



Forbe's Magazine's Portfolio Strategy columnist and Fisher Investments chief executive Ken Fisher says predictions of the US dollar's demise are wide of the mark – instead, expect the value of the dollar to remain pretty flat during 2004, while stocks will rise modestly in the short term and then strongly at the end of the year

# Dollar argument full of holes

While, as detailed last month, I expect the market to be up 20% in 2004, I also expect it to hold other surprises. For example, expect less currency fluctuation than in recent years. While in Switzerland in January I saw everyone either expecting equities to fall or to rise early on in 2004 and then fall.

They took the dollar as weak, uniformly, and gold strong. I've never been able to forecast gold but the US dollar will end 2004 confounding almost everyone by being pretty flat. And stocks will rise modestly early in 2004 and strong later, ending near or at their highs.

That will baffle the Swiss. Their arguments for a falling dollar are cheesy and full of holes. They miss that around the world – everywhere but the US, where sentiment is very 50/50 – folks are betting now on a falling dollar so it is already heavily priced in and can't much happen, if at all.

We poll many markets. Argue whatever you want. But if people overwhelmingly believe that something will fall, they will have already done the bulk of whatever selling they may. That's very basic finance theory and time-tested.

In Germany, too, they see the dollar as weak. They think the stockmarket

rose too much last year which, of course, they didn't anticipate, so now they think it must adjust to them. That's "human-centric" and anti-capitalistic.

It is popular in Germany to say: "Everyone is optimistic but I am realistic." They all think people are excessively optimistic because stocks rose big last year. They fail to recognise that after three dismal years of decline came 2003 as the first year in four decades without a single German initial public offering. So, where is that excessive optimism?

In Great Britain, too, most folk foresee a weak dollar and fail to recognise it as an opportunity. In January I interacted with almost 1,000 British investors. They, like everyone else, saw the dollar as weak compared to sterling, based on the same arguments. No new or different ones. They fail to see common pessimism as a buying opportunity.

The deficits argument is so widespread folks dismiss anyone who disagrees. They can't fathom that, because the market discounts all known information, even if this argument is right it must be priced in.

The deficits arguments are silly. The current account deficit has no more relation to the dollar than I do to Superman. The US has had 19 years of deficit in the last 20. And 17 years of federal budget deficit. And while now both are of a larger amount relative to gross domestic product, it is only by a little and far smaller than in the further US past – including times the dollar was strong. They misunderstand. These factors aren't causal.

To see how far off they are, note these same folks uniformly believe the great lie that China gains manufacturing jobs at the

West's expense. China has lost as many manufacturing jobs as we have. The plants going into China don't use much labour at all – they are optimising product quality by avoiding human input.

Manufacturers go there to vaporise the 25% of costs associated with environmental costs in a western plant, something they

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will lie about forever to avoid saying: "We put our plants in China to pollute cheaply; please buy our consumer products." China is the world's pollution pit.

What drove last year and this are productivity improvements leading to jobless profitability. While many may not like it, stock prices love it. Expect the market again to baffle the bulk of observers as stocks are stronger globally, interest rates more benign and currencies more quiet than anyone expects. Life is good.

Stocks are great. Buy ones like Germany's leading pharmaceutical companies, Schering and Altana. Between the two you get relatively cheap firms compared to similar British positions with strong prospects. Or Canada's Methanex, a leader in producing methanol from natural gas.

Dutch office products distributor Buhrmann is very cheap at 13% of annual revenue and 55% of book value. Increased 2004 business should return it to a low price/earnings ratio and rising stock price. Finally, and also dirt cheap, is Swiss reinsurer, Converium Holding. German speaking re-insurance should have another strong year in 2004.

[ken@fisherinvestments.co.uk](mailto:ken@fisherinvestments.co.uk)

