



MTS Research Limited

Tokyo Daily Commentary: Trading Record

Performance vs. Topix

Tokyo Daily Commentary (formerly Candel-mail) has been published since mid-1994, but its current method of conveying our market views in the Portfolio/Hedge/Directional format has been a more recent innovation. After a less than successful 2005, two clients said that our analysis was more correct than the numbers implied, and suggested a two-tiered approach, using a Strategic position to express medium-term views, supplemented by a Tactical position to hedge or supplement a directional view. (All positions are based on Cash Topix, and no allowance has been made for slippage and commissions).

However, we decided during 2007 that the service would be at its most helpful if it broadly reflected more closely what MTS clients as a group do - i.e. maintain net long exposure when they are bullish, hedge in times of uncertainty or expected corrections, and be neutral or net short during bear markets. Candle's natural position is therefore always 100% long, as reflected in the **Portfolio Exposure** line on the right-hand side of page 1 of each issue (the evolution of the Strategic concept). The period where we switched over to this is visible in May-August 2007 in the chart below, and the benefit of it is clearly visible since.

During corrections or downtrends, a Hedge is added in increments of 25% up to 100%, but often just 50% or 100%. Limits or stops are used to exit these positions, but most commonly stops. This has the added advantage of automatically returning the position to 100% long as an important level is hit. The method of hedging is left to the client, since, in practice, we do not for a moment expect clients to actually follow the details - as always, this is just a clear and unambiguous way of conveying our view of the risks and rewards as we see them.

