

# Livedoor's fall rattles beyond Japan

January 18 2006

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Until a few weeks ago, Takafumi Horie was the darling of the Japanese media, personifying a new Japan full of confident, youthful vigor who challenged the old establishment. For the younger generation, he personified a can-do spirit of entrepreneurship that has inspired many to be their own bosses in recent years as well.

Now, though, the 33-year-old chief executive of the country's most famous dot-com start-up is responsible for closing down the Tokyo Stock Exchange Wednesday at the very least, while some analysts fear that Horie may have shaken the confidence of many Japanese investors for good.

Allegations that Horie's Livedoor company had tampered with its earnings results has led to a criminal investigation into the Internet company by the Japanese authorities. Specifically, Livedoor has been accused of tampering with its September 2004 earnings results and claiming to have made a profit while in actual fact it may have posted a loss. Tokyo district prosecutors raided the company's offices late Monday, which was broadcast on the evening news of all major networks.

Given that Horie has become one of the most famous entrepreneurs in Japan, once tried to buy out a baseball team and ran for a seat as a member of parliament, both of which have failed, has only increased public interest in whatever investigation his company is under.

But the problem is that Horie's problems have not been limited to a

public-relations issue. National concern about the Internet company led investors in Livedoor to sell off shares in the company, which were then suspended from trading on the Tokyo bourse Wednesday morning. That, in turn, pushed rattled investors to sell off shares in information-technology shares, which in turn triggered a broader selling of stocks on the market. The late-morning announcement by the exchange that it will likely close early due to overwhelming sell orders did not help matters, either. In fact, the sheer volume of sell orders bogged down the Tokyo Stock Exchange, which is only equipped to deal with about 4.5 million orders in a single day. As a result, the exchange was forced to close down 20 minutes before the market close, the first time such a step was taken by the bourse. The benchmark Nikkei average ended Wednesday 3 percent lower to close at 15,341.18, having lost nearly 7 percent in value since the beginning of the week. Livedoor's shares, meanwhile, have tumbled some \$300 billion in shareholder value since Monday.

The fact that the market had to be closed down is "regrettable," Prime Minister Junichiro Koizumi told reporters late Wednesday, adding that "the Tokyo stock market attracts the world's attention as well, so we need to maintain an ability that is appropriate to an advanced country. I hope this will be dealt with so that there will be no further confusion."

In addition to government prosecutors, the ruling Liberal Democratic Party too has started an investigation calling upon the Financial Services Agency and the Tokyo Stock Exchange to explain what exactly happened and what steps can be taken to prevent another similar occurrence.

But while there is concern among some analysts that the Livedoor probe might lead to a further fall in Tokyo share prices, which have recently been reaching levels not seen over the past five years, as investor confidence is shaken in the overall market, and not just in Livedoor, others argue otherwise.

At a news briefing after market close Tokyo Stock Exchange President Taizo Nishimuro said if Livedoor is found to be guilty, "it will be inevitable to delist it," and added that the market's closure was due to the criminal probe of a single company rather than a systemic problem or fundamental devaluation of overall share prices.

Nevertheless, the bourse announced that it will shorten trading hours by half an hour Thursday afternoon, and it said it would consider continuing the curtailed hours should there be a need to do so.

In the meantime, repercussions of the Tokyo fallout were felt across the globe, with European bourses falling as well.

The fact that some of the biggest names in information technology, namely Intel and Yahoo!, posted less than stellar earnings results Tuesday after market close enticed investors in Europe to dump their tech stocks, leading London's FTSE 100 index to end 0.6 percent lower to 5,662.7, while the German DAX 30 lost 1.18 percent to close at 5,395.61.

Still, most industry analysts expect that the Livedoor drag will have limited impact on overseas markets but add that it is still too early to determine to what extent Horie's fall will hurt market confidence.

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