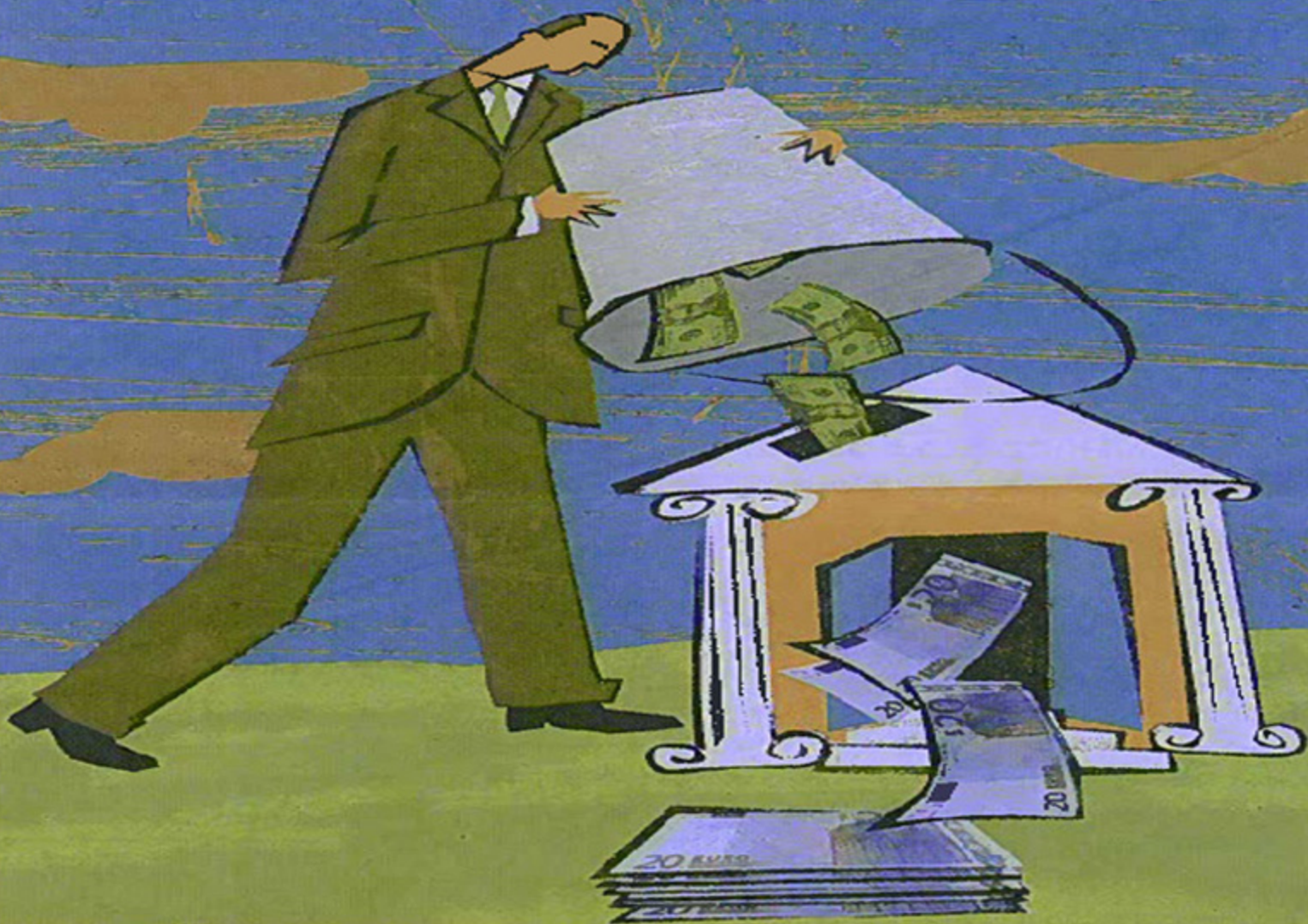


Foreign exchange

As the U.S. dollar loses its luster, 'bucket' accounts make it easier for savers to diversify into other currencies



Business

COMPANIES, CONSUMERS, MONEY, TECHNOLOGY, WORK • Pittsburgh Post-Gazette • SUNDAY, JUNE 22, 2008

By Tim Grant
Pittsburgh Post-Gazette

The U.S. dollar has for several years been losing value against many of the world's major currencies, and in recent months has hit historic lows against the euro, Swiss franc and the Japanese yen.

