

Nomura Individual Investor Survey

May 2007

7 May 2007

Investment Strategy Department
Financial & Economic Research Center
Nomura Securities Co., Ltd.

1. Introduction

With the aim of better understanding investing activity by individuals and providing information on those trends, the Financial & Economic Research Center of Nomura Securities conducts a monthly survey—the Nomura Individual Investor Survey. The results of the survey have been published monthly since April 2006.

2. Overview of Nomura Individual Investor Survey

Survey method: Questionnaire conducted electronically using the internet monitor questionnaire service administered by Nomura Investor Relations Co., Ltd.

Survey target: Survey sent to e-mail addresses of record for the approximately 11,800 individual investors participating in Nomura Investor Relations' internet monitor questionnaire service (change in monitors this month).

Number of responses: 1,000 (survey closed when 1,000 responses received)

Survey period: Survey distributed on 21 April with deadline for responses on 23 April

Survey content: Questions included in every survey plus feature questions focusing on various topics that change from month to month. Questions included each month are (1) share price outlook (Nikkei Average), (2) stock trading activity (present and future), (3) factors expected to impact the stock market (domestic economy, corporate earnings, foreign political and economic trends, etc), (4) attractive sectors, and (5) attractive stocks.

3. Nomura Individual Investor Survey (May 2007) respondents

Gender: Male (67.1%), Female (32.9%)

Age: Less than 30 (7.6%), 30–39 (33.2%), 40–49 (28.5%), 50–59 (19.3%), 60 and above (11.4%)

Financial assets held: Less than ¥2,000,000 (24.6%), ¥2,000,000–¥4,999,999 (19.9%), ¥5,000,000–¥9,999,999 (18.6%), ¥10,000,000–¥29,999,999 (24.1%), ¥30,000,000 or more (12.8%)

Number of different stocks held: One stock (13.5%), Two stocks (13.2%), Three–five stocks (37.8%), Six–10 stocks (19.7%), 11–20 stocks (8.2%), 21 or more stocks (5.6%), None (2.0%)

Average duration stocks are held: Less than one month (7.8%), One month to less than three months (10.7%), Three months to less than six months (13.3%), Six months to less than one year (17.0%), One year to less than two years (19.2%), Two years to less than five years (17.7%), Five years or more (14.7%)

Frequency of trading activity: Once or more per day (5.9%), Once or more per week (21.3%), About once a month (20.5%), About once every two to three months (20.4%), About once every six months (9.7%), About once a year (7.3%), Once every few years or so (6.1%), Not active at present (8.8%)

Investment experience: Less than one year (6.5%), One year to less than three years (24.9%), Three years to less than five years (18.3%), Five years to less than 10 years (23.3%), 10 years or more (27.0%)

Area of investment focus: Stock price movements and technical factors (14.9%), Strong earnings growth (18.1%), Stable earnings growth (45.1%), Dividends and shareholder returns (21.9%)

4. Survey overview

(1) Nomura I-View Index down for second straight month, to 49.0

The Nomura Individual Investor Market View Index (Nomura I-View Index), based on respondents' three-month outlook on share prices, was 49.0 for May, down 11.2pt from 60.2 in April. We think the decline came on the lack of strong recovery in the Japanese stock market following the global stock correction and an increase in individual investors regarding a clear recovery in the coming months as unlikely.

(2) Stock investment sentiment continues to decline

Respondents were asked about the number of different stocks traded, the investment amount, the frequency of trading activity, and the number of stocks held over the past three months. The proportion of "no change" responses fell and the proportion of "decreased" responses rose for all categories. Although the proportion of "increased" responses exceeds that of "decreased" for all categories except frequency of trading activity, the gap between proportions for the two shrank. We think individual investor sentiment has continued to deteriorate amid a lack of expectations for a strong rebound by the stock market.

