

NIGHT FLIGHT SPECIAL II

DOMESTIC ROUTE

STOCK PRICES MAY BE

“RECONNAISSANCE AIRCRAFT”

INTERMEDIATE ROUTE

The Stock Market Can Reflect Expectations About the Future Before the Real Economy Changes



TAKEOFF

Why Does NIGHT FLIGHT Watch Stock Prices?

On the NIGHT FLIGHT radar, we watch:

NIKKEI 225

TOPIX

SECTOR MOVEMENTS

TRADING VOLUME

and other market indicators.

But why?

Because stock prices sometimes move:

BEFORE CORPORATE EARNINGS ACTUALLY CHANGE.

The stock market tries to imagine the future.

Investors ask:

“What could happen next?”

And sometimes—

money begins moving before the actual business arrives.

That is why the stock market can act like:

A RECONNAISSANCE AIRCRAFT FLYING AHEAD TO LOOK INTO THE FUTURE.



THE FACTORY ISN’ T EVEN FINISHED YET

Imagine a new semiconductor factory is announced.

Construction has not been completed.

Sales have not increased.

Profits have not increased.

Nothing has appeared in the company's earnings yet.

But investors begin thinking:

"When this factory is built, semiconductor-equipment companies may receive more orders."

Then:

"Electric-cable companies may receive more work."

And:

"Construction companies may benefit too."

So investors begin buying those stocks.

The result?

**STOCK PRICES MAY MOVE
BEFORE THE ACTUAL PROFITS
ARRIVE.**

That is the reconnaissance aircraft taking off.

BUT THE RECONNAISSANCE AIRCRAFT

IS NOT THE ANSWER

This distinction is extremely important.

A stock price rises.

Does that guarantee:

PROFITS WILL RISE?

No.

Perhaps investors expected too much.

Perhaps factory construction is delayed.

Perhaps material costs rise.

Perhaps demand turns out to be weaker than expected.

Perhaps competition becomes more intense.

Then the original forecast may be wrong.

So:

STOCK PRICE

=

EXPECTATION

not:

FINAL RESULT.

Or, in the words of our flight:

THE RECONNAISSANCE REPORT IS NOT THE FINAL CONFIRMATION.

The Japanese source makes this distinction explicit: stock prices are forecasts, not results.



“THE NIKKEI ROSE 2%!”

Sounds impressive.

But wait.

Did the entire Japanese market really rise strongly?

Not necessarily.

The Nikkei 225 can sometimes be heavily influenced by the movements of particular large companies.

So:

NIKKEI 225 +2%

does not automatically tell us:

MONEY IS SPREADING ACROSS THE ENTIRE MARKET.

We need another instrument.



HERE IT COMES:

TOPIX

TOPIX gives us a broader view of companies in the Tokyo market.

Now suppose:

NIKKEI 225 ↑ ↑

but:

TOPIX ↑

only slightly.

What might that mean?

Perhaps a relatively small number of large stocks are pushing the Nikkei higher.

Now imagine:

NIKKEI 225 ↑

and:

TOPIX ↑

strongly too.

That may suggest that buying is spreading across a broader range of companies.

So NIGHT FLIGHT does not ask only:

“DID THE INDEX RISE?”

We ask:

“HOW FAR DID THE RISE SPREAD?”

That is a much more useful radar question.



HERE THEY COME:

TRADING VOLUME

AND

TRADING VALUE

Price tells us:

DIRECTION.

But direction alone is not enough.

We also want to know:

HOW MUCH ACTIVITY WAS BEHIND THE MOVE?

That brings us to:

TRADING VOLUME.

Trading volume tells us roughly:

How many shares were traded?

Suppose a stock rises:

+5%

but very few shares were traded.

Perhaps the price moved because of only a small number of transactions.

Now imagine:

PRICE ↑

•

VOLUME ↑

More investors may have participated in the move.

So we have added another radar dimension:

PRICE + QUANTITY.



AND WHAT ABOUT TRADING VALUE?

Trading volume tells us how many shares changed hands.

Trading value asks another question:

“HOW MUCH MONEY WAS ACTUALLY TRADED?”

This matters because:

100,000 shares of a ¥100 stock

and:

100,000 shares of a ¥10,000 stock

do not represent the same amount of money.

