

# THE OMNIVEST MARKET VIEW



**Tom Sowanick**

Co-President  
Chief Investment Officer  
tom@omninvestgrp.com  
Tel: +1 609 921 7939

**Eleni Athanatos**

eleni@omninvestgrp.com  
Tel: +1 609 986 1001

## Can Japanese Stocks Spur Economic Growth?

November 19, 2013

Starting January 1<sup>st</sup> 2014, Japanese retail investors will be faced with a choice of earning 0.02% in cash bank deposits or take on risk and invest in a tax exempt equity market. Nippon Individual Savings Accounts (NISA) will now allow individual investors to invest approximately \$10,000 per year for a period of 5 years free of taxes on capital gains and dividends. What makes this even more alluring is that the tax on interest income is set to double from 10.0% to 20.0% in 2014.

The tax advantage of owning equities could be an incremental boost to an economy that appears to be on the mend. Japan's TOPIX Index (Tokyo Stock Price Index) has risen 44.0% this year with the JASDAQ Index (Japanese Association of Securities Dealers Automated Quotation) appreciating by 74.0% year-to-date. It is quite likely that these returns will be compounded next year as Japanese investors shift from a culture of saving to a potentially one of investing. Today, according to the BOJ (Bank of Japan), it is estimated that Japanese households have \$16 trillion in savings of which half is now in bank deposits and only 8.0% is invested in equities.

Clearly the Abe Administration is looking to spur economic growth by increasing investment capital. In addition, the BOJ should be able to achieve its target of 2.0% inflation which would put significant upward pressure on nominal interest rates, causing fixed income investments to severely underperform equities and force bond prices much lower.

US investors are faced with a similar dilemma with respect to fixed income investments knowing that one of the Federal Reserve's two goals is to push inflation back to 2.0% from 1.2%. We all know that rising inflation erodes income. As such, a successful Fed would clearly be damaging to fixed income investors.

In some ways, the Central Bank community has embarked on shifting household risk profiles away from the safety of fixed income investments in favor of equities. At least for now, the strategy of selling debt for equities has worked quite well in most markets.

Forward guidance (the new favorite tool of Central Banks) has clearly given investors confidence to engage in incremental risk taking - whether it be the BOJ, the ECB (European Central Bank) or the Fed.

In Japan, the fiscal and monetary programs that have been introduced by the BOJ and the Abe Administration this year have had quite a negative impact on the yen. Year-to-date, the yen has lost nearly 13.5% versus the US dollar and nearly 16.0% versus the euro. We expect the yen to erode even further over the course of 2014 which will eventually contribute to a rise in Japan's inflation rate.

This report was prepared by Omnivest Research. This material reflects the current opinion of the firm based on sources deemed reliable, but we do not guarantee its accuracy or completeness.