(3) Increase in negative views on market/psychological factors and domestic interest rates/forex trends

Respondents were asked to rate the impact of a set of factors on the stock market in the next three months as positive, negative or neutral. The proportion of negative views increased for market factors & psychological factors and domestic interest rates & forex trends. We think the result for the former category reflects the recent state of the stock market. In terms of the latter, although the temporary strengthening of the yen versus the US dollar has subsided, we think investors remain cautious about changes in the forex market.

(4) Materials the most appealing sector for third straight month

The sectors with the most appeal were materials, pharmaceuticals & healthcare, and electrical machinery & precision equipment, while the bottom three were financials, electricity & gas, and construction & real estate. Materials thus topped the list for a third straight month.

(5) Many individual investors have no fixed policy on realizing gains or losses

For this month's spot questions, we asked individual investors about their investment performance in the previous fiscal year (April 2006–March 2007) and their policies on realizing losses or gains. Responses showed that investors tended to be relatively quick to take profits, but had no concrete policy for realizing either profits or losses. The latter in particular suggests to us that when share prices decline, many individual investors are slow to cut losses or tend to hold on to stocks with unrealized losses.

(6) Nomura I-NIC Index down for second straight month to –30.0

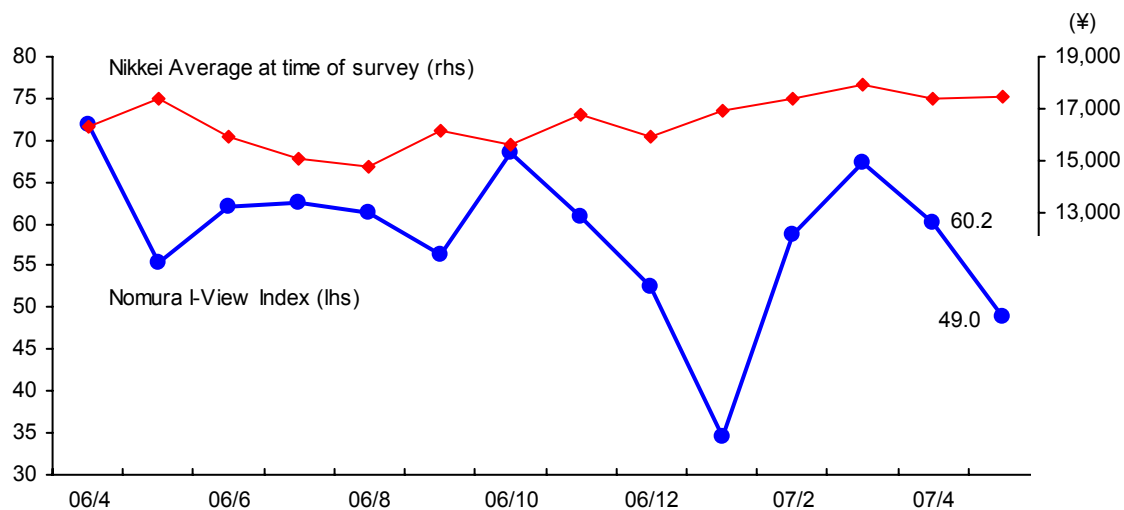
The Nomura Individual Investor Investment Climate Index (Nomura I-NIC Index), which factors in statistics directly and indirectly related to the investment environment for individual investors and indicators that individual investors are thought to follow, was –30.0 (April preliminary data), down from the final March figure of –16.7.

5. Survey results

(1) Nomura I-View Index down for second straight month, to 49.0

The Nomura Individual Investor Market View Index (Nomura I-View Index), based on respondents' three-month outlook on share prices (see section (2) below), was 49.0 for May, down 11.2pt from 60.2 in April. This marks the second consecutive decline and the first time the index has fallen below 50 since January 2007, when it was 34.6 (Exhibit 1).

