How retirees should react to the dollar
By Mark Hulbert
Published: May 4, 2018 9:55 a.m. ET

Would a stronger dollar help retirement investors, or hurt them?

Is a strong dollar good for retirees’ portfolios, or is it bad? Or does it make any difference?

Don’t be too hard on yourself if you don’t know the answer and find the whole subject confusing. You’re in good company, in fact: You may recall that, soon after taking office, President Trump called his National Security adviser at 3 a.m. to ask whether he should prefer a stronger or a weaker dollar.

Researchers aren’t much help either. A review of on-line articles in preparation for this column found some claiming that stocks fall when the dollar rises and others claiming just the opposite.

Part of the reason everyone is so confused is that the relationship between stocks and the dollar is not stable over time. In some decades the correlation between the two is positive, and in other decades it is negative.

Take a look at the accompanying chart, which reflects data back to the early 1970s, which is when the U.S. dollar’s foreign exchange value began being set by the market. (The chart reports the correlation coefficient, which is a statistic that measures the extent to which two data series move together. The coefficient is positive when the two rise and fall in tandem, with a reading of 1.0 representing the highest possible degree of correlation. Negative coefficients mean that the two data series tend to move in opposite directions, with a reading of minus 1.0 representing a perfectly inverse correlation.)

As you can see, the stocks-dollar correlation was positive in the 1970s, negative in the 1980s, then positive again in the 1990s, and has been negative since.

This unpredictable and varying relationship is exactly what we should expect, according to Campbell Harvey, a finance professor at the Fuqua School of Business at Duke University. That's because, he told me in an interview, the relationship...
between stocks and the dollar is not a cause and effect relationship.

The only retirees whose portfolios would be immediately affected by changes in the foreign exchange value of the dollar are those who invest in foreign stocks or bonds, either directly or via a mutual fund or ETF. For them, a weaker dollar is a good thing, since it means the dollar-denominated value of foreign earnings and dividends will be higher than they would be otherwise. By the same token, a stronger dollar would lead to a diminution in the dollar value of those earnings and dividends.

For U.S. domestic firms, in contrast, the situation is a lot murkier.

Most firms that derive a big portion of their sales outside the U.S. also have extensive operations outside the U.S. as well. (Can you say Apple?) Such firms are inherently hedged against currency fluctuations, since they will by hurt in one part of their income statement to more or less the same extent that they are helped in another part. And to the extent that firms have extensive exposure to foreign currency fluctuations—that is, their non-dollar sales and expenses are not balanced—they typically will hedge that risk.

No wonder the stocks-dollar correlation is so inscrutable.

I hasten to add that this doesn’t mean the dollar’s fate isn’t important, or that it has no impact on the economy. But because the relationship is so complex, and because a strong dollar is good news for some companies and in some situations and not others, it’s not clear how and what you should be worrying about even if you wanted to fret about the dollar.

Therefore, if your portfolio doesn’t contain foreign stocks or bonds, you probably can safely ignore the dollar’s value vis a vis foreign currencies. There are plenty of other things that are more deserving of your concern and focus.

For more information, including descriptions of the Hulbert Sentiment Indices, go to The Hulbert Financial Digest or email mark@hulbertratings.com.

More from MarketWatch

- Damn the torpedoes — what could take the S&P 500 to 3,000
- What America’s gun fanatics won’t tell you
- Bloodbath for cryptocurrencies as Bitcoin sheds 10%, now down 40% year-to-date
Retirement Income Calculator

Annual Income $50,745
Current Savings $25,000
Monthly Savings $253

6% of income
Birth Year 1983

We recommend saving $516,591 at retirement. This will cover $67,339 per year in retirement income. Follow this link to find the top 3 financial advisors for you.

Retirement Age 66

Savings at Retirement $316,570
Recommended Savings $516,591

This Site Finds the Top 3 Financial Advisors Near You