



December Effect in Japan Actual better than PBR in December.

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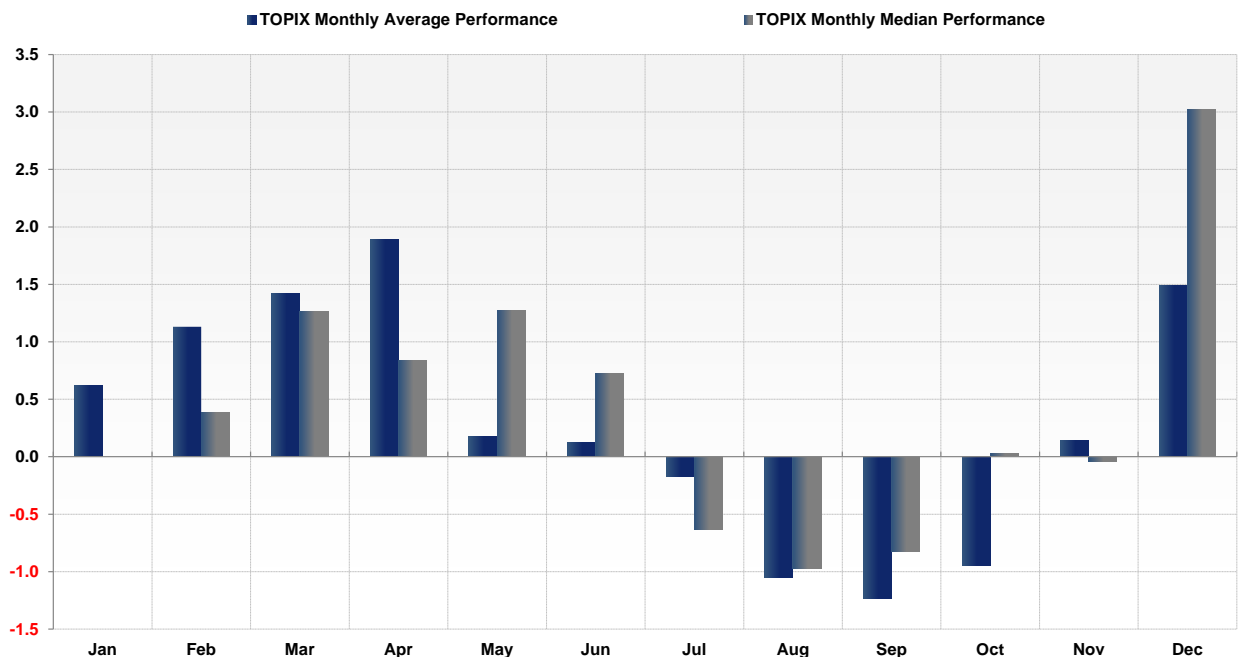
KFC – the traditional Christmas fare in Japan

It is well documented that the December effect does exist and is still going strong in Japan. As you can see in the chart below, December clearly out performs every other month. TOPIX has a median return of 3% in December since 1985. In the last 10 years TOPIX performance in December has actually been stronger with an average return of 3.7%.

Even if we look at the last 5 years, on average TOPIX is up 3.5% in December.

