

Bear Market In Japan May Be Nearing End

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Despite the symbol on it's flag, Japan's economy doesn't exactly reflect a glow from the rising sun right now.

High materials costs and a tighter consumer squeeze are pinching the Japanese hard. Inflation in June surged to 1.9%, the fastest pace in 15 years, and the country's exports slid for the first time in almost five years. Last week, venerable automaker **Toyota** ([TM](#)) self-downgraded the company.

Japanese cabinet office head of business statistics Shigeru Sugihara said Wednesday that the country's economy was "deteriorating" and already could be in recession. He also said the country's longest postwar expansion probably has ended.

Sun Not Setting

But don't for one second think Japan's financial sun is setting, say analysts. In fact, investors should gear up for some big profits in the coming year.

"Japan actually is doing better than it was five years ago when interest rates were still really high. I think the country has begun to put its house in order," said Don Dion, president and founder of Massachusetts-based Dion Money Management and publisher of the Fidelity Independent Adviser newsletters.

Japan's benchmark interest rate is the lowest among developed nations. Also, the country's banks avoided the U.S. subprime mess.

Coupled with its embrace of shareholder rights issues and a progressive tax policy, "the seeds of a super bull market have been sown," said J. Mark Spallanzani, managing partner of Alcott Capital Management and publisher of ETFWatch.com. "Overall, it's a great time to buy."

IShares MSCI Japan ([EWJ](#)) includes the top 85% of Japan's available stock. It's packed with big-cap names such as Toyota, **Honda**, ([HMC](#)) **Mitsubishi**, ([MTU](#)) **Sony**, ([SNE](#)) **Canon** ([CAJ](#)) and Nintendo.

Oil Prices

Yet oil's decline already has sent those stocks higher the past two days on expectations that lower crude prices will free up consumer spending.

"You don't see the Toyota dealerships closing," said Dion, noting that the company is switching manufacture of vehicles here in the U.S. to its hybrid Prius instead of its larger SUVs. Toyota's warning of lowered expectations simply was a defensive move, he says.

"You might as well lower expectations and then exceed them," he said.

IShares MSCI Japan Small Cap Index fund ([SCJ](#)) tracks the performance of smaller companies. The 7-month-old ETF also is well-positioned to catch the next Japanese growth wave, Dion said.

Those who ride out Japan's slide should see a big payout, though, Spallanzani said.

"I think Japan's ready for a super bull market starting in 2009 with a run from the current 13,000 to over 20,000," he said.

iShares MSCI Japan

EWJ 11.72 -0.07

