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The U.S. Dollar Currency Has Been In Decline: How To Invest

Those of us who have been traveling abroad of late know well the impact on the value of the greenback and how little the currency now buys in terms of goods and services. The dollar of the past used to be the "go to "currency when the world was in a crisis. The dollar (through the purchase of treasuries) has been the largest holding of the Chinese reserve fund and that of most other emerging countries.

But that is becoming less so as these countries are starting to diversify away from the dollar as a reserve currency. They are doing so as the U.S. government has flooded the market with dollars, ratings agencies have expressed concern over the U.S. deficit and economists project slow growth for the American economy.

Many expert market watchers predict the dollar will fall further. For example, Bill Gross, founder of PIMCO, the largest bond firm in the country, feels convinced of the downward direction and has sold all of PIMCO's U.S. Treasury holdings.

What happens when the dollar weakens and your portfolio holdings are in dollar-based securities? It means the buying power of the dollar weakens, at home and abroad. It means imports will cost individual investors more money. In the last 10 years, the dollar's global purchasing power has dropped by about a third relative to other world currencies.

This affects all Americans: the young investing for retirement and retired individuals with dollar-based investment accounts.

How do you protect yourself against this potential further decline in the dollar? Essentially, you could make a bet against the dollar's future ability to hold its value and short it in the currency markets. But it is hard for an individual to do that for a lot of reasons.

An easier approach is to invest in big multinational companies whose profits come from not just the U.S., but from throughout the world. These include generally well-known companies, such as McDonald's, ExxonMobil and IBM, to name just a few.

Another easy approach involves investing in an exchange-traded fund based on a currency or currency strategy. The Wisdom Tree Emerging Currency Funds (CEW) allows an investor to get exposure to a basket of money market rates from emerging market countries. It is not to be confused with a U.S. money market fund, as the share price will fluctuate. As of this writing, CEW pays a 3.65 percent yield and delivered a one-year return of 9.07 percent. Other choices include country-specific currency funds, such as the Australian dollar (FXA), Canadian dollar (FXC), the Chinese Yuan (CYB), Swiss franc (FXF), the Euro (FXE), the Brazilian real (BZF), British pound sterling (FXB) or a fund that shorts the U.S. dollar (UDN).

Understanding the effects of the U.S. currency on your investment portfolio is necessary in this changing economy. The rapid growth of the foreign exchange market supports the need for all of us to incorporate these considerations into our investing.

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Susan Carr-Templeton is a personal wealth advisor with more than 20 years of investing experience. In addition to managing Stafford Wells Advisors, Ms. Carr-Templeton volunteers on the investment committee for the Advocate Foundation. She offers personal finance on investing, saving, retirement and more in "Making the Most of Your Money."

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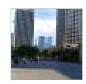
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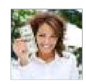
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