TOPIX Median and Average Monthly Return since 1985

Dec. is clearly the best month for TOPIX



Source: Custom Products Research



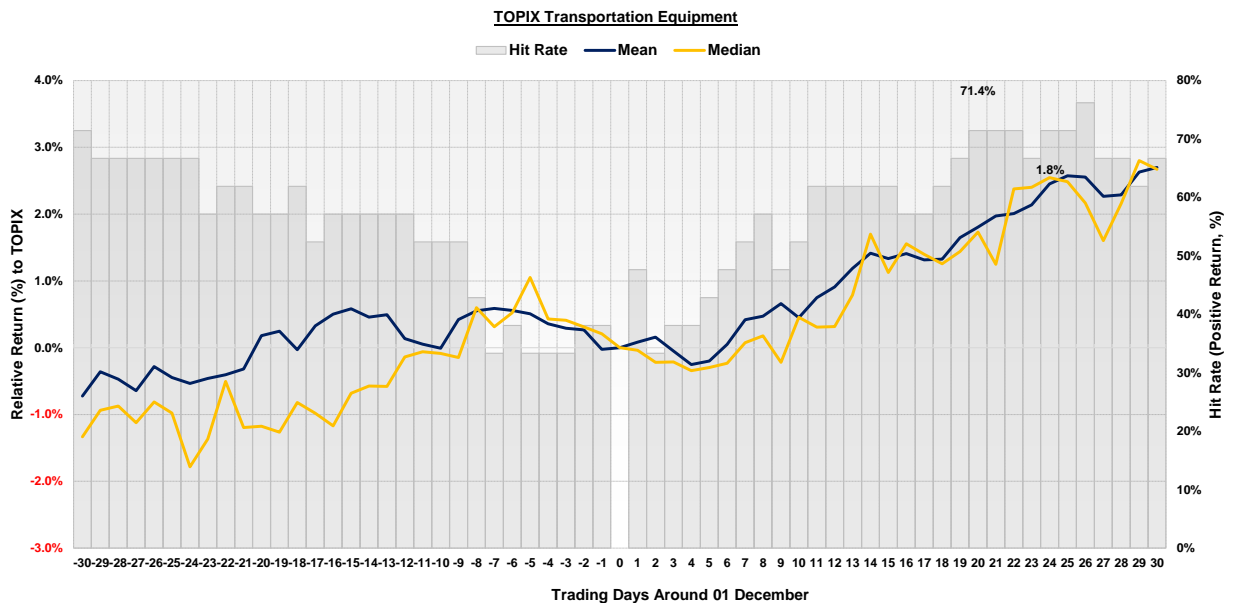
The December effect is an interesting one as it is a little different than other anomalies in the market. For example, the run up in the Dividend ex-date was another clear anomaly and one that for the most part the Quant funds have arbitrated away. However, the December effect is based on Investors dumping their losers to take advantage of tax benefits and holding their winners until January to take capital gains in the beginning of the new year. Any upward buying pressure by the Quants will make investors want to hold on more until the new year. Any downward shorting pressure will just increase the reasons to dump in December.

We back tested the relationship between the performance in the first 11 months of the year and December performance. We found that there is a 4.7% Information Coefficient (IC). Now in Japan, PBR is historically the strongest factor driving the market and its average IC is around 5% depending on the time frame. So in December, price performance from January to November is the factor that has historically driven prices.

Sector Level – The Best

So which sectors do the best? We looked at how the 33 Sectors performed relative to TOPIX one month leading up to December and then through to the end of the year. The best is Transportation Equipment with an average return of 1.8% relative to TOPIX. As you can see by the chart below, Transportation Equipment also does well in November up about 1.3% relative to TOPIX.

Transport. Equipment historically strong with a high hit rate



Source: Custom Products Research

The names that did the best in Transportation Equipment were Daihatsu Motors with a median 6.7% absolute return in December, followed by Nippon Seiki with a 6% median return. Toyota has a median return of 2% and Honda has a 3% median return in December. Nissan and Mitsubishi Motors do the worst in December with median returns of negative 3% and negative 3%.