1. The Nomura I-View Index and reference level of Nikkei Average at time of survey



Note: The Nomura I-View Index is based on data collected by this survey and calculated using a diffusion index. The calculation method is as follows:

[(Number of responses indicating expected rise in share prices in the next three months minus number of responses indicating expected fall in share prices in the next three months) divided by number of respondents] X 100

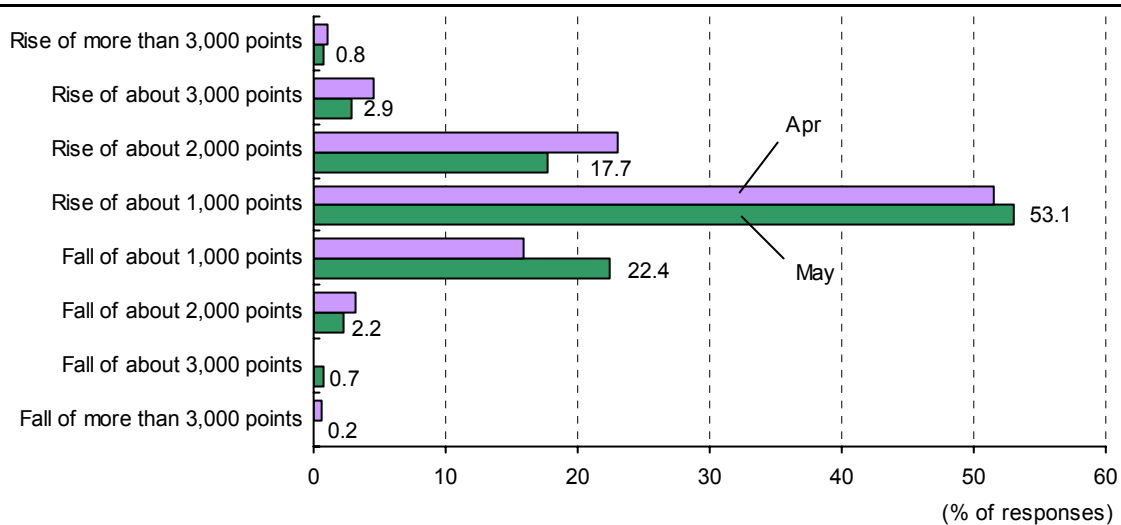
The Nomura I-View Index ranges from -100 to +100. The closer to +100 the figure is, the more bullish the outlook held by individual investors. The closer to -100 the figure is, the more bearish the outlook held by individual investors.

(2) Stalled market conditions lead to deterioration in sentiment

When asked about the outlook for the Nikkei Average during the next three months, the percentage of respondents expecting a “rise of about 1,000 points” increased to 53.1%, from 51.5% in April. However, the proportion expecting a “rise of about 2,000 points” fell from 23.0% to 17.7%, while the proportion looking for a “fall of about 1,000 points” increased from 15.9% to 22.4%. The reference level for the Nikkei Average of 17,452 (20 April close) was roughly the same as at the time of the previous month’s survey (17,419), indicating a lack of strong recovery by the Japanese stock market following the global stock correction. As a result, an increasing number of individual investors are looking for the current situation to continue and have low expectations for a clear recovery. We see this as the reason the Nomura I-View Index fell for the second straight month to its second lowest ever (Exhibit 2).

Note: Respondents were asked to share their outlook for the Nikkei Average during the next three months based on a 20 April closing figure of 17,452. Respondents could choose one answer from a possible eight responses—ranging from a “rise of more than 3,000 points” to a “fall of more than 3,000 points” with 1,000-point increments in between. For example, one possible response was the range of 17,501 to 18,500 (a rise of about 1,000 points).

