



An Update to the Recent Market Weakness

March 15, 2011 by [mkgfinancialgroup](#)

While we wrote a blog yesterday on this topic, we felt an update today due to all the developments over the last twenty hours was warranted. Yesterday's post provides our overall assessment of the initial conditions, reactions and follow-through from the earthquake and tsunami that hit Japan on Friday. The continued nuclear reactor problems raise additional concerns for both the safety of the Japanese people and the potential for a prolonged problem in getting Japan back on track with a full-fledged recovery process.

There are rational, fundamental concerns that may justify some stocks falling so dramatically, especially in Japan, as some companies garner a significant amount of revenue and earnings in Japan. An insurance company like AFLAC, for instance, that sees 75% of its business coming from Japan would be no doubt a point of concern. While some Japanese companies do have significant operational exposure in Japan, others are well diversified in terms of revenues sources and supply sources. By way of example, many Japanese auto companies both produce cars in North America and sell them here. For most non-Japanese non-nuclear related companies, the investment issue centers around the short term dislocations and the longer term potential operational issues caused by infrastructure and energy issues going forward for some time to come. In addition, we note, as we discussed in our last *blog*, the rebuilding process will, on the other hand, benefit Japanese companies and foreign companies alike.

We believe that investor reactions and the market declines that are occurring as people move their money to safer havens are natural, especially for those living in Japan. As with any big move downward in stocks, however, a lot of this pressure tends to come from the liquidation of mutual funds and portfolios that can take an entire market lower, and not necessarily the selling of individual stock positions of only troubled and damaged companies. Therefore, as is generally the case with broad market declines, a recovery in most global markets should be eventually met with buyers taking advantage of weakened market conditions with the greatest delay in this process likely centering in the Japanese markets until better visibility develops.

Two of Japan's greatest assets are worth mentioning again: the country's private sector financial wealth and the people's ability to respond to disaster in a well-focused and disciplined manner. We believe these assets will add resilience to the outlook for this country over time. These resources will likely be tested as public debt levels as percentage of GDP are a concern, as are energy and infrastructure, once the country begins the rebuilding process.

U.S. Economic Data Points

Amid the worries and concerns for the ongoing events and conditions in Japan, as well as in the Middle East, it is important to not lose sight of other important indicators that provide the pulse for the underlying healthy of the U.S. economy. As was seen during Hurricane's Katrina and Rita, it is too easy for the media and investors alike to ignore positive trends that were—and are—already in place and allow adverse conditions, such as now, to overshadow the bigger picture.

U.S. data points released today included the *ICSC-Goldman Store Sales Index*, which showed solid consumer buying last week and a year-over-year 3.1% comparable store increase, suggesting that improving labor and economic conditions, combined with a reduction in payroll taxes is more than offsetting the drag from higher fuel and food prices. The ICSC-Goldman report was not supported by the corresponding *Redbook* report, which is showing a slowing trend in weekly sales.

Manufacturing in the New York region, as reported in the *Empire State Manufacturing Survey*, rose more than 2 points to a level of 17.5 from 15.43 the prior month (growth/contraction line=0), and above consensus expectations of 16.0. The *Housing Market Index* rose one point to 17, its best reading since the *first time buyer's* benefits ended last spring. Coming up later this week: *Housing Starts, Producer and Consumer Price Indexes, Industrial Production, Leading Economic Indicators, Philadelphia Fed Survey and First Time Jobless Claims*. (Economic Data Source: Econoday)

Nuclear Reactor Update

The following is a news release over Reuters providing updated information on Japan's current reactor problems and where things stand for now. What we find most interesting is that many people do not realize how many reactors Japan has, 54. We hope this information is of benefit to our readers.

Status of quake-hit Fukushima nuclear plants in Japan

March 15 (Reuters) - - A quake-hit nuclear plant in Japan suffered an explosion on Tuesday at a reactor that had been shut down for scheduled maintenance as the plant's operator struggled to prevent reactors from overheating and radiation from spreading. Of Japan's 54 nuclear reactors, 11 are shut down.

Following is a list of the manufacturers and the current status of reactors in the Fukushima Daiichi and Daini plants, including those under planned maintenance when the quake struck. Generation capacity is shown in megawatts.

Plant name	Unit	MW	Mfr	Status
Fukushima-Daiichi	1	460	GE	filling with sea water
	2	784	GE, Toshiba	filling with sea water
	3	784	Toshiba	filling with sea water
	4	784	Hitachi	fire extinguished
	5	784	Toshiba	shut down for scheduled maintenance
	6	1,100	GE, Toshiba	shut down for scheduled maintenance

Fukushima-Daini	1	1,100	Toshiba	cooled down safely
	2	1,100	Hitachi	cooled down safely
	3	1,100	Toshiba	cooled down safely
	4	1,100	Hitachi	cooled down safely

(Source: Tokyo Electric Power, govt agencies and media as of 0640 GMT on Tuesday)

FUKUSHIMA DAIICHI

* The tsunami following Friday's earthquake damaged the plant's capabilities to pump the reactors with water and submerge nuclear fuel rods to prevent them from overheating.

* The operators have tried to cool the reactors by releasing pressure and pumping in sea water but with limited success, leaving some of the fuel rods fully or partially exposed.

* The exposed nuclear fuel rods have reacted with steam and produced hydrogen, a combustible gas, which accumulated in the buildings that house the reactors and led to explosions at the No.1 and No.3 reactors.

* Japan asked the United States for more equipment to help cool the reactors after a dangerous drop in coolant levels that exposed fuel rods in the No. 2 reactor, where another blast took place. A fall in coolant levels indicates that the reactor may be in danger of overheating with nuclear fuel inside the core pressure vessel melting.

* Prime Minister Naoto Kan on Tuesday urged people remaining within a 30 km radius of the complex to stay inside. Authorities had evacuated residents within a 20 km zone after the crisis began.

~Mark Gaskill, Chief Investment Officer

~Julie Bryan, Director of Research, CFA

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