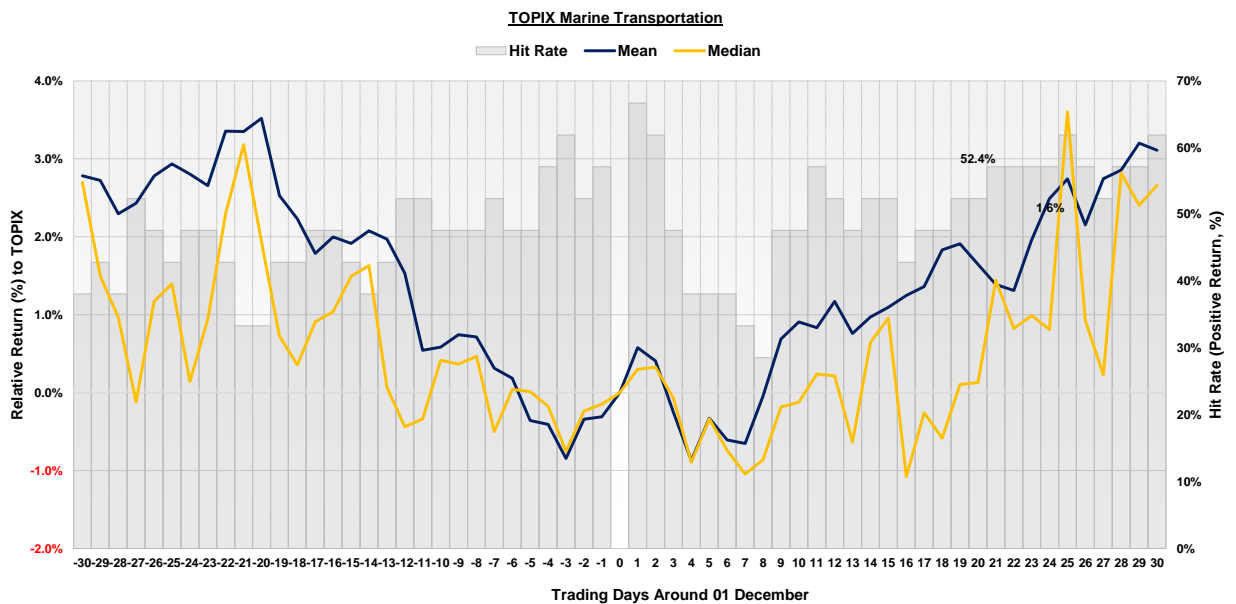
Transportation Equipment Historical Results

Ticker	Company Name	Sector	Mkt-Cap (bn yen)	December Performance		
				Median Return (%)	Average Return (%)	% of Positive Returns
7203	Toyota Motor Corp.	Transportation Equipment	25,976.8	2.0	5.0	63.6
7267	Honda Motor Co., Ltd.	Transportation Equipment	7,260.2	2.6	2.8	54.5
6902	DENSO CORPORATION	Transportation Equipment	5,216.9	1.8	3.1	63.6
6201	Toyota Industries Corp.	Transportation Equipment	2,144.0	1.7	3.3	59.1
7261	Mazda Motor Corp.	Transportation Equipment	1,530.3	1.5	1.4	59.1
7259	Aisin Seiki Co Ltd	Transportation Equipment	1,460.1	1.3	1.9	54.5
7272	Yamaha Motor Co., Ltd.	Transportation Equipment	1,058.4	3.3	2.9	72.7
7205	Hino Motors, Ltd.	Transportation Equipment	856.7	5.9	4.0	68.2
7012	Kawasaki Heavy Industries Ltd.	Transportation Equipment	815.4	1.2	-1.3	54.5
7262	Daihatsu Motor Co., Ltd.	Transportation Equipment	665.9	6.7	4.6	72.7
7248	Calsonic Kansei Corporation	Transportation Equipment	286.1	2.9	0.7	68.2
6995	Tokai Rika Co., Ltd.	Transportation Equipment	268.3	1.3	1.2	63.6
7222	Nissan Shatai Co., Ltd.	Transportation Equipment	224.7	1.1	-0.2	59.1
7287	Nippon Seiki Co., Ltd.	Transportation Equipment	152.3	6.0	5.5	68.2
7251	Keihin Corp.	Transportation Equipment	147.6	1.1	0.1	63.6
7279	Hi-Lex Corporation	Transportation Equipment	140.3	2.5	3.6	59.1
5949	Unipres Corporation	Transportation Equipment	139.2	3.5	-0.6	54.5
7296	F.C.C.Co., Ltd.	Transportation Equipment	131.0	4.6	2.6	61.9
7230	Nissin Kogyo Co., Ltd.	Transportation Equipment	124.2	3.0	1.2	61.1
7224	Shinmaywa Industries, Ltd.	Transportation Equipment	120.4	1.3	-0.1	54.5
7408	Jamco Corporation	Transportation Equipment	113.8	2.3	0.0	63.6

