Currency Funds Gain As Dollar Falls

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Associated Press
880 words
12 December 2006
14:54
Associated Press Newswires
English

NEW YORK (AP) - Investors who are distrustful of the vagaries of the stock market and contemplate stuffing money under the mattress might first consider the nationality of the bills they hide away.

The dollar's recent weakness has stirred concern among some investors that the greenback is only pausing before ceding further ground to other major currencies. A handful of mutual funds have been launched in the last two years to cater to investors uneasy about having all their assets in dollars.

Concerns about the dollar have taken on a new urgency in recent weeks after it hit a 14-year low against the British pound and a 20-month low against the euro. Axel Merk, who began the Merk Hard Currency Fund 18 months ago, contends the U.S. dollar is not the impregnable investment some once regarded it to be.

"There is no such thing anymore as a safe asset," he said.

Merk describes his fund as an international money market fund.

"We don't try to gamble. We don't jump in and out on each piece of the economic news," he said. The fund, which has about $51 million in assets, comprises nine currencies and gold. As of Nov. 30, some 45 percent of its holdings were in the euro, followed by the Canadian dollar at 13.6 percent.

"This is for people who don't know when the dollar is going to decline but are pretty sure it's going to get substantially weaker," he said of his fund.

Merk, who began his investment company in Switzerland in 1994, takes the unusual step of avoiding Asian currencies. He contends Asian governments are too concerned about safeguarding their exports to the United States and would try to intervene in their currency markets were the dollar were to weaken substantially.

Merk prefers currencies from countries with well-established monetary policies. Many of the currencies in his fund are from Europe.

"What we do is boring to some people. They are looking for returns of 20 percent a year," he said. "We happen to be up steeply this year but we don't invest in dot-com companies, we don't invest in high-flying companies. We are investing in cash."

So far this year boring has paid off: The Merk fund is up 11.68 percent.

But currency funds are not without their critics. Merk himself notes that his fund serves an investing niche and that in a flat currency market investors would do better to invest in a traditional money market fund where the expenses would be lower.

Merk also said that if more investors move some assets out of dollars they could, even if only in a small way, hasten the dollar's decline.

While Arijit Dutta, an analyst with fund-tracker Morningstar Inc., acknowledges some investors are uneasy about the dollar, he sees limited benefit from currency funds.

"Foreign stock funds can provide an investor with quite a bit of exposure to non-dollar assets. If the dollar were to suffer a sharp decline they would be protected to some extent," Dutta said. Beyond that, he would look to foreign bond funds before considering currency funds, which he noted can be volatile and unpredictable.

For mutual fund investors keen on some direct currency investing, Dutta offered praise for the Franklin Templeton Hard Currency Fund, which invests in a dozen currencies and is up 9.29 percent this year and up 9.72 percent in the past five years. As of Oct. 31, its largest holding -- at about 25 percent -- was the Japanese yen. With about 6 percent in the euro, it only dabbles in the currency compared with the Merk fund.

The Franklin Templeton fund focuses on countries whose economic policies generally keep inflation in check. "Fundamentally, the managers there have a good record in other bond funds they mange," Dutta said of Franklin Templeton.

"One benefit that a currency fund does provide is diversification," Dutta said.

He contends investors can achieve meaningful diversification often by simply having foreign holdings and then watching, for example, as those investments benefit from rallies in their local currencies.

But as investors seek further diversification, currency funds are popping up. Currencies aren't necessarily affected by moves in stocks and bonds and therefore provide a level of protection, backers say.

Rydex Investments attempts to make room for the dollar to move in either direction with the Rydex Dynamic Weakening Dollar Fund and the Rydex Dynamic Strengthening Dollar Fund. The funds reflect six currencies, the euro being the biggest, and have not surprisingly turned in disparate performances this year. The weakening dollar fund, with assets of about $169 million, is up about 18 percent while the strengthening dollar fund is down about 12 percent. The later fund has assets of about $20 million. The funds, which launched in May 2005, use leverage to try to double the daily move of the U.S. Dollar Index.

Ultimately, for investors wary of the varying degrees of unpredictability in many investments, it might be wise to make sure their holdings are adequately diversified before they rely on stashes of dollar bills in their home to safeguard their financial well being.

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