FROM OUR JAPAN STRATEGIST ROUNDTABLE: A DISCUSSION ON THE YEN AND THEMES OF 2014 WITH MASATOSHI KIKUCHI

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WisdomTree has compiled a Japan Strategist roundtable—a compilation of views from three of the most widely followed Japan investment strategists. In separate one-on-one interviews, we asked these strategists to share their views on Japan's equity markets, the economy, government initiatives and the currency. Below we're talking with **Masatoshi Kikuchi from Mizuho Securities Equity Research** about his views on the yen and the parts of the equity market he prefers in 2014. ***Kikuchi-san, the growth of the monetary base in Japan is going to start to outstrip that of the U.S., and you have discussed this relationship relative to the yen. Is that one of the primary factors you're looking at to drive the yen over time, and where do you see it heading versus the U.S. dollar?*** **Masatoshi Kikuchi:** Currency forecast is quite difficult. But I think the yen can depreciate to 105 at the end of March this year, and 110 at the end of next fiscal year, March 2015. In the long run, it will depend on how Japanese nuclear power is allowed to restart and also how U.S. monetary policy goes. But I think the Japanese current account balance is now switching to deficit because of import of oil and gas, which is also negative for the yen. In the long run, Japanese current account surplus is going negative because of aging populations. On January 22, we published a long-term investment report that assumes 130 yen to the dollar by 2020. ***Kikuchi-san, why is the market so negatively correlated to the yen?*** **Masatoshi Kikuchi:** That is a difficult question. Macro hedge funds assume a high correlation between weak yen and strong stock market. Also, some recent investors in the foreign exchange market say the currency is driven by stock market movement. On the other hand, stock market investors believe the stock market is driven by the weak yen. I think this year, domestic demand will be weak because of higher consumption tax. Therefore, Japanese corporate earnings and economic conditions will highly depend on the overseas market and the currencies for growth. Therefore, I believe macro investors will continue to focus on high correlation between currency and the stock market. I think traditional long-only investors want to see a stronger economy, a stronger yen and a strong stock market driven by the right domestic demand. But I think this will not happen this year, and the negative correlation will continue. ***Kikuchi-san, you have a preference for dividend-paying stocks currently. When do you think is the best time to own dividend-paying stocks?*** **Masatoshi Kikuchi:** First of all, there is a seasonality of dividend policy in Japan. Many of Japan's companies pay dividends end of March and end of September. Therefore, high-dividend stocks tend to outperform before these dividend payments. From a long-term viewpoint, the tax-free investment accounts called NISA started at the beginning of this year. Japanese individual investors prefer dividends. In the past, Japanese dividends have been low. Japanese individual investors used to invest in high-income foreign bonds, such as Australian or Canadian bonds. But now Japanese companies are more willing to pay high dividends in the interest of shareholders. Therefore, our long-term viewpoint of Japanese dividend effectiveness or stock position should be strong going forward. ***Why do you like small caps as a theme for 2014?*** **Masatoshi Kikuchi:** I think small-cap stocks will outperform this year, following last year's outperformance. Earnings forecasts for the next fiscal year for small caps are higher than large-caps earnings forecasts. Secondly, with the start of NISA accounts, individual investors will be buyers of Japanese stocks. Individual investors tend to focus on small caps. In the longer run, it also depends on currency and valuations. There are many small-cap indexes. The Mothers Index is one Japanese small-cap index that looks expensive because of valuations of biotech companies. But the Tokyo Second Exchange looks more reasonably priced. But on currencies, if the Japanese yen depreciates against other currencies, large-cap exporters tend to outperform. **We very much thank Masatoshi Kikuchi for his participation in our roundtable. You can read the full commentary with more comments from Masatoshi Kikuchi and other Japan**

strategists here.

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DEFINITIONS

Monetary Base : For a particular economy, the sum total of all cash and bank deposits in circulation. Increasing this number is one way to stimulate economic growth.

Current account : The difference between a nation's total exports of goods, services and transfers, and its total imports of them.

Correlation : Statistical measure of how two sets of returns move in relation to each other. Correlation coefficients range from -1 to 1. A correlation of 1 means the two subjects of analysis move in lockstep with each other. A correlation of -1 means the two subjects of analysis have moved in exactly the opposite direction.

Foreign Exchange (FOREX, FX) : The exchange of one currency for another, or the conversion of one currency into another currency.

Macro : Focused on issues impacting the overall economic landscape as opposed to those only impacting individual companies.

Long (or Long Position) : The buying of a security such as a stock, commodity or currency, with the expectation that the asset will rise in value, the opposite of Short (or Short Position).

Dividend : A portion of corporate profits paid out to shareholders.

NISA : Nippon Individual Savings Account. Nippon is the Japanese word for Japan.

Small caps : new or relatively young companies that typically have a market capitalization between $200 million to $2 billion.

Valuation : Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

TSE Mothers Index : A market capitalization-weighted measure of the performance of small-cap stocks listed primarily in Japan.