Source: Custom Products Research

After Transportation Equipment, Marine Transportation is the next best performer in December. However unlike Transportation Equipment, Marine Transportation does not do well in November. As you can see in the chart below, Marine Transportation is down 3% in November and then bounces back in December up a 2.7% median return relative to TOPIX.

Marine Transport one to watch



Source: Custom Products Research



Obviously Marine Transportation with only three names with mkt-cap greater than ¥100bn is not a huge sector. However, on average all three names are up in December. Although, Mitsui O.S.K is down on a median basis and actually has a pretty poor success rate.

Marine Transportation Historical Results

Ticker	Company Name	Sector	Mkt-Cap (bn yen)	December Performance		
				Median Return (%)	Average Return (%)	% of Positive Returns
9101	Nippon Yusen Kabushiki Kaisha	Marine Transportation	544.2	1.3	2.6	68.2
9104	Mitsui O.S.K.Lines,Ltd.	Marine Transportation	401.7	-1.9	1.2	45.5
9107	Kawasaki Kisen Kaisha, Ltd.	Marine Transportation	233.9	2.2	1.2	59.1

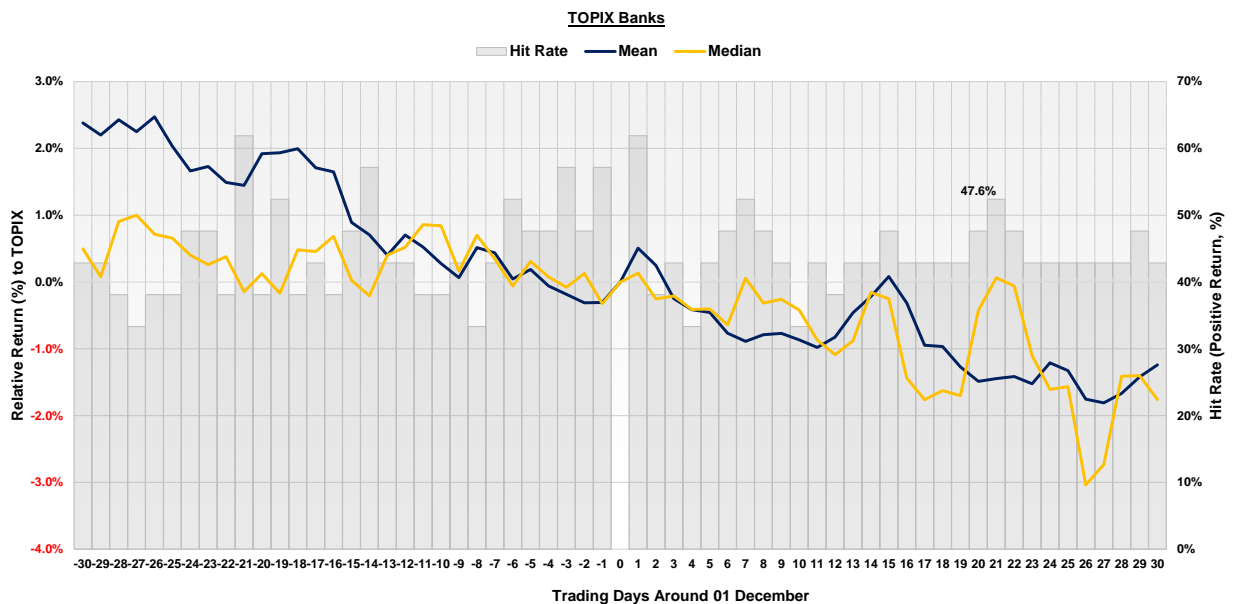
Source: Custom Products Research

Sector Level – The Worst

The worst performing sectors in December are Oil & Coal with negative 2.4% median return relative to TOPIX, Pulp & Paper with negative 2.3% median relative return and Air Transportation with negative 2.1% median return relative to TOPIX. However these are all small sectors so we will move on to a larger sector that does not do well in December, the Banks.

In fact, Banks do not do well in November either. On average the Banks sector is down 2.4% relative to TOPIX in November and then falls on average another 1.2% relative to TOPIX. The median value is worse at negative 1.8% relative in December.

Banks tend to underperform



