Datastream, Musha Research

**Bulletin (Short Comment) 12.2009 - 02.2009**

Date	Title
2009/12/14	The dollar's speculative drop is over. Next, the dollar will rise along with the U.S. economy. Japanese stocks may start to make a comeback.
2009/11/30	Plunging stock prices have created an opportunity to buy low. But Japan is overwhelmed buy the yen's strength.
2009/11/24	The final key to achieving global prosperity - The cloud computing shock
2009/11/19	Japan's Hostile View of Finance Killed the Economy Why did Japan end up as the only loser ?
2009/11/12	Why now? Why a railroad? U.S. investors start taking on risk
2009/10/9	Is excessive demand the culprit? Or is there not enough demand? -The fundamental error of Stephen Roach's position
2009/10/5	How should we view the current stock market correction? -Analyzing the causes of the triple downturn at the heart of this correction
2009/9/14	A weak dollar is good news but a strong yen is bad news "Strong yen speculation" raises questions about the stance of the Democratic Party
2009/9/7	China Report : Accelerating economic recovery and remarkable government skill in managing the economy means that China is poised to lead the way to a global V-shaped rebound.
2009/8/11	Falling inventories and employment at U.S. manufacturers point to a V-shaped recovery starting in the first half of 2010
2009/7/27	Why positive surprises even during negative growth? ~ Economy continues to benefit from globalization and the IT revolution ~
2009/7/24	Expectations for a big rebound in Japanese equities
2009/7/14	The mistakes of the "False Dawn "Theory Stock Prices Will Continue to Climb
2009/6/29	Is now the time to buy or sell long-term government bonds? The U.S. will not repeat Japan's "lost decade"

Date	Title
2009/6/12	The start of an unprecedented market driven by supply and demand A surplus of cash and bargain prices create once-in-a-century supply-demand dynamics
2009/6/2	The risks of choosing to ignore the correction of the negative bubble now underway
2009/5/27	Signs of a recovery in the US, "the genius at creating demand "Consumer sentiment is rebounding rapidly
2009/5/25	Implications of the dollar's weakness against the yen and rising U.S. long-term interest rates
2009/5/19	A huge reversal has started: "Flight from quality" and "Cash avoidance " A sharp contrast with Japan's extremes of low long-term rates, preference for cash and deflationary environment
2009/5/7	The correction of the negative bubble has begun. Further normalization of credit markets point to a continuation in the stock market rally
2009/4/7	Exploring the possibility of a V-shaped recovery (2) Inventory shortfalls could emerge depending on the speed and sustainability of production recovery
2009/4/2	Exploring the possibility of a V-shaped recovery A mighty alliance to correct mispricing in the market
2009/3/24	No winner yet in the battle between pessimists and optimists
2009/3/18	Rising stock prices give the financial crisis an entirely new look Stock prices may be the cure-all for this crisis
2009/3/12	The remarkable strength of U.S. investment bank stocks Apparently, reports of the death of securities companies were premature. Has the correction of the "reverse bubble" started?
2009/3/11	Has the rebound started? Stocks have probably hit bottom
2009/3/2	Selling climax is a sign that a major bottom is near An opportunity to buy stocks at once-in-a-century bargain prices
2009/2/13	U.S. consumption has reached a major bottom
2009/4/2	Exploring the possibility of a V-shaped recovery A mighty alliance to correct mispricing in the market