2. Outlook for Nikkei Average during the next three months



(3) Stock investment sentiment continues to decline

Respondents were asked about the number of different stocks traded, the investment amount, the frequency of trading activity, and the number of stocks held over the past three months. The proportion of “no change” responses fell and the proportion of “decreased” responses rose for all categories this month. For number of stocks traded and investment amount, the proportion of “increased” responses rose, but by less than the rise in “decreased.” Although the proportion of “increased” exceeds that of “decreased” for all categories except frequency of trading activity, we think individual investor sentiment has continued to deteriorate amid a lack of expectations for a strong rebound by the stock market. Plans for the next three months showed a similar pattern, indicating to us that current investor sentiment is affecting outlooks as well (Exhibit 3).

Note: Respondents were asked about the number of different stocks traded, the investment amount, the frequency of trading activity, and the number of stocks held for the past three months and desired levels in these categories for three months hence. The possible responses were increased (plan to increase), no change, or decreased (plan to decrease).

3. Number of different stocks traded, investment amount, frequency of trading activity, and number of stocks held (%)

(1) Past three months

	Increased		No change		Decreased	
	May	Apr	May	Apr	May	Apr
Number of different stocks traded	19.2	18.7	63.3	66.6	17.5	14.7
Investment amount	19.5	16.2	61.8	69.8	18.7	14.0
Frequency of trading activity	16.9	17.8	58.6	63.4	24.5	18.8
Number of stocks held	17.0	17.5	66.8	67.6	16.2	14.9

(2) Next three months

	Plan to increase		No change		Plan to decrease	
	May	Apr	May	Apr	May	Apr
Number of different stocks traded	32.7	32.7	55.7	58.8	11.6	8.5
Investment amount	31.5	30.6	57.8	60.1	10.7	9.3
Frequency of trading activity	36.4	35.0	54.6	57.8	9.0	7.2
Number of stocks held	29.3	29.6	54.0	57.1	16.7	13.3

(4) Increase in negative views on market/psychological factors and domestic interest rates/forex trends

Respondents were asked to rate the impact of a set of factors on the stock market in the next three months as positive, negative or neutral. The most popular responses for market factors & psychological factors shifted to “neutral” followed by “somewhat positive,” from the reverse order last month, while those for domestic interest rates & forex trends were “neutral” followed by “somewhat negative,” from “neutral” followed by “somewhat positive.” We think the result for the former category reflects the recent state of the stock market. In terms of the latter, although the temporary strengthening of the yen versus the US dollar has subsided, we think investors remain cautious about changes in the forex market. For domestic economy & corporate earnings, “positive” and “somewhat positive” responses declined while “negative” and “somewhat negative” responses increased. The majority view remains that the Japanese economy and corporate earnings are gradually expanding, but bearishness is on the rise. Meanwhile, the proportion of “somewhat positive” views on overseas securities markets rose by 9 points m-m, largely reflecting the strong US stock market (Exhibit 4).

4. Impact of factors on the stock market (%)

	Positive		Somewhat positive		Neutral		Somewhat negative		Negative	
	May	Apr	May	Apr	May	Apr	May	Apr	May	Apr
Domestic economy & corporate earnings	7.9	9.3	51.0	57.9	28.3	24.5	11.6	7.4	1.2	0.9
Market factors & psychological factors	5.3	6.0	31.3	39.6	35.6	36.2	24.7	16.5	3.1	1.7
Domestic interest rates & forex trends	3.8	3.0	26.8	25.7	38.5	46.8	28.1	22.2	2.8	2.3
Domestic politics	1.9	2.3	15.9	13.0	49.3	50.5	30.4	30.1	2.5	4.1
Overseas securities markets	5.8	4.3	31.7	22.7	32.6	41.7	26.3	27.3	3.6	4.0
Overseas political & economic situation	3.5	2.5	19.6	14.8	43.6	51.1	30.1	28.2	3.2	3.4

(5) Materials the most appealing sector for third straight month

Respondents were asked to choose one sector most appealing and one sector least appealing as an investment target during the next three months. For each sector we calculated a diffusion index by subtracting the percentage of responses for unappealing from that for appealing. The top three DI scores were for materials, pharmaceuticals & healthcare, and electrical machinery & precision equipment. The bottom three were financials, electricity & gas, and construction & real estate. Materials thus topped the list for a third straight month. Autos & auto parts and information & telecommunications dropped out of the top three, replaced by pharmaceuticals & healthcare and electrical machinery & precision equipment, while among the bottom three, construction & real estate took the place of resources (Exhibit 5).