Source: Custom Products Research



Kansai Urban Banking's performance is the worst in December with a median of negative 4.7%. Suruga Bank also does not do well in December. On average Suruga Bank is down 3% in December. On the other side, MUFJ is actually up 2% on average. San-In Godo also does well in December with a 2.6% median absolute return.

Banks Historical Results

Ticker	Company Name	Sector	Mkt-Cap (bn yen)	December Performance		
				Median Return (%)	Average Return (%)	% of Positive Returns
8545	Kansai Urban Banking Corporation	Banks	102.5	-4.7	-3.3	36.4
8388	Awa Bank, Ltd.	Banks	166.2	-1.4	-0.6	31.8
8368	Hyakugo Bank, Ltd.	Banks	158.8	-1.3	-1.3	31.8
8324	Daishi Bank, Ltd.	Banks	201.5	-1.2	-0.2	40.9
8363	Hokkoku Bank, Ltd.	Banks	129.3	-0.9	-1.3	40.9
8358	Suruga Bank Ltd.	Banks	660.8	-0.8	-3.0	36.4
8386	Hyakujushi Bank, Ltd.	Banks	142.9	-0.7	-0.1	31.8
8359	Hachijuni Bank, Ltd.	Banks	390.0	-0.7	-0.6	45.5
8367	Nanto Bank Ltd.	Banks	108.6	-0.5	0.3	45.5
8360	Yamanashi Chuo Bank, Ltd.	Banks	110.5	-0.5	-0.7	50.0
8366	Shiga Bank, Ltd.	Banks	168.6	-0.3	0.7	45.5
8397	Bank Of Okinawa, Ltd.	Banks	101.3	-0.2	2.1	50.0
8356	Juroku Bank, Ltd.	Banks	191.1	-0.2	-0.1	40.9
8333	Joyo Bank, Ltd.	Banks	455.1	-0.0	-0.0	50.0
8370	Kiyo Bank, Ltd.	Banks	137.7	0.0	-1.3	36.4
8304	Aozora Bank, Ltd.	Banks	514.6	0.0	-1.0	31.8
8303	Shinsei Bank, Limited	Banks	643.6	0.0	0.5	45.5
8355	Shizuoka Bank, Ltd.	Banks	826.8	0.1	0.7	54.5

Source: Custom Products Research



Company Level – The Best

If we look at the Company level, some names clearly stand out. Dentsu with an 86% hit rate is up 8% on average in December. EDION's hit rate is even better at 92% with an average return of 13%. Looking at the larger cap names, Eisai is up 4% on average and has a 77% hit rate. NTT DATA is up 4.4% with a 70% success rate.