**Bulletin (Short Comment) 1.2009 - 06.2008**

Date	Title
2009/1/29	【How should we view the dollar system? Series-8】 The 2009 surprise will be a reevaluation of the U.S.
2009/1/28	【How should we view the dollar system? Series-7】 Four possibilities for the post-bubble era and the dollar
2009/1/26	【How should we view the dollar system? Series-6】 Decade-long dollar pessimism and a once-in-a-century financial crisis
2009/1/22	【How should we view the dollar system? Series-5】 The dollar standard and the global division of labor
2009/1/21	【How should we view the dollar system? Series-4】 Does the Fed's big balance sheet make it the world's central bank?
2009/1/20	【How should we view the dollar system? Series-3】 The financial crisis and the shortage of dollars
2009/1/8	Stock prices have probably bottomed out worldwide due to the enormous positive impact of buyer-of-last-resort measures
2008/12/18	The dividing line between 2009 scenarios is U.S.-led global governance
2008/12/11	【How should we view the dollar system? Series-2】 The Nixon Shock and the 2008 financial crisis
2008/12/9	【How should we view the dollar system? Series-1】 Obama will restore the dollar's supremacy
2008/12/3	The market is underestimating the "bazooka" of U.S. initiatives
2008/12/1	Has the Fed Started Rebuilding the Bubble? Operation to protect "the shared illusion"
2008/11/27	The strange spectacle of the V-shaped cash position curve
2008/11/25	Prices stop falling when the government steps in to protect shareholders.
2008/11/10	Market is overwhelmed by irrational hopelessness, But the Fed will be the winner against "depression pricing"
2008/12/3	The market is underestimating the "bazooka" of U.S. initiatives
2008/12/1	Has the Fed Started Rebuilding the Bubble? Operation to protect "the shared illusion"

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2008/11/27	The strange spectacle of the V-shaped cash position curve
2008/11/25	Prices stop falling when the government steps in to protect shareholders.
2008/11/10	Market is overwhelmed by irrational hopelessness, But the Fed will be the winner against "depression pricing"
2008/11/5	The new reality: Once-in-a-century money supply growth and a once-in-a-century fire sale
2008/10/29	Dollar's strength triggers a shift in the market's direction. Prices may have finally hit bottom.
2008/10/27	Expect a V-shaped rather than L-shaped recovery
2008/10/21	Back from the precipice of a depression
2008/10/10	Don't let panic dictate stock prices Criticism of excessive leverage is unfounded
2008/10/9	Fed's short-term financial market intervention has major ramifications
2008/10/1	Invisible hand determined future financial model Have we just seen proof that capitalism is alive and well in U.S. financial markets?
2008/9/29	Probability grows of a step-back from the brink of the crisis
2008/9/25	A More Visible Outlook – Excellent Prospects for Passage of \$700 Billion Bailout Package
2008/9/22	Government steps in as the buyer of last resort – \$700 billion purchase of distressed assets will be a decisive solution. The switch from taking on rather than shunning risk
2008/9/18	A buyer of last resort is needed for a broken market where securities are priced far too low.
2008/9/8	A major turning point may be approaching
2008/8/15	World stock markets are returning to normal - Market may be factoring in recovery rather than deepening crisis
2008/7/18	Differences between the U.S. and Japanese Financial Crises
2008/6/16	Two obvious facts indicate global value play centering on Japanese stocks
2008/6/13	Stagflation is nothing more than an apparition - Now is the time to start global value investing



**Key Strategy Issue (Long Comment) 12.2009 - 03.2006**

Date		Title
2009/12/11	285	2010 outlook depends on the U.S. economy A dramatic recovery is quite possible ~ 2010 may be a year of economic recovery, even higher stock prices and a rebound in the dollar -
2009/10/15	284	The global economy enters a new stage as Japanese companies quickly restructure operations Only one viable global strategy exists
2009/9/30	283	The increasing likelihood of a V-shaped recovery that takes global stock prices back to pre-Lehman shock levels The pessimistic view is proven wrong by the current powerful rally in stock and bond markets
2009/8/21	282	A recovery has started despite declines in employment and credit extensions. Progress in corrections by U.S. companies points to greater likelihood of a V-shaped rebound.
2009/6/29	281	Is now the time to buy or sell long-term government bonds ? The U.S. will not repeat Japan's "lost decade"
2009/4/17	280	The animalistic spirit is back. Be prepared for a sharp rise in stock prices. The pessimists have been proven wrong.
2009/2/18	279	The Scenario for a Market Revival in 2009
2009/2/2	278	How should we view the dollar system ?- All questions lead to the dollar
2008/11/20	277	The 2009 scenario for the return from depression fears
2008/7/2	276	Japan must create a means of valuing the Earth
2008/5/30	275	The Next Economic Trend is Global Coupling Centered on China
2008/5/22	274	No Change in "Golden Scenario" - Nikkei Average Headed for ¥20,000
2008/1/31	273	The end of the negative cycle of fear - Looking ahead to a V-shaped recovery
2007/12/12	272	Post-Subprime Loan Crisis Economic and Market Outlook for 2008 A rare opportunity to buy Japanese stocks at very low prices
2007/8/31	271	Consequences of the subprime debacle A shift of funds from credit instruments to equities
2007/6/5	270	S&P500 record highs& US savings deficit fallacy

