Buffett’s Japan Playbook: Unlocking a Generational Equity Opportunity

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Key Takeaways

- Japan’s equity markets are undergoing a structural reset, driven by sweeping corporate governance reforms and capital-return discipline that have attracted the attention and investment of Warren Buffett.
- Japanese equities still trade at a 32% discount to U.S. markets, signaling significant upside as foreign capital flows and earnings quality improve.
- The WisdomTree Japan Opportunities Fund (OPPJ) offers investors targeted exposure to Buffett-backed trading firms and shareholder-focused Japanese companies poised for long-term outperformance.

Japan's equity markets have experienced a generational reset, with a sweeping re-rating of corporate governance, capital discipline and global relevance that is steadily dismantling three decades of a well-warranted "Japan discount."

An early signal came not from Tokyo bureaucrats or activist hedge funds but from Omaha—when Warren Buffett acquired shares in five Japanese trading companies.[1]

In Berkshire's 2023 shareholder letter, Buffett explained that Berkshire *"continues to hold its passive and long-term interest in five very large Japanese companies, each of which operates in a highly diversified manner somewhat similar to the way Berkshire itself is run… Berkshire now owns about 9 percent of each of the five."*[2]

A year later, he continued his conviction: *"As the years have passed, our admiration for these companies has consistently grown… Both of us like their capital deployment, their managements and their attitude in respect to their investors."*[3] He singled out steady dividend growth, opportunistic buybacks and restrained executive pay; exactly the behaviors Tokyo's stock exchange is now demanding from *all* companies trading below book value.[4]

Those governance tailwinds are measurable. Aggregate return on equity (ROE) for TOPIX constituents has doubled over the past decade; net cash balances are falling as boards shrink share counts; and a domestic household savings pool of ¥2 quadrillion is finally edging out of low-yielding bonds and cash into equities.[5]

Overlay a structurally weak yen, which turbocharges export earnings and attracts foreign inflows, and valuations start to look less like "cheap for a reason" and more like mispriced optionality on global growth.

Buffett also wishes he could own more of these five trading companies, but he is constrained regarding how much capital he can put to work—due to targeting a 10% ownership level.[6] As of May 30, 2025, WisdomTree has positioned its new Japan Opportunities Fund (OPPJ)[7] to allocate approximately 45% to these trading companies to help individual investors capitalize on the opportunity in a way that Buffett himself cannot. Specifically, this refers to how Berkshire Hathaway's equity allocation is constrained due to its size and that it is already quite close to 10% ownership of these stocks. It's possible that one day Berkshire may negotiate avenues through which to own more than 10% of these companies, but based on available information today, it is not yet the case. OPPJ, on the other hand, does not have a similar constraint on allocating more to these particular stocks.[8]

Japan's Generational Reset—Available at a 32% Discount

Despite a powerful rally in Japanese equities over the past year, the valuation story remains deeply compelling. As is visible in figure 1, Japan trades at a forward price-to-earnings ratio (P/E ratio) of 15.1x—*not only* below the U.S. (22.2x) but even slightly below its own long-term median (15.2x).

The real headline, however, is the valuation spread: Japanese equities sit at a **32% discount to the U.S.** on forward P/E, one of the widest relative gaps in the past two decades.

For a market undergoing a structural shift in governance, capital efficiency and foreign capital inflows, the message is clear: this generational reset is not priced as such.

Figure 1: A Generational Opportunity: Japan Trades at a 32% Discount to U.S. Equities

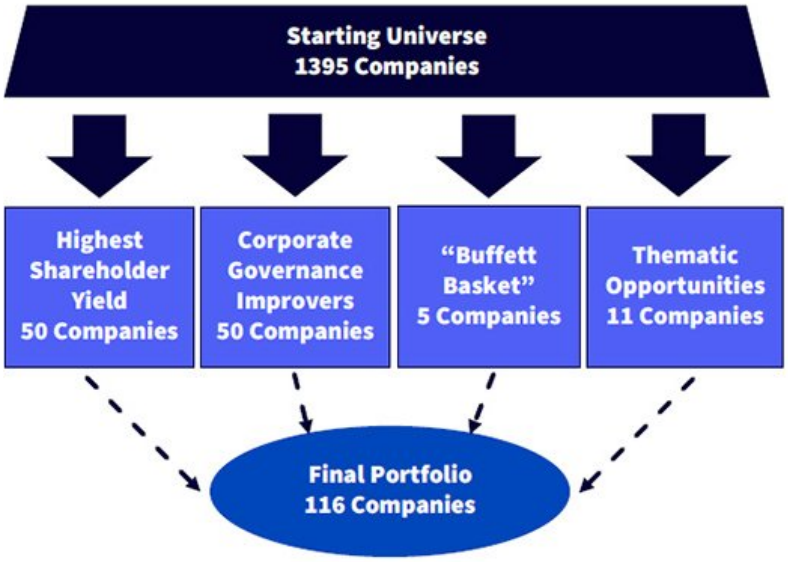
Forward P/E Ratio Valuations - as of 5/30/25			
U.S. Current	Japan Current	U.S. Historical Median	Japan Historical Median
22.2x	15.1x	17.1x	15.2x



Sources: WisdomTree, FactSet, S&P, MSCI, 12/31/00–5/30/25. U.S. measured by S&P 500 Index. Japan measured by MSCI Japan. **You cannot invest directly in an index. Past performance is not indicative of future returns.**

Figure 2 gives a blueprint for understanding the high-level construction of OPPJ.