Names with Success rate greater than 70%

Ticker	Company Name	Sector	Mkt-Cap (bn yen)	December Performance		
				Median Return (%)	Average Return (%)	% of Positive Returns
2730	EDION Corp	Retail Trade	109.2	8.9	13.1	92.3
4324	Dentsu Inc.	Services	2,033.3	9.3	8.2	85.7
6324	Harmonic Drive Systems Inc.	Machinery	240.5	5.4	7.5	70.6
8628	Matsui Securities Co., Ltd.	Securities & Commodity Futures	309.7	4.3	7.2	71.4
9831	Yamada Denki Co., Ltd.	Retail Trade	549.0	7.0	6.7	72.7
7550	Zensho Holdings Co., Ltd.	Retail Trade	223.2	3.2	6.7	77.8
9603	H.I.S.Co., Ltd.	Services	269.0	6.9	5.7	70.0
7649	Sugi Holdings Co., Ltd.	Retail Trade	398.4	3.2	5.5	73.3
9616	Kyoritsu Maintenance Co., Ltd.	Services	186.0	4.3	5.2	81.0
7262	Daihatsu Motor Co., Ltd.	Transportation Equipment	665.9	6.7	4.6	72.7
9613	NTT DATA Corporation	Information & Communication	1,702.6	3.2	4.4	70.0
6976	Taiyo Yuden Co., Ltd.	Electric Appliances	242.4	4.9	4.4	77.3
7616	Colowide Co., Ltd.	Retail Trade	140.4	3.5	4.3	75.0
4523	Eisai Co., Ltd.	Pharmaceutical	2,411.7	5.3	3.9	77.3
4922	Kose Corporation	Chemicals	777.4	3.1	3.8	80.0
5938	LIXIL Group Corp.	Metal Products	907.5	4.1	3.8	77.3
4681	Resorttrust, Inc.	Services	359.2	4.1	3.6	77.8
7741	HOYA CORPORATION	Precision Instruments	2,089.4	4.7	3.5	72.7
6925	Ushio Inc.	Electric Appliances	251.5	3.2	3.4	72.7
7272	Yamaha Motor Co., Ltd.	Transportation Equipment	1,058.4	3.3	2.9	72.7
8218	KOMERI CO., LTD.	Retail Trade	148.0	2.0	2.8	72.7
1833	Okumura Corporation	Construction	154.3	2.1	2.7	72.7
2802	Ajinomoto Co., Inc.	Foods	1,687.1	2.4	2.5	81.8
9602	Toho Co. Ltd.	Information & Communication	631.2	3.2	2.5	72.7
5802	Sumitomo Electric Industries, Ltd.	Nonferrous Metals	1,392.6	2.3	2.5	72.7
2659	San-A Co., Ltd.	Retail Trade	170.5	2.9	2.3	73.3
9069	SENKO Co., Ltd.	Land Transportation	117.0	4.2	2.2	77.3
4063	Shin-Etsu Chemical Co Ltd	Chemicals	3,050.7	3.5	2.0	72.7
9531	Tokyo Gas Co., Ltd.	Electric Power & Gas	1,418.7	2.0	1.9	72.7
4626	Taiyo Holdings Co., Ltd.	Chemicals	127.8	1.4	1.7	81.8
2284	Itoham Foods Inc.	Foods	154.2	3.0	1.6	77.3
4507	Shionogi & Co., Ltd.	Pharmaceutical	1,962.5	2.9	1.6	72.7
7581	Saizeriya Co., Ltd.	Retail Trade	152.6	2.4	1.6	82.4
9735	Secom Co., Ltd.	Services	1,958.7	2.0	1.5	72.7

Source: Custom Products Research



Company Level – The Worst

On the other side, Gulliver International is down 5% on average in December with a 44% success rate. Anritsu is just as bad in December with returns down 4% on average with only a 41% success rate. Looking at the larger mkt-cap names, Mitsubishi Motors is down 2.4% on average, Itochu Corp is down 2.2% on average and Sysmex Corp is also down 2.2% on average in December.

