Internet trading's risks to Japan stocks

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Japanese investors have been euphoric over the past few weeks as the stock market continues to grow from strength to strength amid growing optimism about the country's economic outlook. Yet the surge in share prices is not simply due to growing confidence and improved corporate earnings; rather, it is in part because Internet trading has made it easier -- and cheaper -- for more people to get into the market.

From companies like Monex, a Japanese brokerage that deals solely with Internet stock trading, to U.S.-based online-trading companies such as E-Trade that have recently entered the Japanese market, the ease and affordability of stock trading appears to be changing the shape of Japan's bourse permanently.

Given that the benchmark Nikkei average continues to grow from strength to strength, as it reached its highest level in nearly four and a half years recently, the latest reports from the bourse are broadly in line with what has been expected by many industry analysts. Helping to bolster this push upwards has been the prominent role played by individual investors.

Until the so-called big bang in the financial sector that deregulated the stock market as well as the banking industry, Japan's bourse was largely driven by institutional investors and a sizeable number of wealthy individuals, in addition to foreign institutional investors.

"That pattern has clearly changed. The small-account holder has become powerful ... and that power is only going to get stronger," one broker at a Japanese securities company told UPI.

He pointed out that Internet brokerages in particular have increased the allure of stocks to the average investor, "who doesn't want to keep money in the bank where there's no interest return ... and there's nothing out there that might yield some return" on investments, unlike during the so-called bubble economy when real estate was the single biggest and most attractive asset to many individuals.

Since then property prices have tumbled, and even as there are signs that the decline has finally bottomed out, there is no denying that many investors remain adverse to putting in too much faith and money into the real-estate market.

On the other hand, stocks have become increasingly accessible to the average investor, thanks in large part to cheap and convenient online trading, and even those who might have otherwise been content to keep their money in banks that effectively offer zero interest on their savings, given the continued loose monetary policy pursued by the Bank of Japan.

Yet investing in the market comes with risks too, especially if investors are entering the market on credit trading rather than in cash. In fact, according to the Tokyo Stock Exchange, about 46 percent of individuals who bought stocks over the past six months did so on credit. That trading system will work to the advantage of investors so long as share prices continue to climb, but the downside risks rise too as their losses can be magnified.

In addition, analysts point out that credit trading encourages active day-trading and thus makes the overall market more susceptible to volatility and speculative dealings. As a result, there is growing concern about the number of individual investors relying on credit trading entering the market in such numbers.

"Often they're in without really knowing how far they could fall ... because the market's been good to them so far. And the online trading companies don't offer any guidance to warn them when to stop, so we need to be on the lookout for the illogical behavior they might bring to the market," the broker said.