Figure 2: Transforming Cheap into Outperformance: The Four-Pillar Blueprint



Top 10 Holdings	Sector	Weight
Marubeni Corp	Industrials	9.7%
Mitsubishi Corp	Industrials	9.1%
Sumitomo Corp	Industrials	9.0%
Itochu Corp	Industrials	8.8%
Mitsui & Co	Industrials	8.7%
Kawasaki Heavy Industries	Industrials	2.2%
Mitsubishi Heavy Industries	Industrials	2.1%
Mitsubishi UFJ Financial Group Inc	Financials	1.9%
Hanwa Co	Industrials	1.9%
Capcom	Communication Services	1.9%
Total		55.4%

Source: WisdomTree, with data shown as of 5/30/25. **You cannot invest directly in an index.**

- **"Buffett Basket":** Any Japanese company in which Berkshire owns more than 5% of the shares enters our investable universe. The five companies have a 45% aggregate weight in the Index, with 9% each as of the rebalance date.
- **Corporate-governance improvers:** We select 50 stocks with a combination of low valuation ratios (such as a low price-to-book ratio) and favorable earnings and dividend growth characteristics. These companies have improving fundamentals that may not yet be fully reflected in valuations.
- **Capital-return champions:** We select 50 companies with the highest shareholder yields (dividend yield plus net buyback yield) to target companies that are exhibiting positive trends in return of capital to shareholders. These companies are selected among a universe of companies with favorable earnings and dividend growth characteristics.
- **Thematic opportunity:** This sleeve hunts for beneficiaries of macro inflections: geopolitics, policy shifts, technology diffusion and evolving consumer preferences and currently includes 11 companies.

Together, these four pillars create a Japan opportunities portfolio that is both **anchored in attractive quality valuations and wired for possible upside catalysts**.

From Cash Hoarding to CashBack: Japan's Capital-Return Revolution

Barely a decade ago, Japanese corporates were infamous for sitting on mountainous cash piles; buybacks were an afterthought, and dividend yields trailed those of their global peers.

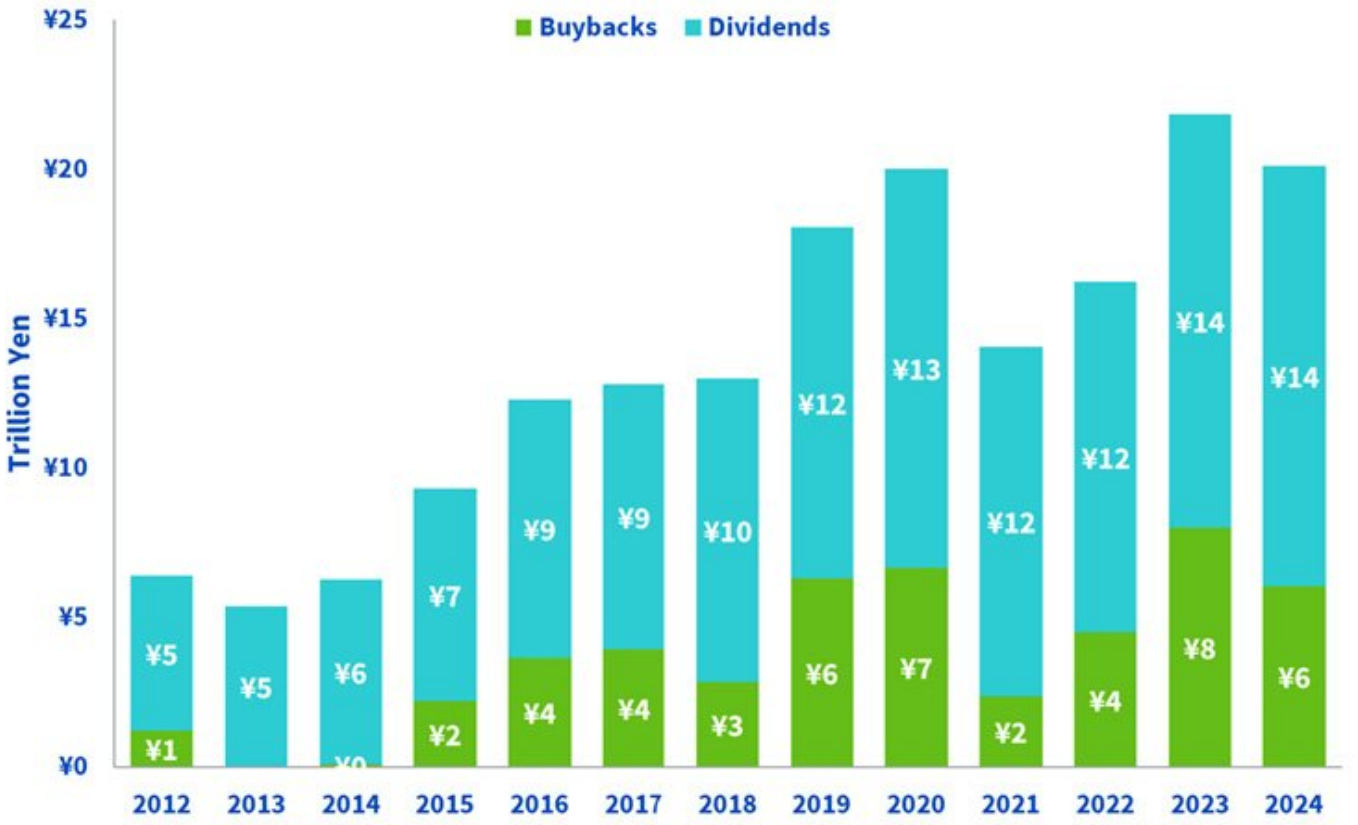
As is visible in figure 3, in 2012, companies returned roughly **¥6 trillion** to shareholders, almost entirely via modest dividends. Fast-forward to 2024, and total capital returned has **quadrupled to about ¥20 trillion**, with buybacks alone now exceeding the whole 2012 payout.