As the winds of change continue to shift global economies, a growing number of financial advisers say it makes more sense to consider the potential rewards in diversifying at least a portion of one's savings in foreign currencies.

"If you are able to diversify into other currencies, not only are you protected against the falling purchasing power of the dollar, but you get to take advantage of the rising value of other currencies," said Addison Wiggins, author of "The Demise of the Dollar ... And Why It's Great for Your Investments."

While the idea of investing hard-earned cash so far away from home might intimidate people who have never even set foot on foreign soil, it's not nearly as daunting as it may seem.

For as little as \$100, some banks allow savers to open an account that allows them to convert their dollars to foreign currencies in order to benefit from the appreciation of those currencies against the dollar and earn interest rates from around the world.

Lloyds TSB Offshore offers a currency "bucket" bank account with a minimum starting balance of \$100 that permits a fluid transfer of money among the dollar, the euro and the British pound sterling with no conversion fees. The account can be set up by mail and accessed 24 hours a day either by telephone or online at www.lloydstsb-usa.com.

"What we are seeing now is euro power," said Chris Gardiner, an associate director at Lloyds TSB Offshore in Stamford, Conn. "The strength of the euro is proving attractive to U.S. consumers/investors. The main overriding principle of this account is borderless banking."

EverBank in St. Louis also offers a foreign currency bank account that gives investors a choice of 20 different currencies that can be opened with a minimum starting balance of \$2,500. Everbank is one of the only banks in the nation that offers FDIC-insured deposit accounts and CDs in foreign currency.

It's worth noting, however, that FDIC insurance covers loss because of bank failure, but not currency fluctuations. And if the dollar gains value against the foreign currency, an investor could lose principal in the bank account.

The EverBank and Lloyds Offshore TSB currency accounts are a way for people to save money or make and receive offshore payments in foreign currency. Their accounts should not be confused with those offered by companies that facilitate daily currency trading in the foreign exchange markets, which can be highly speculative and risky.

"The way we look at it is an investor will want to diversify his U.S. denominated investment portfolio and they do that by taking a long-term position in a currency, not trading in and out of it all day long," said Chuck Butler, president of world markets at EverBank. "What we do explain to people is you wouldn't own just one stock, why would you own just one currency?"

With the U.S. economy teetering on recession and the federal government treading more than \$9 trillion worth of debt, the greenback is in danger of losing its luster.

China has suggested its government might consider diversifying its reserve funds away

'Bucket' accounts allow savers to diversify into other currencies

BUCKET, FROM PAGE C-1

from the dollar. Warren Buffet has started concentrating on stocks in other currencies and even supermodel Gisele Bündchen wants to be paid in euros.

"The diversification has already started with petro dollars gravitating to euro as opposed to U.S. dollars," said Herb London, president of the Hudson Institute, a think tank in Washington, D.C.

"Much of the currency generated by Arab nations through oil is heading to euro nations or to the yen because of the relative strength of those currencies to the U.S. dollar," he said.

Dr. London said it was understandable that people would seek safe cover in other currencies while the dollar is weak, but that it could be a mistake to bet against the dollar.

"I believe the dollar is the safest currency one could imagine," he said. "I'm guessing the Fed will start increasing interest rates and start reducing the number of dollars in the money supply. It will have a positive effect on the economy."

For now, the dollar is at its lowest point ever, and many economists predict it will sink even lower.

