

Exchange-Traded Funds

Euro Hits All-Time High On Subprime Concerns

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The dollar's slide to a record low against the euro Thursday has some investors weeping.

Unless they have the right kind of interest in a currency exchange traded fund. The dollar fell to 1.3789 in the morning against the euro from 1.3745 Wednesday, after reaching a new low of 1.3798. It also fell to 122.12 Thursday against the yen, from 122.48.

The dive began after Standard & Poor's and Moody's Investors Service said they might downgrade ratings on securities backed by subprime mortgages. That could increase losses at brokers and hedge funds — such as those at Bear Stearns last month that bet wrong on the debt.

The dollar has been falling since 2001. Analysts say it could fall more later this year if spending is further curbed by a housing slump and the Federal Reserve lowers rates in response.

Right Bet

But for some, a bright spot: almost all the currency ETFs have moved steadily upward in recent weeks.

Notable were shares of **Rydex CurrencyShares Britain**, ([FXB](#)) which hit a record 204.03 on Wednesday. The fund tracks the performance of the British pound against the dollar.

Riding on the strong European economy, **Rydex CurrencyShares Euro Trust** ([FXE](#)) and **Rydex CurrencyShares Sweden** ([FXS](#)) also look hearty. The two-year-old euro fund, which was the first-ever currency ETF. It's currently trading near 138, up more than 5% this year.

There's also the four-month-old **PowerShares Db U.S. Dollar Index Bearish Fund**, ([UDN](#)) which bets on the dollar's decline. It's risen about 4% in the past month. **PowerShares Db G10 Currency Harvest Fund**, ([DBV](#)) which tracks the Deutsche Bank G10 Currency Future Harvest Index, has risen 12% since March.

Japanese Yen

Rydex CurrencyShares Japanese Yen ([FXY](#)) tracks the performance of the Japanese Yen net of trust expenses. It has fallen 5% since March. The yen's fall saw some Japanese housewives borrowing on the low-yielding currency and investing in higher-yield assets, making a good profit.

So are currency ETFs a good portfolio addition? That depends on your risk level. "They're a good hedge for the overall market, especially if subprime contagion gets worse," said J. Mark Spallanzani of Alcott Capital Management and author of ETFWatch.com.

But you must remain vigilant: Currencies change constantly. Last week, State Street Global Advisors head of currency management, Colin Crossover, called the carry trade "somewhat overdone" and recommended trimming positions.

"It's a relationship call," Spallanzani said. "There are so many factors that can affect currencies — inflation, the global macros such as terrorism. This is for the person who reads a lot about the carry trade."