Note: Respondents were given 12 sectors and asked to choose one viewed as an appealing investment target and one viewed as unappealing. For each sector we calculated a diffusion index by subtracting the percentage of responses for unappealing from that for appealing.

The resources sector comprises oil, coal, and mining products. The materials sector comprises textiles, paper & pulp, chemicals, steel, nonferrous metals, metal products, glass, and rubber. The consumer-related sector comprises trading companies, retail, consumer products, food, agriculture & forestry, and marine products. Information & telecommunications comprises software, media, games, and entertainment. Transportation & warehousing comprises railways, land transport, marine transport, air transport, and warehousing.

5. Investment appeal by sector (DI)

Sector	DI	Breakdown of DI (% of responses)		(Ref) Previous month DI
		Appealing	Unappealing	
Materials	7.2	11.8	4.6	10.5
Pharmaceuticals & healthcare	6.2	10.4	4.2	1.1
Electrical machinery & precision equipment	5.4	8.5	3.1	3.1
Machinery, shipbuilding & heavy machinery	4.9	7.8	2.9	-0.5
Autos & auto parts	1.8	7.1	5.3	6.1
Resources	1.2	10.8	9.6	-3.6
Consumer-related	1.1	9.7	8.6	1.3
Information & telecommunications	0.6	12.2	11.6	3.3
Transportation & warehousing	-2.6	3.9	6.5	-3.3
Construction & real estate	-5.8	6.8	12.6	-1.6
Electricity & gas	-7.7	3.9	11.6	-11.7
Financials	-12.3	7.1	19.4	-4.7

(6) Most-watched stocks

Respondents were asked to name one stock that they would like to have in their portfolio, irrespective of short or long-term investment horizon (including stocks actually held) or that they find appealing. We show the most popular responses below (Exhibit 6).

6. Name a stock with appeal (988 valid responses)

Code	Company	No. of respondents	Code	Company	No. of respondents
7203	Toyota Motor	88	9020	East Japan Railway	9
6758	Sony	33	5713	Sumitomo Metal Mining	8
4755	Rakuten	28	6301	Komatsu	8
7974	Nintendo	24	8473	SBI Holdings	8
2811	Kagome	18	4842	Usen	7
9202	All Nippon Airways	17	6753	Sharp	7
7011	Mitsubishi Heavy Industries	16	9401	Tokyo Broadcasting System	7
9984	Softbank	16	2702	McDonald's Holdings (Japan)	6
5401	Nippon Steel	15	4452	Kao	6
7751	Canon	15	7741	Hoya	6
9501	Tokyo Electric Power	14	9437	NTT DoCoMo	6
8267	Aeon	13	4502	Takeda Pharmaceutical	5
7267	Honda Motor	13	6902	Denso	5
4661	Oriental Land	12	8698	Monex Beans Holdings	5
6502	Toshiba	11	8701	SBI E*Trade Securities	5
7201	Nissan Motor	11	9503	Kansai Electric Power	5
8604	Nomura Holdings	10	9983	Fast Retailing	5
2327	NS Solutions	9			

Note: Subtracted from valid responses were multiple answers or an answer of "none".

