Kiplinger.com
TIMELY, TRUSTED PERSONAL FINANCE ADVICE & BUSINESS FORECASTS

5 Ways to Bet on a Sinking Dollar

Earn more on your savings by investing in foreign currencies.

By Andrew Tanzer and Elizabeth Ody

From *Kiplinger's Personal Finance* magazine, February 2008

For contrarians, recent reports that supermodel Gisele Bundchen no longer wanted to be paid in constantly depreciating dollars was a sure sign that the greenback's long slide was nearing an end. Bundchen's concerns about the dollar were well founded. Over the past year, a wide variety of currencies -- the euro, pound, Canadian dollar, even the Indian rupee -- have surged in value against the greenback.

The contrarians' view is that once the hoi polloi (yes, that includes millionaire models) get wind of an investing trend, the game is just about over. But the contrarians may be selling Bundchen short.

The dollar faces both long-term and short-term challenges. The yawning U.S. current-account deficit -- the amount by which the value of goods and services we buy from abroad exceeds the amount we sell to foreign nations -- and the shortfall of domestic savings mean that foreigners must purchase more than $3 billion every business day to prop up the buck.

Shorter term, the economy is slumping, and the Federal Reserve is cutting interest rates, widening the gap between U.S. and overseas yields. "Everything the U.S. is doing is consistent with a weak dollar," says Peter Schiff, president of Euro Pacific Capital and author of the book *Crash Proof* (Wiley, $28). "To me, it's a question of how much and how fast the dollar declines."

Even if you're not as bearish on the buck as Schiff is, you might want to diversify some of your savings out of the dollar. Consider these five easy ways to invest in foreign currencies.

You could buy a foreign bond fund, such as **T. Rowe Price International Bond** (symbol RPIBX), which invests mostly in foreign-government bonds denominated in local currencies. Run by London-based Ian Kelson, the fund returned 9% annualized over the past five years to December 3. Annual expenses are 0.84%.

Or you could buy a currency fund, such as **Merk Hard Currency** (MERKX). Axel Merk, the fund's German-born manager, holds a shifting basket of eight sturdy foreign currencies (plus a bit of gold). He minimizes interest-rate risk by investing in ultra-short-term debt, making Hard Currency look like a foreign-currency money-market fund. The fund, which opened in 2005, charges an annual fee of 1.3% and returned 15% in the first 11 months of 2007.

Some pros say the most attractive opportunities are in emerging-market currencies, such as the Chinese yuan and the Brazilian real. Emerging markets inversely mirror the U.S., says Pimco's Mike Gomez, pointing to balanced budgets and large and rising trade surpluses in many developing nations. Since 2000, for example, the foreign-exchange reserves of Brazil, Russia, India and China have swelled tenfold, to more than $2 trillion.

Gomez runs two funds, **Pimco Emerging Local Bond** (PLBDX) and **Pimco Developing Local Markets** (PLMAX), that are available without sales charges through discount brokers. The former fund invests in bonds, and the latter in short-term, money-market-like instruments. Both gained 12% in 2007 to December 3.

Finally, you could create your own foreign-currency portfolio. You can do so by opening foreign-currency savings accounts ($2,500 minimum) or buying certificates of deposit ($10,000 minimum) through EverBank (www.everbank.com; 800-926-4922). EverBank, which offers accounts in 16 foreign currencies, charges a 0.75% transaction fee when you buy and sell foreign monies. Interest rates are generally low, depending on prevailing local rates and the size of your deposit.
