Business

Section C

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UPS and DOWNS

Steep fluctuations in the value of the dollar can dramatically affect your bottom line

By Tim Grant
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The U.S. dollar is losing value in relationship to other foreign currencies, and international investors are growing more concerned about the nation's spiraling debt.

As more government funds are needed to save failing corporations and rescue the economy from recession, the Federal Reserve continues to print greenbacks, and the problem continues to grow.

"Ultimately, the dollar is headed a lot lower," said Michael Panzner, author of "When Giants Fall: An Economic Roadmap for the End of the American Era."

"America's fortunes are changing. People are no longer looking to the U.S. and the U.S. dollar as the leader of the free world," he said. "It's no longer just America's game."

While the average person might care less about the constant rising and falling value of the U.S. dollar against other world currencies, many consumers may be surprised to know the dramatic effect it has on their bottom lines.

From the cost of food and gasoline to the interest rates they pay on cars and home loans, consumers and companies will either pay more or save, based on how the falling value of the dollar affects their businesses and daily lives.

Investors who can accurately predict the direction of the dollar stand to profit whether it goes up or down.

"For individual investors, the largest benefit of a softening dollar would result in increased exports from U.S. manufacturing companies and that would directly benefit U.S. corporate profits, which would be good for the stock market," said P.J. DiNuzzo, president of DiNuzzo Investment Advisors Inc. in Beaver.

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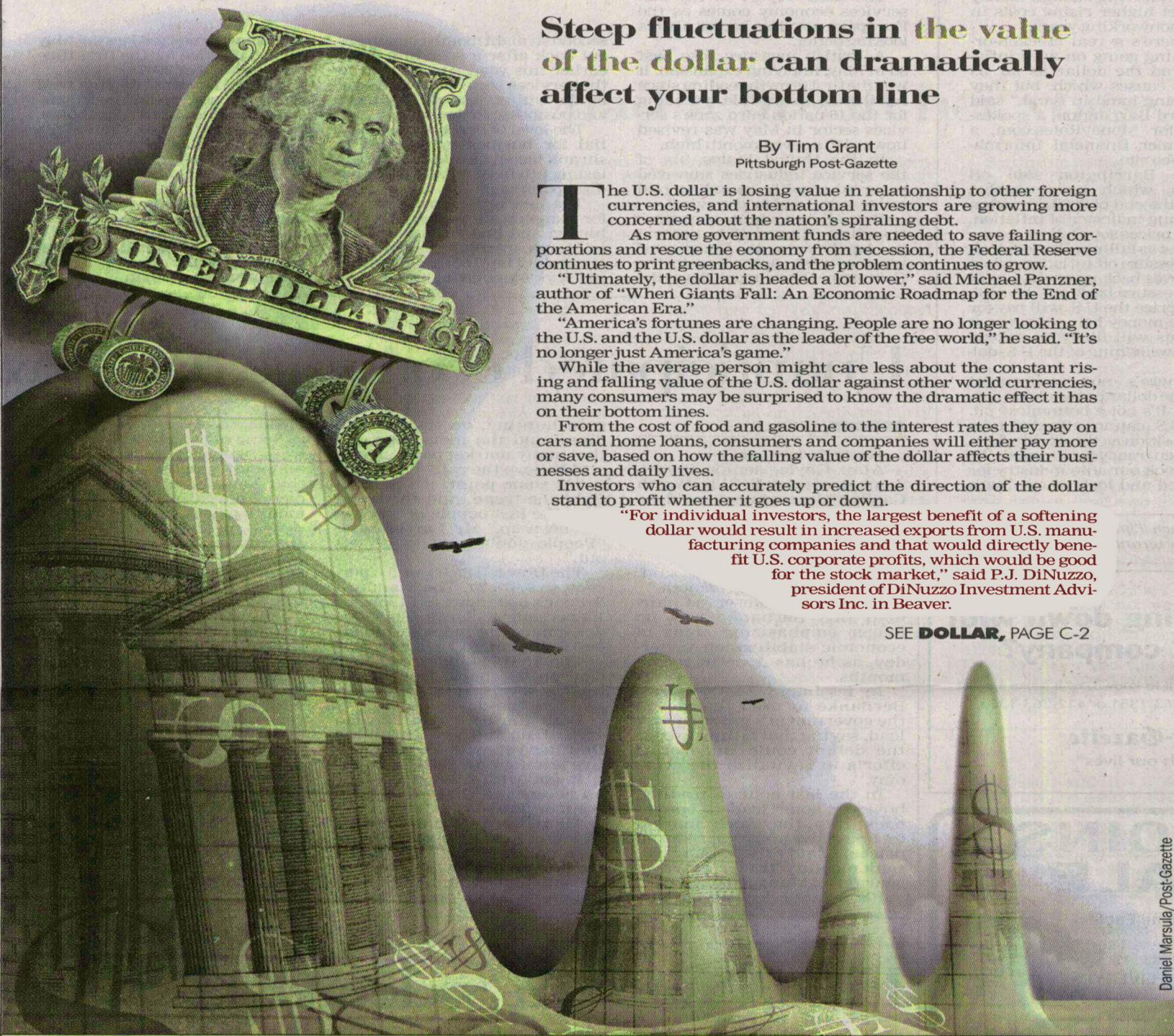