So now our radar has three useful dimensions:

PRICE

VOLUME

MONEY.

Or more simply:

DIRECTION

QUANTITY

CAPITAL.

The original Intermediate Route emphasizes precisely this point: do not look only at price; look at quantity too.



ONE COMPANY?

OR AN ENTIRE INDUSTRY?

Suppose one semiconductor stock rises sharply.

That could be caused by company-specific news.

But suppose money begins flowing into:

SEMICONDUCTORS

ELECTRIC CABLES

CONSTRUCTION

MACHINERY

BANKS

TRADING COMPANIES.

Now the signal becomes more interesting.

Perhaps the market is beginning to anticipate:

LARGE-SCALE CAPITAL INVESTMENT

or:

**A BROADER CHANGE IN ECONOMIC
ACTIVITY.**

So NIGHT FLIGHT is less interested in:

“GUESS THE WINNING STOCK.”

We are more interested in:

**“WHICH INDUSTRIES
ARE ATTRACTING MONEY?”**

That is a very different way of using the stock market.



HERE IT COMES:

SECTOR ROTATION

Another new term appears on the radar.

SECTOR ROTATION.

It means that investors' money moves:

FROM ONE INDUSTRY

TO ANOTHER.

For example:

Yesterday:

SEMICONDUCTORS ↑ ↑

Today:

Semiconductors take a rest.

But:

BANKS ↑

TRADING COMPANIES ↑

What happened?

Did all the money leave the stock market?

Not necessarily.

Perhaps:

**THE DESTINATION OF THE MONEY
CHANGED INSIDE THE MARKET.**

NIGHT FLIGHT has an easier way to picture it:

**THE MONEY DIDN' T GET OFF THE
AIRPLANE.**

IT JUST CHANGED SEATS.

(笑)

That wonderfully NIGHT FLIGHT-like analogy comes directly from the Japanese Intermediate Route.



NOW WATCH FOR:

MONEY DIFFUSION

Suppose only one sector is strong.

That may be:

CONCENTRATION.

But now suppose:

Semiconductors rise.

Banks rise.

Heavy industry rises.

Construction rises.

Steel rises.

Trading companies rise.

Money is spreading into many different areas.

We can think of that as:

MONEY DIFFUSION.

Why is this interesting?

Because when money spreads across a wider range of sectors—

the market move may be becoming:

BROADER.

So our radar asks:

“IS MONEY CONCENTRATED?”

or:

“IS MONEY SPREADING?”



BUT REMEMBER:

**THE MARKET CONTAINS
EXPECTATIONS**

Stock prices contain:

TODAY' S REALITY

but also:

EXPECTATIONS ABOUT TOMORROW.

So imagine:

SEMICONDUCTOR STOCKS ↑

↓

ACTUAL CAPITAL INVESTMENT ↑

↓

ORDERS ↑

↓

PROFITS ↑ .

Then perhaps the stock market' s early forecast was correct.

But imagine:

STOCK PRICES ↑

↓

ORDERS →

↓

PROFITS →.

Then:

**EXPECTATIONS MAY HAVE RUN
TOO FAR AHEAD OF REALITY.**

This is why NIGHT FLIGHT always follows the stock market with:

ACTUAL DATA.

 **FROM STOCK PRICES
TO THE MONEY BLOODSTREAM**

Suppose our radar detects:

ELECTRIC-CABLE STOCKS ARE STRONG.

Good.

But we do not stop there.

Now investigate:

DID CABLE ORDERS INCREASE?

ARE THERE PLANS TO EXPAND PRODUCTION?

DID GROSS PROFIT INCREASE?

DID PROFITS INCREASE?

DID CAPITAL INVESTMENT INCREASE?

Now connect the entire route:

STOCK PRICE

↓

ORDERS

↓

SALES



GROSS PROFIT



PROFIT



CAPITAL INVESTMENT.

Now we have connected:

THE STOCK-MARKET STORY

with:

THE REAL ECONOMY.

This is one of the central NIGHT FLIGHT methods.



OUR MARKET RADAR

NOW HAS MORE INSTRUMENTS

At Beginner altitude, we had one basic idea:

STOCK PRICE

=

RECONNAISSANCE AIRCRAFT.

At Intermediate altitude, we now have several instruments:

NIKKEI 225

Is the headline index moving?

