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# I'M GETTING TIRED OF REPEATING MYSELF

I have written about the Japanese conglomerate Asahi Chemical on a number of occasions. I have used it to represent my idea of a typical traditional Japanese company. Company spokesmen taught me that I couldn't always trust what I was being told. "Tell them what they want to hear" seemed to be at the heart of their communication policy with foreign shareholders. It therefore does not come as a major shock to me that Asahi Chemical has now become involved in another Japanese corporate scandal but I still find myself disappointed at the revelation that their building division has falsified test results:

*More than 50 employees at Asahi Kasei Construction Materials Corp. manipulated data in at least 266 piling projects the contractor undertook over the past 10 years, its parent Asahi Kasei Corp. announced Friday. This suggests data falsification was pervasive at the subcontractor, contradicting the firm's earlier claim that a single employee may have been responsible. "We feel sincerely sorry for the fact that this many people were involved in this many projects, and for allowing such (misconduct) to happen," Masahito Hirai, vice president of Asahi Kasei, told a packed news conference in Tokyo.*

Unfortunately Asahi Chemical isn't the only Japanese company that has been caught out in the last year. Mitsubishi Motor and Suzuki Motor have admitted to falsifying emission tests and Toyo Tire and Rubber has admitted to selling faulty products.

*The revelation that Mitsubishi Motors Corp. has been manipulating the fuel efficiency data of its minicars raises doubts about whether the automaker ever fixed the corporate culture that in the past was responsible for the cover-up of extensive vehicle defects, which led to top executives being convicted over fatal accidents blamed on these defects.*

Once again this highlights one of the reasons the Japanese stock market remains cheap- it remains cheap because investors do not know who they can trust.

Another reason it remains cheap is because Japanese companies seem slow to learn from the mistakes of the past. They still have not learned that they should be very cautious making overseas acquisitions. Back in late September 2008, at the height of the financial crisis I commented on a decision by Nomura to acquire parts of the Lehman business:

*"I can never see the Japanese as world leaders in investment banking. I therefore worry about Nomura buying parts of Lehman. I think the cultures will clash and Nomura will struggle against Goldmans, Morgan Stanley, JPMorgan, Credit Suisse etc."*

In April 2016 Nomura announced that they were closing down large parts of the old Lehman business. I hope they have now learned their lesson but this has not stopped other Japanese companies from thinking they can avoid these culture clashes when they buy foreign companies.

*The number and value of Japanese companies' acquisitions of foreign firms hit record highs in fiscal 2015, which ended Thursday, a survey by merger and acquisition adviser Recof Corp. showed Tuesday. The number rose 6.9 percent from the previous year to 591 cases, while the overall value grew 2.8 percent to ¥8.19 trillion. Half of the top 10 biggest deals involved insurance companies looking to overseas markets for growth potential while* *domestic demand remains sluggish. The insurance deals included a ¥941.3 billion acquisition by Tokio Marine Holdings Inc. of a U.S. firm and a ¥628.3 billion purchase by Meiji Yasuda Life Insurance Co. of a U.S. company.*

I gave this opinion piece the title “I’m getting tired of repeating myself” and now I think you can understand why because just as in the case of Nomura I think that Tokio Marine and Meiji Yasuda will struggle to make the HCC and StanCorp acquisitions work. Japanese culture is just so different that I struggle to believe that most foreigners will want to become part of what I believe to be bureaucratic dinosaurs!

In conclusion I think I’ve reached the point where I need to take a break from giving an annual commentary on Japan. I am therefore committing myself to only write about it again when there is something completely different to talk about. (I hope I don’t have to wait too many years!)

## TEACHING INVESTMENT THEORY

Most people know very little about investment theory and they therefore rely on the Financial Regulator to make sure that the people giving investment advice are taught the most up to date theory on the subject. Here in Ireland the Regulator has authorised the LIA (Life Insurance Association) to be one of the main bodies responsible for teaching the subject as well as setting examinations to make sure minimum standards are achieved.

Having outlined this background to regulation I want to explain why I am so disappointed to have come across the following:

*LIA Professional certificate in asset management.*

The module on asset management is essential learning for anyone involved in advising clients on investments. Students will gain a better insight on how investment managers work, on how they value stocks, and on their stated objectives. The course will give you an insight to using Standard Deviation as a measure of risk, and how this has evolved to classifying funds under ESMA ratings.

I am disappointed because of the following sentence: “The course will give you an insight to using Standard Deviation as a measure of risk”. In my opinion this is a theory that should have been done away with years ago. Standard Deviation in this context just measures how volatile the price of something is. The theory being that the more volatile something is the riskier it must be but just because something is volatile does not tell you how risky that something is. Something highly volatile can in fact be low risk if you can buy it at a cheap enough price.

I think the best author I have come across on this subject is Howard Marks in his book “The Most Important Thing”. In the book there are three chapters that delve into the subject of risk. He states that the risk any investor is really worried about is the risk that they permanently loose some of their money. This to me is the common sense definition of risk and the one that any sensible person really cares about. If I had my way I would therefore make the LIA include those three chapters as a core part of their exam syllabus. In this way people entering the industry would be made aware of the fact that there is an active debate going on within the investment world. (I might even go as far as saying that Taleb’s books “Fooled by Randomness” and “The Black Swan” should also be part of the syllabus but that is probably far more than I could hope for!)

I’m not sure who makes the decisions at the LIA and the Regulator but I do hope they keep up to date with such a critical issue. In other words they really need to make sure that psychology, behavioural finance and neuro-economics are a core part of the curriculum (as well as Howard Marks!).

## BREXIT

Regular readers of my opinion pieces can probably guess what I have to say about Brexit because I have spent ten years spelling out my philosophy of treating such things as par for the course in the investment world. Wars, recessions, political turmoil and plagues will regularly come our way and this is where the ability to be patient is so critical. Being patient allows me to live with things like Brexit and fortunately I do not panic because I’m not under short term performance pressure. In other words I’m doing the same as I always do and that is continuing to look for great companies at reasonable prices and a bit of Brexit panic is making those prices a bit more reasonable.

(I started buying a position in a new idea before Brexit and I have now bought some more at a much cheaper price……….I’ll let you know how I get on over the course of my normal investment horizon………………in other words in 2026!!!!)