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Rising British Inflation Pushes Pound To \$2

BY JOANNE VON ALROTH
INVESTOR'S BUSINESS DAILY

Posted 5/4/2007

When the British pound broke \$2 last month, some investors figured the time had come to sink some cash into currency.

So, is a currency-based exchange traded fund such as **Currency Shares British Pound Fund (FXB)** the right way to turn a profit?

Sure, say analysts, if you're a hedge fund manager — or willing to gamble against big odds.

The fund, which has a four IBD Relative Strength Rating of 44, tracks the performance of the pound relative to the U.S. dollar.

But be careful, experts say.

"This fund is only appropriate for someone who needs to hedge their bets, or the crazy guy who's a really huge risk taker," said Neal Frankle, president and portfolio manager for California-based Wealth Resource Group.

Interest Rates

The ramp-up of the pound seems to be powered by inflation, Tom Lydon, president and portfolio manager for Global Trends Investments, said in ETF Trends. While the U.K.'s consumer price index has risen above the Bank of England's target of 2%, many economists figure interest rates there will be hiked at least once above the current 5.25% to keep a lid on inflation. The bank already has raised its base rate 3/4 of a point since August.

That "can also make exports more expensive for international markets," Lydon said. That could contribute to a drop in the pound.

On this side of the pond, analysts believe interest rates will remain steady and might even drop in the foreseeable future.

"Interest rates are probably not going to go up; we can't afford to decimate the housing industry," Frankle said.

Euro Up

It's possible the dollar's slide might persist. The euro is now at \$1.36 and could increase.

That would still make a currency-based ETF chancy. Other currency-based ETFs aren't much rosier: **Currency Shares Australia Fund (FXA)** has a 55 RS, and **Currency Shares Euro Trust Fund (FXE)** has a 48. Both currencies are stronger than the dollar right now.

But the U.S. economy is showing signs of recovery and that would mean a

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return to strength for the greenback.

If the dollar's value drops more, however, international markets will continue to outperform and an international fund with a diversified portfolio is good idea, Frankle said. If you're an Anglophile, for example, you could consider **iShares U.K. Index Fund (EWU)** which has trended steadily upward.

But just because you recently returned from London and paid too much for your fish and chips, it doesn't mean you should bet all your money against the dollar.

"It's about how much return you want for the risk you're willing to take," Frankle said. "I would recommend for the crazy guy to get some medication first before he makes that kind of a hedge."



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Updated! — Spring Time For Global Equity Markets *By Fisher Investments*

The ride was a bit bumpy, and the first quarter delivered ho-hum US stock returns, but global equities fared well. As of this writing, the MSCI World Index is trading at new highs. We