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Avoid a Weak Dollar With Merk Hard Currency

As the value of the greenback declines, Americans ought to consider diversifying some of their savings out of their own currency, the manager of this fund says.

By Andrew Tanzer

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It's easy to make a bearish case for the U.S. dollar. Americans consume too much and save too little, which shows up in our gigantic trade deficit with the rest of the world and mounting debt we owe to foreigners. To make matters worse, economic growth in the U.S. is slowing.

And now it seems highly likely that the Federal Reserve will cut short-term interest rates on September 18. That will almost certainly result in a further cheapening of the dollar. Little wonder that many foreign currencies are trading at or near all-time highs against the greenback, which has trended down the past seven years. The rising price of gold, which is priced in dollars, is yet more evidence of dollar weakness.

Axel Merk says Americans should consider diversifying some of their savings out of the dollar. And he happens to have just the product that allows investors to do that: **Merk Hard Currency** (symbol MERKX), which the German-born currency and precious-metals investor runs from California.

With an average maturity of 90 days, Hard Currency is much like a money-market fund -- except that it does not owned dollar-denominated debt. Instead, it invests in assorted currencies (and a smattering of gold) that Merk says are backed by sound monetary policies -- a condition he says is lacking in the U.S. today. Presently, the largest position in the fund is the Euro, followed by the Canadian dollar, Swiss franc and the Australian dollar.

As many travelers know, the weak buck has boosted the cost of overseas trips for Americans. As Merk notes, a diminishing dollar also reduces their purchasing power at home. Prices of imports, such as German cars and French wines, rise when the dollar falls. And a shrinking greenback contributes to inflation in dollar-denominated commodities such as oil, soybeans and wheat, given the increase in foreigners' purchasing power. This shows up in higher gasoline and food prices at home. Hence, there is a good case to keep part of your savings in solid foreign currencies.

Launched in May 2005, the Merk fund returned 13% over the past year through September 14. And there's not much risk in Hard Currency, other than the possibility that the dollar could reverse course and strengthen against foreign currencies. Merk avoids the interest-rate and credit risks of foreign bonds, investing instead in short-term sovereign paper. He holds no emerging-market currencies and, unlike most currency speculators, he doesn't borrow money to invest.

Not surprisingly, he's still gloomy about the dollar. "Turmoil in exchange markets will increase," he predicts. "Every business day, foreigners have to buy more than $3 billion of U.S. dollars in order to keep the dollar from falling."

He says that such U.S. creditors as China and Saudi Arabia are already diversifying out of U.S. dollar holdings. He says that slower economic growth in the U.S., rising protectionism in Congress and the unwinding of the credit bubble don't bode well for the dollar. "There is a risk of a serious dollar crisis," he says.

If you don't feel safe stashing all your liquid savings in the dollar, you might consider diversifying into foreign currencies. There are exchange-traded funds tied to individual foreign currencies, but these are not managed and call on you to decide which of those currencies are most likely to strengthen against the greenback. A fund such as Merk Hard Currency puts those foreign-exchange decisions in the hands of a professional money manager.
