



Crumpled

Why a weak dollar may be a better dollar



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BY JIM FLINCHUM

What is a dollar worth?

One hundred pennies or 20 nickels or what? When I was a young economics professor, the dollar was worth about 330 yen, the Japanese currency. Today, the dollar is worth about 118 yen. That means the dollar has depreciated 64 percent, and Americans must pay more for anything Japanese because it takes more dollars to buy the same number of yen.

So what? Suppose a Japanese manufacturer needs to sell his product for 3 million yen, and you want to buy it when the dollar is worth 330 yen; it would cost you about \$9,100. However, if you want to buy it when

the dollar is worth 118 yen, it will cost you about \$25,400, or about 180 percent more. The value of the dollar matters.

Some people think a "strong dollar" is somehow patriotic, but not many economists do. As the dollar loses value, our exports become less expensive to foreign buyers, who may then buy more from us. A weak dollar is not all bad.

There are numerous reasons to think the dollar will lose value. First, the huge account deficit - the difference between exports and imports - is pumping too many dollars to foreigners. Last year's deficit was more than \$800 billion and could approach a \$1 trillion this year. That means we are

forcing foreigners to accept dollars in exchange for the imports they send us. At some point, foreigners will have all the dollars they need to buy U.S. trade goods or U.S. assets, and they will dump the excess. "Supply and demand" determines the price or exchange rate of dollars just like other commodities, such as oil or copper.

Because of the huge deficit, a few economists expect the dollar to completely collapse, as foreigners stop buying our debt or U.S. treasuries. To appreciate the size of our deficit, it is larger than the gross domestic product of Mexico or India. The good news is that neither past Fed Chairman Alan Greens-

pan nor his successor, Ben Bernanke, expect such a collapse.

Second, as interest rates increase in a country, it becomes more attractive for investors to keep their money there. Rates have been rising in the United States for more than a year while rates have been stable in Europe and Japan. Now, increases in U.S. short-term rates are thought to be slowing while rates are increasing in Japan and Europe. People will then move their money into those nations, selling their dollars for other currencies.

Third, more people expect the dollar to depreciate, which often becomes self-fulfilling. If you believe

the dollar will lose value, why put your money into dollar-denominated assets when it is just as easy to put them into other currencies? Even though he lost heavily last year when the dollar appreciated 14 percent, legendary investor Warren Buffet recently said the "policies" now are in place for the dollar to depreciate, and he still expects that to happen. However, he didn't try to predict how soon or how much. Neither will I.

Still, if you are planning a foreign vacation, you might consider going sooner rather than later. If you are planning to buy an expensive foreign car, you take a risk by waiting. Most important, if you need to

include some international investments to your portfolio, you should talk with your financial adviser soon.

Although this might appear to be a slow-motion change in sea levels, it is not. Late last year, reacting to U.S. criticism that they were holding down the value of their currency to increase their exports, China allowed its currency (yuan) to appreciate slightly against the dollar. Be prepared to move quickly if China freely floats its exchange rate because its central bank can stop buying dollars to keep their currency cheap, and the dollar will fall more quickly.

So, what is a dollar worth? More now than later.