(7) Many individual investors have no fixed policy on realizing gains or losses

For this month's spot questions, we asked individual investors about their investment performance in the previous fiscal year (April 2006–March 2007) and their policies on realizing losses or gains. Regarding investment performance, we asked survey participants to choose from the six possible responses in Exhibit 7 the one that matched closest their situation. The most popular choice was response 6, "overall losses; an unsatisfactory performance, even taking into account the investment environment", selected by 29.5% of respondents. From this we infer that many individual investors suffered losses in the previous fiscal year and were not satisfied with their results, even taking into account the market environment. Moreover, separating the responses for investment performance from those for performance relative to the market, we note that 27.3% said they made a profit (responses 1, 2), 36.5% said they broke even (responses 3, 4), and 36.2% said they made a loss (responses 5, 6). From this, it appears that more individual investors suffered a loss than made a profit. Similarly, 35.5% of respondents thought their investment performance was satisfactory, given the market environment (responses 1, 3, 5), while 64.5% of respondents were not satisfied with their investment performance, even taking into account the market environment (responses 2, 4, 6). These responses suggest that the number of individual investors who were dissatisfied with their investment performance outweighed the number who deemed their performance satisfactory.

7. Investment performance in FY06 (April 2006–March 2007)

	Choices	No. of respondents	%
1	Overall gains; a satisfactory performance, even taking into account the investment environment	109	10.9
2	Overall gains; an unsatisfactory performance, given the investment environment	164	16.4
3	Roughly breakeven; a satisfactory performance, taking into account the investment environment	179	17.9
4	Roughly breakeven; an unsatisfactory performance, given the investment environment	186	18.6
5	Overall losses; a satisfactory performance, taking into account the investment environment	67	6.7
6	Overall losses; an unsatisfactory performance, even taking into account the investment environment	295	29.5
	Total	1,000	100.0

Next, we asked individual investors about their policy for realizing gains, primarily on cash trades. We asked respondents to select one answer from the eight shown in Exhibit 8. The most popular, chosen by 40.8% of respondents, was response 7: “No particular policy; depends on the individual situation”. This was followed by response 1, profit taking at around 10% (22.9% of respondents), and response 2, profit taking at 11–20% (17.1%). This would suggest that many individual investors like to take profits at a relatively early stage when unrealized gains arise, with 40% taking profits by the time an investment increases by 20%.

8. Policy on unrealized gains

	Choices	No. of respondents	%
1	Take profits at around 10%	229	22.9
2	Take profits at around 11–20%	171	17.1
3	Take profits at around 21–30%	122	12.2
4	Take profits at around 31–50%	38	3.8
5	Take profits at around 50–100% (double the purchase price)	14	1.4
6	Take profits when the investment exceeds double the purchase price	10	1.0
7	No particular policy; depends on the individual situation	408	40.8
8	Other	8	0.8
	Total	1,000	100.0

We also asked individual investors about their policy for realizing losses, primarily on cash trades. We asked respondents to select one answer from the eight shown in Exhibit 9. The most popular, chosen by 55.7% of respondents, was response 7: “No particular policy; depends on the individual situation”. This was followed by response 1, cut losses at around –10% (18.6% of respondents), and response 2, cut losses at –11 to –20% (12.7%). Compared with responses for unrealized gains, a larger number of respondents had no fixed policy for unrealized losses. This suggests to us that when share prices decline, many individual investors are slow to cut losses or tend to hold on to stocks with unrealized losses.

