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How Sweet It Isn't

As the price of a stock reflects the current earnings and future prospects for a company, so the value of a nation's currency will often reflect the health and prospects for its economy. Using that gauge, consider the once-mighty US dollar. The dollar strengthened somewhat back in April as recovery from the recession seemed promising. In the past two months, however, the dollar has lost about 7%, returning to April levels. With persistent unemployment and slack spending by consumers, the economy no longer seems to be on the rebound, despite isolated shows of vitality.

As a reference point, the US dollar index is currently at 82, down from 88 in June. In the depths of 2008 we saw levels of 72. In sweeter, better times, when the dollar was still the envy of the world, something closer to 120 was the norm.

I wish I could say this state of things will change for the better soon enough. I can't. We consumers are exercising a most abnormal caution about our spending, extraordinary for the past couple of generations, even though we evince an increased confidence about the job situation . . . without much justification, given little change in job statistics. We still have almost 10% of job-seekers unemployed, many others too discouraged to search. Why the surveys suggest that we feel a bit better about job prospects is a mystery, and they may be wrong. In any event, it will take more time, more spending, more investing before the numbers begin to reflect improvement we can build upon. I'll be frank: it's high time someone pulls the rabbit out of the hat and gets this party going. Maybe the mid-term elections will help, but it's hard to believe the politicians are ever going to be a rescue resource. Political gridlock is the last thing we needed in these sour economic times, and that's what we've got.

But look! Over here! Some light from an interesting place. Professional Advisers, myself included, are routinely polled about our outlook for the economy and markets. Are we, as a group, bullish on the next six months or bearish? I am not alone here. The results of the recent poll reflect a decidedly bearish outlook by us professionals; we don't see a lot of reasons for optimism. And why, you rightly ask, does that look like light to me? Am I dazzled by the heat? Consider this: the history of this kind of polling reveals that when we pros vote like this, the markets and the general economic activity start to improve. I'll refrain from finding any kind of causality. It's just a fact.

Meanwhile, I'm investing in Germany, the strongest economy in the Union. German companies can help our investment portfolios in two ways. First, if the dollar continues to fall relative to the euro, we will own an asset that appreciates just because of currency changes. Second, if the euro starts to fall relative to the dollar, German companies, all major exporters, will reap the benefits of a weak currency by being able to sell their products more cheaply to countries outside the Eurozone.

If all this economic and emotional ping and pong is not enough for you (Chocaholics Alert: Stop Reading Here), some Brit is cornering the market on cocoa, threatening a price hike for chocolate products world-wide. If you bought M&Ms, your day in the sun may be just ahead. If not, there's always vanilla.