

## **DOLLAR—GOOD OR BAD?**

### **12/19/006**

We haven't examined the dollar for some time now. Recent action has gotten the long-suffering *bears* all excited; thus, a new look seems warranted. As you can see from the chart below, the dollar is approaching a low seen previously in 1991, 1993, 1995, and 2005. It appears that these lows will be tested once again.

We don't know how many times we have heard "dollar demise" talk over the last 15 years, and here we are with the dollar at the same level it was 15 years ago. Much of the weakness centers on excess monetary growth and relatively low interest rates. There is talk of foreigners no longer buying our dollars due to a perceived over-concentration of dollar assets in their portfolio. This is probably at the top of list of the most vocal *bears*.

We at Central Plains Advisors take the position that as bad as our monetary policy has been over the years, the dollar compared to other Fiat currencies is better, hands down. By Fiat, we mean no real backing, just a promise to pay.

First of all, the good: the dollar is accepted all over the world with billions of currency dollars in the hands of all those who want a reasonable store of value. World history has taught us that the U.S. is the most stable society in the world. We have the strongest military and we have the most protective property laws anywhere. There are, of course, lots of reasons for concern. The bad: it only takes a quick view of the "goings on" in Washington D.C. to conjure up fears of us losing our way.

We believe the dollar will remain relatively weak until the U.S. economy goes into a recession, and that is likely to precipitate a worldwide downturn. At that time, two things will overcome all the negative dollar concern. First, the world will want a "safe haven" for their assets. Second, the dollar will be in demand in order to pay off dollar debts. This last factor is little appreciated, but \$47T of dollar denominated debt is out there and most lenders like to be paid.

**\$USD** (US Dollar Index (End of Day)) INDX

© StockCharts.com

6-Dec-2006

Open 82.96 High 83.09 Low 82.35 Close 82.77 Chg -0.16 (-0.19%) ▼

📈 \$USD (Monthly) 82.77

📊 Volume undef



**Chart Taken from Mish's Global Economic Trend Analysis**