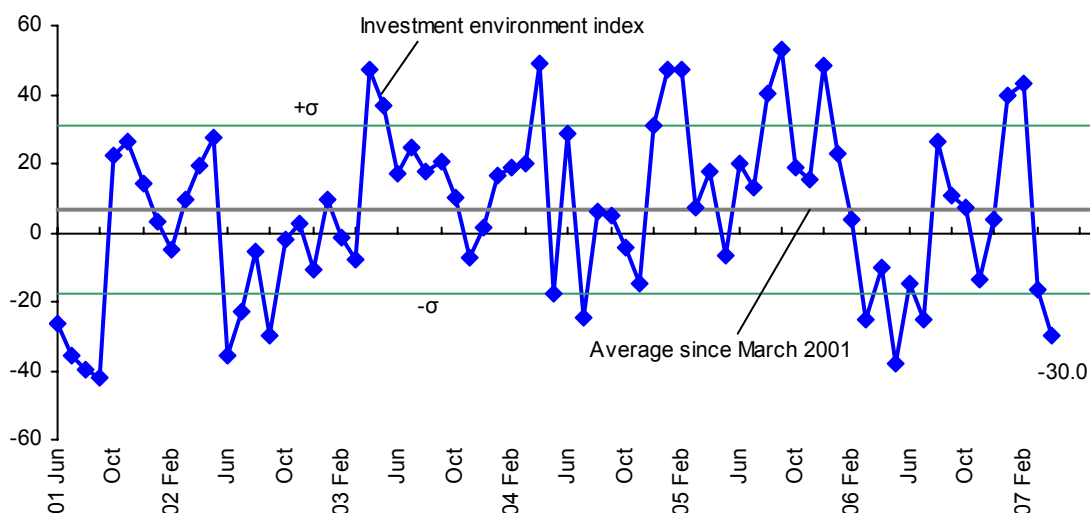
9. Policy on unrealized losses

	Choices	No. of respondents	%
1	Cut losses at around –10%	186	18.6
2	Cut losses at around –11 to –20%	127	12.7
3	Cut losses at around –21 to –30%	58	5.8
4	Cut losses at around –31 to –50% (half the purchase price)	23	2.3
5	Cut losses at around –51 (half the purchase price) to –75% (one-quarter the purchase price)	15	1.5
6	Cut losses when they exceed –75% (one-quarter of the purchase price)	4	0.4
7	No particular policy; depends on the individual situation	557	55.7
8	Other	30	3.0
	Total	1,000	100.0

6. Nomura I-NIC Index down for second straight month to -30.0

The Nomura Individual Investor Investment Climate Index (Nomura I-NIC Index), which factors in statistics directly and indirectly related to the investment environment for individual investors and indicators that individual investors are thought to follow, was -30.0 (April preliminary data), down from the final March figure of -16.7 (March preliminary figure: -15.0). This marks the second consecutive decline for the index (Exhibit 10).

10. Nomura I-NIC Index



Note: The Nomura I-NIC Index is intended as an objective measure of the investment environment for individual investors based on external data. The index factors in statistics directly and indirectly related to the investment environment for individual investors and indicators that individual investors are thought to follow. Indicators and statistical data used in the index are as follows.

I. Micro and semimacro indicators

1. Number of hits in newspaper articles (Nikkei Telecom: number of occurrences of the phrase “individual investor” in newspapers during the past month and m-m change),
2. Bestselling business books (Nippon Shuppan Hanbai Inc: number of books on stocks that make the top ten bestseller list and m-m change),
3. Consumer Confidence Index (Hakuhodo Institute of Life and Living),
4. The economic forecast (household trends) section of the Economy Watchers Survey (Cabinet Office),
5. Ordinary household asset growth expectation section of the Monthly Consumer Confidence Survey covering all of Japan, Summary (Cabinet Office)

II. Macro indicators

1. US\$/¥ rate,
2. Long-term interest rate (10-year JGB latest issue),
3. Banknotes in circulation (Bank of Japan)

III. Stock market indicators

1. Share of trading activity by individual investors (TSE1, TSE2, OSE1, OSE2, NSE1, NSE2),
2. Net selling and net buying by individuals (TSE1, TSE2, OSE1, OSE2, NSE1, NSE2),
3. Ratio of unrealized gains/losses on margin positions to total margin positions (Nomura, from TSE data),
4. Margin trading long / short ratio (Nomura, from TSE data),
5. IPO Index (QUICK),
6. Net asset holdings by investment trusts (QUICK)

IV. Technical stock indicators

1. Nikkei Average five-day moving average and 25-day moving average,
2. Volume ratio, relative strength indicator (14 days),
3. Bollinger band (25 days),
4. Advance/decline ratio (25 days)