This surge coincides with Japan's Corporate Governance and Stewardship Codes (2014–15) and the Tokyo Stock Exchange's more recent "name-and-shame" campaign; reforms that pressured boards to deploy idle cash, shrink bloated balance sheets and tie executive pay to shareholder value.[9]

This pivot is more than an accounting footnote; it is a structural re-rating catalyst. Rising buybacks shrink float and boost per-share earnings just as dividend growth establishes a floor under valuations.

In short, capital return has shifted from theoretical aspiration to tangible, compounding reality—and our portfolio is designed to turn that tailwind into excess return.

Figure 3: From Cash Hoards to Cash Back: Japan's Shareholder Payouts Rocket Roughly 4xin a Decade



Sources: WisdomTree, MSCI, as of 12/31/24. Payouts measured on a trailing 12-month basis each May month-end. Japanese payouts based on MSCI Japan Index. **You cannot invest directly in an index.**

Conclusion: Turning Japan's Reset into a Shareholder Renaissance

Japan today is not the Japan of yesterday. When Warren Buffett devotes multiple shareholder letters to the country's corporate champions and then quietly lifts Berkshire's stake to more than 9% in five of them and suggests he will hold them for decades, it's an important signal.

The world's most disciplined value investor sees a market in the early innings of a structural re-rating: one that now combines global business models with cleaner governance, better capital allocation and multi-decade low valuations.

The reset is real. And it's unfolding in plain sight, at a time when much of the world remains preoccupied with crowded trades and stretched multiples elsewhere. The WisdomTree Japan Opportunities Fund is purpose-built for this moment.

Investors aren't just getting access to a country; they're getting exposure to a fundamentally upgraded *equity culture*—one where value is finally being unlocked, and shareholders are finally being paid.

[1] Source: W. E. Buffett, "Berkshire Hathaway Inc. 2023 Annual Shareholder Letter," Berkshire Hathaway, 2024. https://www.berkshirehathaway.com/letters/2023ltr.pdf

[2] Source: Buffett, 2024.

[3] Source: W. E. Buffett, "Berkshire Hathaway Inc. 2024 Annual Shareholder Letter," Berkshire Hathaway, 2025. https://www.berkshirehathaway.com/letters/2024ltr.pdf

[4] Source: Japan Exchange Group,"List of companies disclosing progress on initiatives to enhance corporate value," Tokyo Stock Exchange, 1/15/24. https://www.jpx.co.jp/english/news/1020/20240115-01.html

[5] Sources: "Japan ROE for TOPIX index constituents," stock market data, 2024; "Chart Room: Japan Inc's buyback spree," Fidelity International, 2/22/24; "The recent rise of Japan's financial markets: A look at household savings behavior and NISA reform," government of Japan, 3/24.

[6] Source: Buffett, 2025.

[7] Prior to July 1, 2025, the Fund was known as the WisdomTree Japan Hedged SmallCap Equity Fund (DXJS). On that date, the Fund's policy changed.

[8] Due to market performance, this weight may fluctuate up or down as time goes by.

[9] Source: "Japan's Corporate Governance Code: Seeking Sustainable Corporate Growth and Increased Corporate Value over the Mid- to Long-Term" (final proposal, 3/5/15), Financial Services Agency & Tokyo Stock Exchange, 2015.

Important Risks Related to this Article

Warren Buffett is not affiliated with WisdomTree or OPPJ.

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