



The fall in the US dollar against the Euro and the Japanese yen has been a major story in the financial markets throughout 2004. As of late December, the dollar had dropped to its lowest level ever vs. the 6-year old Euro (source: AP). The dependence of the US upon the rest of the world to finance our ever-widening “triple deficits” (budget, trade and current account) is most often attributed as the reason the dollar has fallen so dramatically. It is possible that the currency slide may continue throughout at least a portion of 2005. If this trend continues, how could an individual benefit financially from it? Here are 6 investment ideas to consider:



1) Major US multinational corporations that generate a substantial percentage (e.g., at least 35%) of their revenues from export sales may benefit. As the dollar has weakened, the cost of an American product being sold abroad has dropped, thus boosting sales. The stock prices of these US-based companies may benefit from the increased revenues.

2) Foreign mutual funds have benefited from a falling dollar (source: Reuters). Because stock purchases of the foreign stocks in these funds are conducted in the local currency, these funds have drifted upward as the foreign currencies have risen vs. the dollar. However, this benefit may become a drag on these funds once the dollar reverses its downward course.

3) Stocks of companies that own hotels or other resorts located in the US have benefited from foreign tourists visiting here (source: Financial Times). As foreign currencies have strengthened vs. the dollar, the buying power of foreigners’ increases and has made the US a favored vacation destination for many Europeans. If the dollar’s fall would continue, higher domestic interest rates are possible. This could negatively impact equities connected with the housing or mortgage industries, making those stocks candidates for short sellers.

4) A falling dollar also pushes up the price of imports coming into the US from abroad, thus adding inflationary pressures domestically. This has added to the appeal of gold and has pushed price of the commodity to a 16-year high (source: Reuters). If the dollar falls further, gold may continue to rise.

5) The most direct way to benefit from a falling dollar/rising foreign currency play would be to buy the foreign currency. An investor would buy the currency (e.g., the Euro or the yen) and hold it in anticipation of further upward movements.

6) Investors must recognize that currency values do not move in straight lines. The current downward direction of the dollar will at some point in time reverse course and move upward. Please factor this into any investment decision.

If you have any questions about this, please give us a call.

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