Names with Success rate lower than 50%

Ticker	Company Name	Sector	Mkt-Cap (bn yen)	December Performance		
				Median Return (%)	Average Return (%)	% of Positive Returns
7599	Gulliver International Co., Ltd.	Wholesale Trade	123.5	-1.7	-4.7	43.8
6754	Anritsu Corporation	Electric Appliances	111.9	-4.0	-4.1	40.9
5715	Furukawa Co., Ltd.	Nonferrous Metals	101.9	-2.7	-3.8	40.9
6366	Chiyoda Corp.	Construction	265.8	0.7	-3.8	50.0
9716	Nomura Co., Ltd.	Services	110.7	-2.8	-3.6	36.4
5012	TonenGeneral Sekiyu K.K	Oil & Coal Products	697.4	-1.9	-3.5	27.3
4534	Mochida Pharmaceutical Co., Ltd.	Pharmaceutical	162.5	-2.4	-3.5	31.8
4739	Itochu Techno-Solutions Corporation	Information & Communication	304.1	-5.1	-3.4	46.7
6755	Fujitsu General Limited	Electric Appliances	176.7	-1.4	-3.3	36.4
8545	Kansai Urban Banking Corporation	Banks	102.5	-4.7	-3.3	36.4
4205	Zeon Corporation	Chemicals	247.2	-3.0	-3.3	36.4
8508	J Trust Co., Ltd.	Other Financing Business	113.6	-0.9	-3.3	47.1
4045	Toagosei Co., Ltd.	Chemicals	140.8	-2.3	-3.2	31.8
8358	Suruga Bank Ltd.	Banks	660.8	-0.8	-3.0	36.4
9744	Meitec Corporation	Services	133.1	-3.8	-3.0	31.8
2702	Mcdonalds Holdings Company Japan, Ltd.	Retail Trade	406.2	-2.5	-2.9	14.3
7278	Exedy Corporation	Transportation Equipment	141.0	-1.7	-2.7	40.9
9065	Sankyu Inc.	Land Transportation	203.5	-1.1	-2.7	40.9
8088	Iwatani Corporation	Wholesale Trade	171.4	-2.3	-2.7	36.4
2871	Nichirei Corporation	Foods	246.4	-0.0	-2.6	50.0
3003	Hulic Co., Ltd.	Real Estate	722.8	-2.5	-2.5	31.8
4004	Showa Denko K.K.	Chemicals	239.5	0.4	-2.5	50.0
7004	Hitachi Zosen Corporation	Machinery	115.3	-0.7	-2.4	50.0
7211	Mitsubishi Motors Corporation	Transportation Equipment	1,074.2	-3.1	-2.4	40.9
4540	Tsumura & Co.	Pharmaceutical	243.5	-0.1	-2.2	45.5
8001	Itochu Corporation	Wholesale Trade	2,584.1	0.1	-2.2	50.0
6923	Stanley Electric Co., Ltd.	Electric Appliances	433.5	-0.8	-2.2	45.5
8227	SHIMAMURA Co., Ltd.	Retail Trade	536.7	0.3	-2.2	50.0
6869	Sysmex Corporation	Electric Appliances	1,630.2	-1.0	-2.2	40.0
6807	Japan Aviation Electronics Industry, Limited	Electric Appliances	197.7	-0.9	-2.2	45.5
5105	Toyo Tire & Rubber Co., Ltd.	Rubber Products	341.1	-1.1	-2.1	45.5
4151	Kyowa Hakko Kirin Co., Ltd.	Pharmaceutical	1,266.5	-1.5	-2.1	40.9
7003	Mitsui Engineering & Shipbuilding Co.,Ltd	Transportation Equipment	169.5	-0.7	-2.0	45.5
5122	Okamoto Industries, Inc.	Rubber Products	106.6	-1.9	-2.0	36.4
7532	Don Quijote Holdings Co.,Ltd.	Retail Trade	781.1	-0.4	-1.9	50.0

Source: Custom Products Research

If you would like to receive the actual screens and charts or if you would like us to change any of the parameters. Please contact us and would be happy to help.



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