The Nomura I-NIC Index is calculated by (1) figuring the scores for each indicator to be reflected in the index, (2) dividing each score from the series selected for each of categories I to IV, (3) taking a weighted average using the weightings assigned to categories I to IV, and (4) multiplying by 100. See the sample calculation below. Nomura I-NIC Index ranges

from -100 to +100. The closer to +100 the figure is, the more favorable the investment environment for individual investors. The closer to -100 the figure is, the less favorable. When the monthly data for a given indicator is not made public by the time the survey is announced, we incorporate the latest data available. For data announced on a monthly basis (eg, the two indicators from the Cabinet Office and BOJ data on banknotes in circulation), we set the indicator value to zero when the latest data is not available and announce preliminary data for the index. We announce the final data together with the following month's preliminary data.

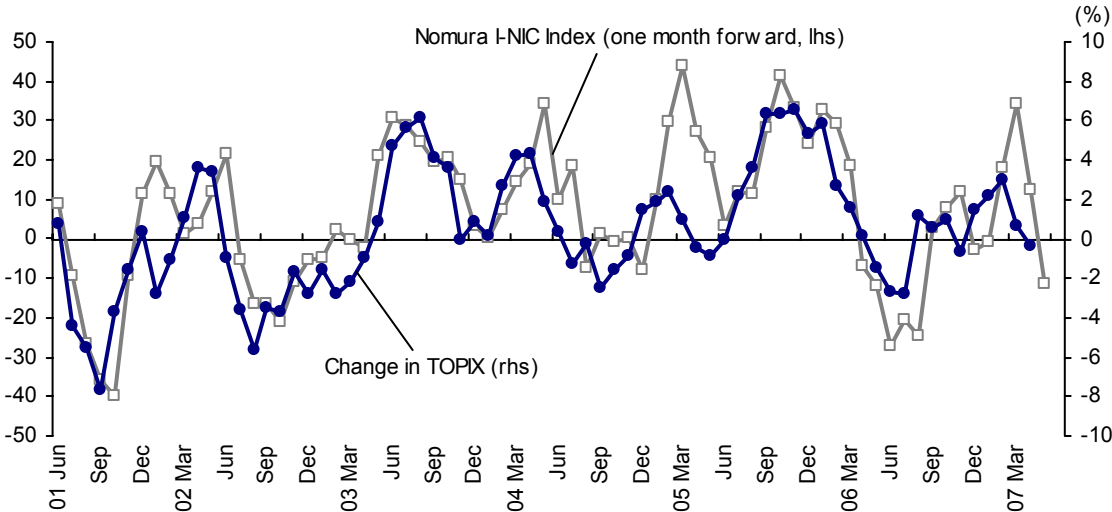
Reference: Sample of how an indicator is factored into the Nomura I-NIC Index

For share of trading activity by individual investors (TSE1, TSE2, OSE1, OSE2, NSE1, NSE2)

1. When data for the month in question is higher than the three-month moving average through the prior month and equal to or higher than the prior month's figure: +1
2. When data for the month in question is higher than the three-month moving average through the prior month but lower than the prior month's figure: +0.5
3. When data for the month in question is equal to the three-month moving average through the prior month: 0
4. When data for the month in question is lower than the three-month moving average through the prior month but equal to or higher than the prior month's figure: -0.5
5. When data for the month in question is lower than the three-month moving average through the prior month and lower than the prior month's figure: -1

We also provide a graph below to show the relationship between a three-month weighted average for the Nomura I-NIC Index (one month forward) and the TOPIX three-month moving average. The correlation between the Nomura I-NIC Index and share price trends is relatively high.

11. The Nomura I-NIC Index (one month forward) and change in TOPIX (both use three-month moving averages)



Note: Correlation coefficient is 0.725 (June 2001 through April 2007)

Notice

The next Nomura Individual Investor Survey (June 2007) is scheduled for release on Tuesday, 5 June.

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