

The Outlook: June 28, 2024

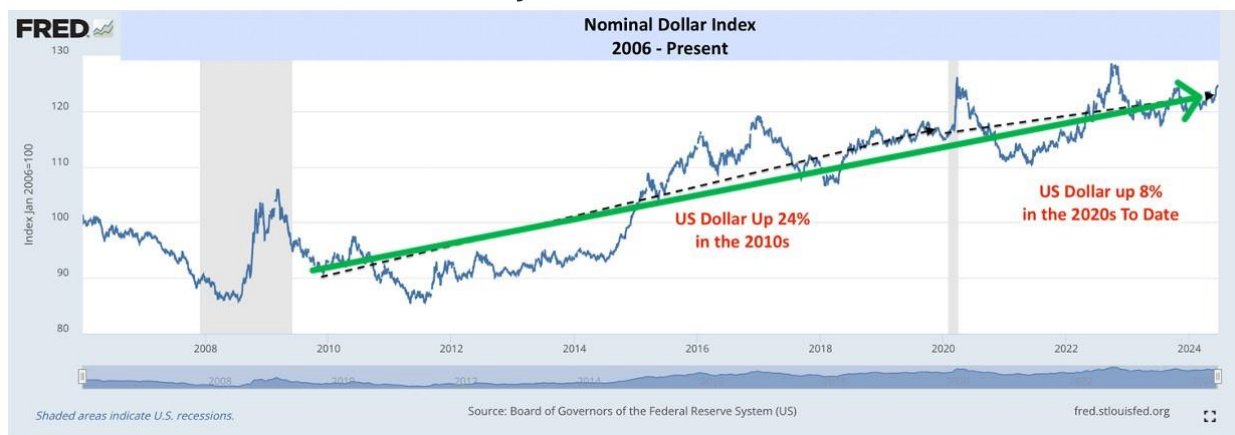
Fun with International Economics!

Let's talk about international currencies!

That line is reason enough for most normal human beings to say, "Let's not!", unclick the offender, and turn to something more fun . . . like washing our cars in the rain or untangling our stereo wires, as the old country song put it. So we'll be quick.

Here's the 18-year history of the dollar: that is, of how much it cost to buy a dollar, using a collection of foreign currencies. It's the usual rollercoaster picture, isn't it? But—like our stock market—despite the vicious rollercoaster ride along the way, there has been an emphatic long-term trend: "Up!"

Value of the Dollar: 18 Years



Why?

Before answering that question, a trip back through Memory Lane. A very long time ago, a college senior signed up for the senior seminar in "International Economics." It was going to be an in-depth, intensive exploration of that subject, with six or eight students sitting around a table with an eminent professor: two hours at a time, three days per week. Now one of the Golden Lessons of Life, we think, is that when our internal warning bells go off, concerning something facing us . . . Listen! Don't just listen, grab our wallets and canned food, and run for the hills, usually. And even in a 21-year old brain, those warning bells rang pretty loud and clear at the concept of "International Economics. Six hours a week. Across a small table from the professor."

But we do learn our Golden Lessons the hard way, of course, and International Economics was no exception. Those hours went very, very slowly. And at the end of that semester of torture . . . our hero, if he were honest, did not understand one single thing more about the subject than he had the first day. (Got an "A", though, which certainly makes you shake your head.)

The subject of "why currencies go up or down in value" is hideously complicated, if we let ourselves wallow in all those jagged, rollercoaster lines up there. Just like the stock market's rollercoaster, we could devote a semester to tortured analysis of the dollar's wild ride . . . and at the end we wouldn't know the answer, or understand much more than when we began. So we must back up, and remind

ourselves, “If anything trends up significantly in value over many years, something good is probably happening.” With the dollar, that “something good” is perfectly obvious: “Main Street USA (Business and Household) is much, much stronger than anywhere else; and it’s much more inventive; and, amazingly enough, it’s much more hardworking, by and large.” So the things investors can buy, using dollars, have done a lot better than what they could have bought, using . . . anything else, from euros to yen.

In other words, that long, rising dollar value is just another reflection of the basic things we see all the time when we compare the U.S. to the rest of the world: more freedom; more responsibility and accountability; more invention; more financial strength. We see those things . . . and so do investors all over the rest of the world. At Outlook we do not see that picture changing for quite some time to come.

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