TOPIX

Is the movement broad?

TRADING VOLUME

How much trading activity is behind the move?

TRADING VALUE

How much money is actually changing hands?

SECTOR MOVEMENT

Which industries are attracting capital?

SECTOR ROTATION

Is money changing destinations?

MONEY DIFFUSION

Is the movement spreading across the market?

Now the radar screen is becoming much more useful.



THE INTERMEDIATE CHECKLIST

A headline says:

“THE NIKKEI ROSE.”

NIGHT FLIGHT responds:

GOOD.

NOW LET’ S LOOK INSIDE.

Was TOPIX strong too?

Did trading volume increase?

Did trading value increase?

Which sectors moved?

Was money concentrated in one sector?

Or did it spread?

And finally:

DID ACTUAL ORDERS AND PROFITS FOLLOW?

That last question is essential.

Because:

STOCK PRICE ↑

≠

JAPAN IS BACK.



LANDING

Don't Just Watch the Index.

Watch the Money Move.

Stock prices can look ahead.

That makes them useful.

But they can also be wrong.

So we use them as:

RECONNAISSANCE AIRCRAFT.

Not as:

THE FINAL ANSWER.

Then we watch:

NIKKEI 225

TOPIX

VOLUME

TRADING VALUE

SECTOR MOVEMENTS.

And ask:

WHERE DID THE MONEY COME FROM?

WHERE DID IT GO?

DID IT STAY IN ONE PLACE?

OR DID IT SPREAD?

Then we follow the signal into the real economy:

STOCK PRICE

↓

ORDERS

↓

SALES

↓

GROSS PROFIT

↓

PROFIT

↓

CAPITAL INVESTMENT.

That is how NIGHT FLIGHT turns:

MARKET MOVEMENT

into:

ECONOMIC OBSERVATION.



RE-FLIGHT

Same Market. Three Altitudes.

BEGINNER

What did the reconnaissance aircraft see?

A stock moved.

Why?

Did real business eventually follow?

→ Return to  Beginner

INTERMEDIATE

Where is the money moving?

Nikkei 225.

TOPIX.

Volume.

Trading value.

Sector rotation.

Money diffusion.

This is the altitude we flew today.

→ Return to  Intermediate

 **ADVANCED**

Test the market as a leading indicator

Index structure.

Market breadth.

Liquidity.

Sector rotation.

Capital flows.

Earnings expectations.

Leading indicators.

How much can today's market tell us about tomorrow's real economy?

→ Continue to  Advanced



SELECT YOUR ALTITUDE

 **Beginner** →  **Intermediate** →  **Advanced**

Beginner asks:

“WHAT DID THE MARKET NOTICE?”

Intermediate asks:

“WHERE IS THE MONEY MOVING?”

Advanced asks:

**“DOES THAT MOVEMENT
REALLY PREDICT THE ECONOMY?”**

Same stock market.

Three altitudes.

One radar.

Because on NIGHT FLIGHT:

You are the Captain.

You choose your own altitude.



AND NOW...

THE LAST “?” APPEARS

We have learned to compare:

NIKKEI 225

with

TOPIX.

We have added:

VOLUME

and:

TRADING VALUE.

We have watched:

SECTOR ROTATION.

And:

MONEY DIFFUSION.

But now comes the harder question:

**“CAN STOCK PRICES REALLY
BE USED AS A LEADING INDICATOR?”**

Can the market actually detect:

Capital investment?

Corporate earnings?

Economic recovery?

Before those changes appear in official statistics?

Or is the market sometimes simply:

TOO OPTIMISTIC?

That is where our final altitude begins.

The Japanese Intermediate Route explicitly points next toward the differences between Nikkei and TOPIX, trading volume and value, sector rotation, and stock prices as a leading indicator.

NIGHT FLIGHT SPECIAL II

Numbers Take Flight.

You are the Captain.

I am your Co-Pilot.

AI is in the Control Tower.

DOMESTIC ROUTE — INTERMEDIATE

RE-FLIGHT COMPLETE.

NEXT FLIGHT:

CAN THE STOCK MARKET REALLY SEE THE FUTURE?

Market Breadth / Sector Rotation / Leading Indicators

CLEARED FOR TAKEOFF. 