

IT'S THE DOLLAR FALLING, NOT THE SKY

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Apr. 1, 2005

The dollar is falling – you might have heard about it. But what does it mean? And more importantly, what does it mean for you and your investments?

The falling dollar refers to the decline in the value of the American dollar relative to several major world currencies. We should remember, however, that the U.S. dollar is still the *de facto* standard currency worldwide. We are the world's richest and most economically stable country and that continues to engender confidence in the dollar. It is unlikely that the U.S. will suffer through an economic crisis like those that caused the devaluation of the Argentine peso or the Thai baht.

But the ballooning budget deficit and the increasing current-account deficit (imports exceeding exports) have caused some erosion in the confidence in the dollar. As a result, the risk of further dollar declines is quite real and should not be ignored.

For American consumers, this creates good and bad trade-offs, depending on their investing and spending habits. Here are some pointers that might be helpful:

More Expensive Consumer Goods

Many consumer goods, from cars to electronics to apparel, are imported. The prices of those products rise as the value of the U.S. dollar declines. *One strategic option - buy American.*

<p>"Unless we have a major change in trade policies, I don't see how the dollar avoids going down." Warren Buffett, January 19, 2005"</p>

Travel Costs More

Hotels, meals and tourist sights are going to cost Americans more in places like Europe, Japan, Canada and Australia because U.S. dollars won't buy as much of the local currency as they did before. You can delay travel until the dollar strengthens or "*buy American*" by traveling in the *United States*. Since the dollar has actually risen against the currencies of *Mexico and several Latin American nations*, travel there is cheaper – thus, you may want to head south.

Investing

You may not want to travel overseas because of the cost, but you may want to send your money there. With a weaker dollar, investments denominated in other currencies can become more valuable relative to dollar-denominated investments. Some people see *funds that invest in foreign securities* as a way to "play" the weakening dollar. Also, *American or multi-national companies that do big business overseas* may do well in a declining dollar environment.

Other Things to Keep in Mind

- If the dollar continues sinking, *interest rates will have to increase* to keep attracting foreign purchases of our treasury bonds. In fact, the Federal Reserve raised rates (as Alan Greenspan warned in a recent speech) again in February.
- A lot of pessimism about the dollar is already priced into exchange rates and the easy money has probably already been made. A *currency bet* now implies that you think the dollar will weaken further. That's *far from a sure bet*, since currency movements regularly confound the expectations of the so-called experts.

As with any investment decision, be wary of “chasing performance” and look to the long term. *Currency fluctuations generally even out over time*. Also, the main reason for devoting a portion of your portfolio to overseas investments is to diversify and reduce overall investment risk, not to ride the winds of currency fluctuations.

As always, your investment strategy should be based on your particular circumstances and your unique goals and dreams. Feel free to call if we can help.

Also, be sure to attend our Financial Update event on April 28th. It's free but space is limited so call now to reserve your spot.

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