Date		Title
2007/5/25	269	Japan's quadruple lows
2007/5/11	268	Global stock boom and questions on Japan's lag
2007/3/6	267	Market decline merely a speculative sell-off
2007/1/4	266	Knightian uncertainty and Japan share-price revolution in 2007
2007/12/5	265	2007 could see "" golden scenario" come to fruition
2006/10/26	264	Fallacy of US as a debtor nation
2006/10/4	263	Abe's to-do list for the economy
2006/8/23	262	Economic Theories: No one has it right
2006/6/27	261	Why have US stopgap measures been successful ?
2006/6/15	260	Share price softness may be acting as automatic stabilizer
2006/5/17	259	Arguments for lower dollar flawed in our view
2006/4/14	-	Exporters merit attention; recommending 32 stocks
2006/4/14	258	Focus on select export companies
2006/4/3	257	Global growth back as a FY06 investment theme
2006/3/17	256	Outlook for the economy and the markets in 2006
2006/3/8	255	Possible scenarios after US rate hikes end

**Key Strategy Issue (Long Comment) 12.2005 - 10.2003**

Date		Title
2005/12/21	254	"Golden scenario" for stock market in 2006
2005/12/8	253	Markets to test golden scenario
2005/11/17	252	Interest rate arbitrage revives
2005/10/14	251	Optimized asset allocation (Revised)
2005/10/6	250	Share price revolution now underway
2005/8/3	249	China's economy: Headed for a major adjustment
2005/6/29	248	A new round of 'Japan leads, others follow' analysis; bubbles in the equity, real estate, and bond markets are a global trend
2005/6/3	247	China's economy: Headed for a major adjustment
2005/3/23	244	The drunken euphoria of the US economy: Start preparing for steep rises in interest rates
2005/2/10	243	Financial, rather than real, economy likely to offer the better chances
2005/1/12	242	Japan's low interest rates in a new light: Investment opportunities under deflationary equilibrium
2004/12/21	241	Excess dollar liquidity puts stocks, bonds at odds with one another in 2004, to remain key theme in 2005
2004/12/2	240	Value, not growth, should be criterion for buying Japanese stocks in 2005
2004/11/10	239	Will the 'empire premium' stick?
2004/10/27	238	Investor's fear removal of moral hazard insurance , not Kerry victory
2004/10/26	237	The nature of Japan's corporate groups hampers profit assessment, transparency
2004/10/25	236	Japanese stocks' curious weakness could be a precursor of a worldwide bear market
2004/9/16	235	End of technical rebound primes global stock markets for descent

Date		Title
2004/8/23	234	Demand slows while production levels remain high : the risk of unintended inventory growth
2004/8/16	233	Likelihood of 2005 global recession mounting: short stocks, go long bonds
2004/7/9	232	Accepting low growth paradigm only option: 2H stock slide unavoidable as US recovery stumbles
2004/7/5	231	End of global liquidity - driven market and relative advantages of Japanese equities
2004/6/23	230	Giddy with FY03 corporate profit jump investors overlook risk of decline in FY04
2004/6/14	229	Oil forces Greenspan's hand: Flexibility of monetary tightening now lost
2004/5/20	228	Bursting of US , Chinese economic bubbles would cause global recession, end Japanese recovery
2004/5/10	227	Global stock let down on all fronts - Greenspan's lack of patience likely to deal deathblow
2004/4/19	226	Global stock markets gradually forming topping formation
2004/3/5	225	Changing our outlook - Japanese equity may have embarked on secular uptrend .
2004/2/24	224	Stock market rally losing momentum Best news already behind us
2004/2/6	223	High US stock prices likely to be hit by distortions in cash flow
2004/1/28	222	When will US stocks peak? Focus on similarities with Japan in 1996
2003/12/19	221	Investment strategy of 2004: Prepare for end of bear market rally and drop in global stock prices
2003/12/9	220	US financial system signaling credit cycle end: early warning of equity price collapse in 2004
2003/11/18	219	Have Japanese stocks peaked ?
2003/11/5	218	Stock market has begun to look beyond current rally
2003/10/17	217	Investors becoming increasingly cautious as they look ahead at US economy after tax cuts

