When the dollar is expected to depreciate, U.S. investors may look to foreign markets for big returns. Why? A declining dollar makes foreign-denominated financial instruments worth more in dollar terms. However, those in the business emphasize that trading currency is “speculation,” not investing. If the dollar rebounds, any foreign-denominated investment would provide lower returns. Simply put, big losses can easily occur if your bet is wrong.

The most direct way to play an anticipated drop in the dollar would be to stroll down to Bank of America and purchase $10,000 of euros, put the bills in your safe deposit box, and reconvert the currency to dollars in, say, six months. However, it’s not an especially efficient way to do the job because of transaction costs.

Another way is to purchase bonds denominated in a foreign currency. A U.S. investor who anticipates that the yen’s exchange value will significantly appreciate in the near future might purchase bonds issued by the Japanese government or corporations and expressed in yen. These bonds can be purchased from brokerage firms such as Charles Schwab and J.P. Morgan Chase & Co. The bonds are paid for in yen, which are purchased by converting dollars into yen at the prevailing spot rate. If the yen goes up, the speculator gets not only the accrued interest from the bond but also its appreciated value in dollars. The catch is that, in all likelihood, others have the same expectations. The overall demand for the bonds may be sufficient to force up the bond price, resulting in a lower interest rate. For the investor to win, the yen’s appreciation must exceed the loss of interest income. In many cases, the exchange-rate changes are not large enough to make such investments worthwhile. Besides investing in a particular foreign bond, one can invest in a foreign-bond mutual fund, provided by brokerage firms like Merrill Lynch. Although you can own a foreign bond fund with as little as $2,500, you generally must pony up $100,000 or more to own bonds directly.

Rather than investing in foreign bonds, some investors choose to purchase stocks of foreign corporations, denominated in foreign currencies. The investor in this case is trying to predict the trend of not only the foreign currency but also its stock market. The investor must be highly knowledgeable about both financial and economic affairs in the foreign country. Instead of purchasing individual stocks, an investor could put money in a foreign-stock mutual fund.

For investors who expect that the spot rate of a foreign currency will soon rise, the answer lies in a savings account denominated in a foreign currency. For example, a U.S. investor may contact a major Citibank or a U.S. branch of a foreign bank and take out an interest-bearing certificate of deposit expressed in a foreign currency. An advantage of such a savings account is that the investor is guaranteed a fixed interest rate. An investor who has guessed correctly also enjoys the gains stemming from the foreign currency’s appreciation. However, the investor must be aware of the possibility that governments might tax or shut off such deposits or interfere with the investor’s freedom to hold another nation’s currency.

Finally, you can play the falling dollar by putting your money into a variety of currency derivatives, all of which are risky. For example, you can trade futures contracts at the Chicago Mercantile Exchange. Or trade currency directly by opening an account at a firm that specializes in that businesses, such as Saxo Bank (Danish) or CMC (British). The minimum lot is often $10,000, and you can leverage up to 95 percent. Thus, for a $100,000 trade, the typical size, you’d have to put only $5,000 down. For an appreciating dollar, the techniques of currency speculation would be the opposite.

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**Foreign Exchange Trading as a Career**

As you complete this international economics course and approach graduating from your college or university, you might consider becoming a foreign exchange trader. You could gain employment from a bank or company dealing in foreign exchange or you might operate independently as a day trader.

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