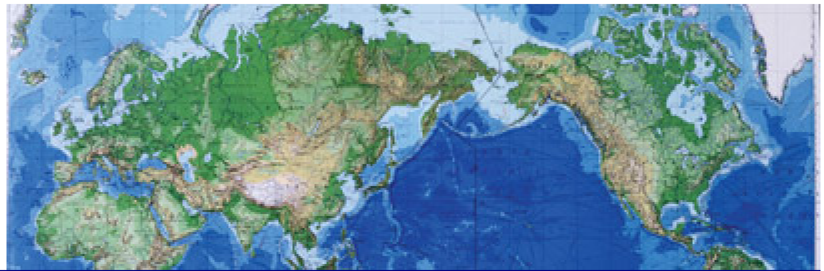

THE WHITE PAPER

Your Guide to Life Planning

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Strong Dollar, Weak Dollar -- What It Means for You

You may have heard news reports about the decline or strength of the U.S. dollar. Your reaction? Likely a yawn. But the truth is that the value of the dollar has ripple effects throughout the economy, ultimately affecting your day-to-day finances as well as your investments.

Making Sense of the Exchange Rate

What does it mean when the value of the U.S. dollar has declined or increased? In plain English, it refers to the amount of money you get when you exchange a dollar for another country's currency. When the dollar rises, you get more bang for your buck. When it declines, the opposite occurs.

If you have traveled abroad, you've experienced the effect firsthand. If the dollar is weak vis-à-vis other currencies, it costs you more when visiting another country because you won't receive as much of the foreign currency when you exchange your dollars.

Here at home, the relative strength or weakness of the U.S. dollar affects you both in the interest rate you are charged for loans and in everyday purchases. Think about the car you drive, the clothes you wear, your cell phone, or computer. Chances are many of these items are produced and imported from abroad. So the price you pay for these goods is going to depend on the value of the dollar.

When the dollar is strong, prices of consumer goods tend to be stable and/or increase more slowly. When the dollar is weak, prices may increase. Higher consumer prices also can lead to inflation and higher interest rates, which can affect the rate you'll be charged for a mortgage or car loan.

What About Your Investments?

As more individuals invest overseas as a way to stay adequately diversified and to potentially benefit from enhanced portfolio performance, currency risk is becoming a major factor to consider.[1,2] For a U.S. investor, a currency gain or loss stems from a fall or rise in the value of the dollar against the currency in which the investment is made: a fall in the value of the dollar relative to the local currency will increase your return; a rise in the dollar will lower your return.

Currency fluctuations arise from a number of factors, including the relative economic strength of each country and local political conditions. There are also indirect influences on exchange rates, such as trade balances, which can result in adverse movements of exchange rates and equity prices.

Managing Currency Risk

Portfolio managers use three basic approaches to manage currency risks. The first approach is not to hedge at all, assuming that currency fluctuations will wash out over a period of time; the second approach is to hedge fully, which may reduce the volatility of the portfolio. The third approach is to actively manage hedging, choosing when and how much to hedge. This approach is gaining popularity; most investment firms now offer some kind of currency service, and some firms with substantial international investments even appoint a separate manager to handle currency as a distinct asset class.

Currency fluctuations are a fact of your financial life. This article offers only an outline; it is not a definitive guide to all possible consequences and implications of any specific investment strategy. For this reason, be sure to seek advice from knowledgeable financial professionals.

[1]*Changes in foreign currency exchange rates will affect the value of currency investments. Foreign investments may entail greater risks than domestic investments due to currency exchange rates; political,*

diplomatic, or economic conditions; and regulatory requirements in other countries. Financial reporting standards in foreign countries typically are not as strict as in the United States, and there may be less public information available about foreign companies. These risks can increase the potential for losses.

[2]*Foreign investments involve greater risks than U.S. investments, including political and economic risks and the risk of currency fluctuations, and may not be suitable for all investors.*

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The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.

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