The U.S. Dollar Index measures the value of the dollar relative to a basket of foreign currencies such as the euro, the Japanese yen, the British pound, the Canadian dollar and the Swiss franc. When the U.S. Dollar Index was created in 1973, its value was 100 and has traded as high as the mid-160s. But it has fallen consistently since 2002, and in March hit a historic low of 70.698.

"We've got to face the fact that we're in a changing world, and the U.S. is no longer the leading economic power," said Bruce Fenton, president of Atlantic Financial in Boston, a firm that specializes in global investing. "China, India, the Middle East, Russia all have different advantages."

"Twenty years ago, the U.S. dominated everything economically. We were the only currency that mattered," he said. "We have to realize there's a difference between favorite and best. The U.S. may be our favorite economy. But in terms of measurable statistics, we're not the best."

P.J. DiNuzzo, president of

"What we do explain to people is you wouldn't own just one stock, why would you own just one currency?"

— Chuck Butler
president of world markets
EverBank

DiNuzzo Investment Advisors Inc., in Beaver, said currencies have been a hot topic lately with his clients. They want to know how the falling dollar is affecting their portfolios — but few of them want to dabble in foreign currency investing.

"For the average household it would be a dangerous application akin to making a financial investment in a complicated area of the market in addition to containing market timing risk," Mr. DiNuzzo said.

But that doesn't mean currency diversification isn't a good idea for some investors.

"People should not do this currency hedging unless they have all the other complementary asset classes, like stocks, bonds, real estate and commodities," he said. "You would not invest in currencies unless you have all these basics."

Although the weak dollar has contributed to the long stagnation in the stock market, Walter Gerasimowicz, chairman and CEO of Meditron Asset Management in New York, said investors might get a greater return by buying foreign stocks on the U.S. stock exchanges.

He suggested Nestle (Ticker: NSRGY), a Switzerland company whose profits are denominated in Swiss francs, and Diageo (DEO), a British company that is the largest seller of spirits in the world.

"If the dollar has weakened against that currency while you hold the stock, your total return on the security consists of the principal gain on the stock price, dividends and the foreign exchange profit," Dr. Gerasimowicz said. "You get back more dollars than you would otherwise."

Another strategy for investors would be to buy exchange traded funds that bet on a stronger euro vs. a weaker dol-

lar. There also are mutual funds that allow investors to buy a basket of European securities or Asian specific securities and benefit from foreign exchange appreciation vs. the depreciation of the U.S. dollar.

"It's a two-edged sword though," Dr. Gerasimowicz said. "Because if the dollar reverses course and strengthens during the holding period of the security, you'll receive fewer dollars upon maturity and conversion of the asset to U.S. dollars."

Mr. Wiggins, the best-selling author, said he predicted the dollar would continue to decline until fundamental concerns are addressed, such as the skyrocketing federal debt, the historically high trade deficit and the anemic household savings rate.

He suggests other ways to profit from the declining purchasing power of the greenback include the purchase of gold, silver and commodities in addition to currencies offered by governments that are running surpluses rather than deficits, such as the Swiss franc.

"Just because the dollar is weakening and the cost of living is going up, it doesn't mean you have to suffer with everyone else," Mr. Wiggins said. "There are things you can do to protect yourself and even make money if you understand why the dollar is weaker."

Fred Rock, a financial adviser with Focus LLC, Downton, said he didn't believe that the average consumer was thinking about currency diversification because it is a more sophisticated investing strategy as opposed to more traditional assets such as mutual funds and individual stocks.

"A lot of people with excess cash might think in terms of buying a CD as a short-term opportunity," he said. "You probably wouldn't think of buying a euro. Not that it's a bad investment, but the average person wouldn't think of doing that."

"Half the economists say you should [bet against] the dollar and half say you shouldn't. Our economy might be a little weaker now, but this one is still the greatest in the world. Every company wants a presence here."

Tim Grant can be reached at tgrant@post-gazette.com or 412-263-1591.