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Dollar's fluctuations can hit your holdings

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"To a point, a weakened dollar could be a good thing," Mr. DiNuzzo said. "Although a weakened dollar improves U.S. exports, the U.S. dollar still represents the common world currency, and an excessive slide in the dollar would have a negative effect internationally."

The U.S. Dollar Index, which measures the fluctuating value of the dollar against other currencies, was created in the early 1970s. Since its inception, the dollar's value has risen as high as 160 and fallen as low as 71 at its weakest point a year ago.

It currently stands around 79.

In the midst of the current "Great Recession," the Federal Reserve and the U.S. Treasury are walking a fine line between creating more dollars to stimulate the economy while being careful not to disturb the nation's international trading partners. China currently owns about $1 trillion in U.S. debt.

Chuck Butler, president of world markets at EverBank in St. Louis, predicted the Fed eventually will need to raise interest rates.

Treasuries issued before the interest rate hike will depreciate in value, taking the value of the U.S. dollar down along with them.

The dollar's decline also will be fueled on a global scale, he said, given China's recent decision to take dollars out of its trade equation with six countries.

"The U.S. is in a position where the deficit will continue to grow," Mr. Butler said. "The dollar is falling and the momentum is accumulating each day. It started stealth-like in March. The last part of May was strong."

When the global economic crisis hit its peak late last year, the U.S. Dollar Index climbed as investors around the world flocked to the safety of the dollar in spite of significant troubles in the financial industry.

For this reason and others, it has become harder to gauge how currencies react to world events.

"I don't try to predict the direction of currency," said Paul Brahim, managing partner at BPU Investment management, Downtown. "But over the next 10 years, I believe the dollar will strengthen because the U.S. economy will strengthen relative to other economies.

"It's important to diversify portfolios in both domestic and foreign stocks. When the dollar weakens against foreign currencies, the value of foreign stocks go up relative to U.S. stocks."

Also, when the dollar declines, it results in the price of foreign goods going up, which in turn causes Americans to experience inflation. Individual investors cannot afford to ignore inflation in retirement plans because they must plan on having enough money to meet higher rising costs in their nonworking years.

"There's a real chicken-or-egg thing going on with inflation and the dollar as far as which causes which, but they are going hand in hand," said Richard Barrington, a spokesman for MoneyRates.com, a consumer financial information Web site.

Mr. Barrington said oil prices, which have doubled since the end of 2008, are often a leading indicator of inflation. Other prices soon follow.

"Just as falling oil prices took the pressure off inflation, when oil moves back up again, it will put pressure back on," he said. "The price the U.S. will pay for all the money being thrown at bailouts will likely be a long-term weakening of the U.S. dollar.

"There's no requirement that the dollar be the global currency. It's not a bottomless pit. The U.S. cannot afford to take our position as the world's dominant currency for granted. We once took our auto industry for granted and look where that's got us."

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