**Key Strategy Issue (Long Comment) 10.2003 - 08.2002**

Date		Title
2003/10/6	216	Limitations of any Japan-US currency understanding; bottleneck on demand side of real economy
2003/9/19	215	Ten possible surprises in 4Q 2003; investors ignoring too many negative factors
2003/9/5	214	Bottleneck for bull market: US consumers' wallets may be empty for Christmas shopping season
2003/8/5	213	Curtain falls on 'seaside resort market'
2003/7/30	212	Investment strategy at a significant turning point
2003/6/25	211	Bond price plunge signals tidal change; best-of-two-words market at an end
2003/6/17	210	Liquidity-driven global markets have low ceiling
2003/5/30	209	Implications of shift in US currency policy
2003/5/20	208	Resona nationalization means stock bottom now realistic, Takenaka reform alive and well
2003/5/16	207	Bond socialism' versus 'stock capitalism - Can stocks break free of unfair competition ?
2003/5/8	206	We Shelve "deflationary equilibrium" scenario in favor of "creative destruction"
2003/4/23	205	Market out of touch with logic: Only reform can arrest share price decline
2003/4/11	204	Gathering clouds: Secular bottom scenario no longer realistic; Nikkei recovery to 10,000 increasingly elusive
2003/3/31	203	Is this Japan? Reform setbacks could delay the market's bottom
2003/3/13	202	Conditions still not right for a market bottom
2003/3/10	201	Can corporate profits be protected in a deflationary economy?
2003/2/25	200	Global stock markets present disparate picture: Japan favoured , but conditional on bank reform
2003/2/14	199	The road ahead after Inflation Plateau and Bubble Mountains; Japanese stocks' pluses

Date		Title
2003/1/31	198	Depression and deflationary equilibrium: Special nature of Japan's crisis
2003/1/15	197	Ricardian specialization does not argue for a weak yen
2003/1/9	196	2003 nightmare scenario: Banking sector reform could end up on the backburner
2003/1/8	195	Deflationary equilibrium supported by a corporate earnings bottom is more likely than depression
2002/12/17	194	Market outlook for 2003: mild recovery under deflationary equilibrium
2002/12/16	193	Analysis of Japanese product competitiveness with Asia
2002/11/29	192	Higher share prices amid deflation? Yes, from 2003
2002/11/18	191	Conditions for a bottoming of stock prices: modest expectations and bank reform
2002/11/5	190	Coming era of global deflation and stock valuation; Upside for Japanese equities in 2003
2002/10/29	189	Banking reform and share prices: The foreigners' perspective(from the APEC Summit in Los Cabos)
2002/10/22	188	Investing in Japan equities during deflation: focus on companies with steady cash flow
2002/10/15	187	Japanese stocks looking increasingly cheap: stock valuation in Japan-led era of deflation
2002/10/7	186	Increasing polarization into two-tier market
2002/10/1	185	A solution to the bad debt problem may be at hand
2002/9/26	184	Amid growing risk of global recession , BOJ initiative sets stage for Japan revival
2002/9/18	183	Standstill turns into plunge: Start of autumn market reflects investors' fears of worldwide recession
2002/9/2	182	Asia holds key to corporate profits: Contacting Europe/US , expanding Asia
2002/8/16	181	The US and Japan - which will fall first?

