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Introducing EWI's *Stable Currency Benchmark*™ (SCB)

It's time to divorce our measures of value from individually (mis)managed currencies. Currency yardsticks are made of such elastic rubber that when one perceives change of value in something measured in currency units, nine times out of ten it is a change not in the thing measured but in the yardstick itself. The values of the U.S. dollar, the yen, the euro and every currency on earth fluctuate wildly all the time. Gold is the truest universal value benchmark, but it is impractical for use as an *investment* benchmark because fund managers cannot move their assets in and out of gold; the costs are prohibitive. Therefore, I have devised a new benchmark that is designed to be *a stable representation of global purchasing power*. EWI's new Stable Currency Benchmark™ (SCB) comprises equal-value portions of the Swiss franc, the Singapore dollar, the New Zealand dollar and the U.S. dollar. Each currency is the most attractive one within its global quadrant – Europe, Asia, Oceania and the Americas – from the standpoint of political and fiscal stability. Three of these issuing countries have been politically neutral for a long time, a major advantage in wartime. Some of these countries have more political than fiscal stability, and vice versa, but in my judgment these are the ones whose currencies are most likely to withstand the pressures of a global depression and the social upheavals that will accompany it.

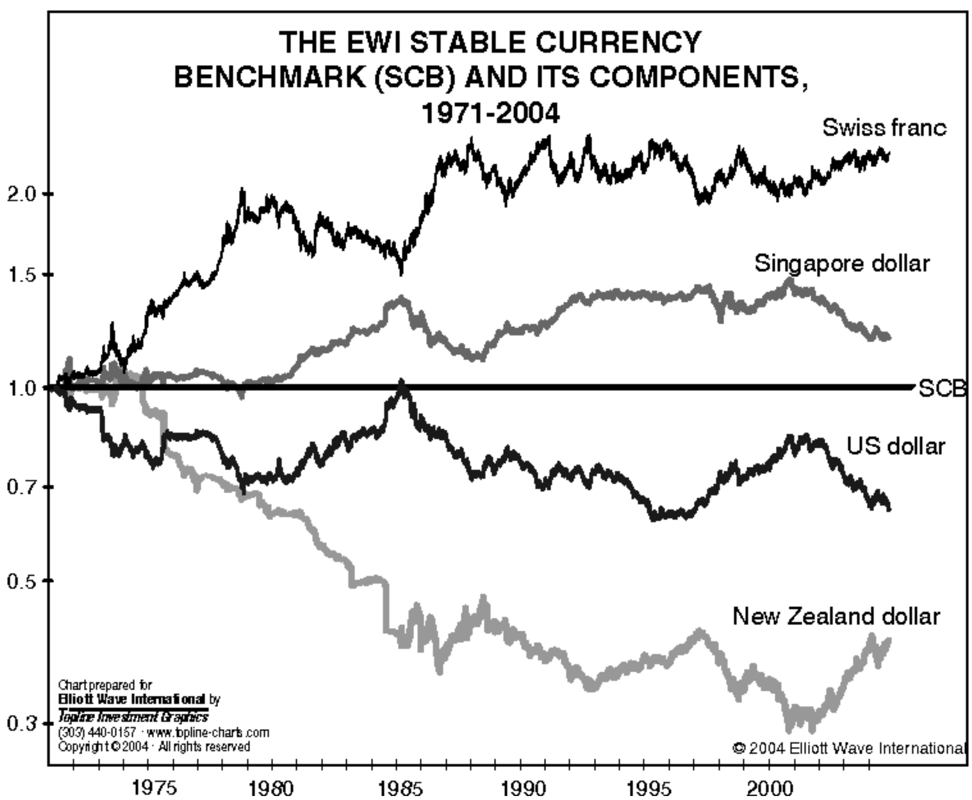


Figure 9

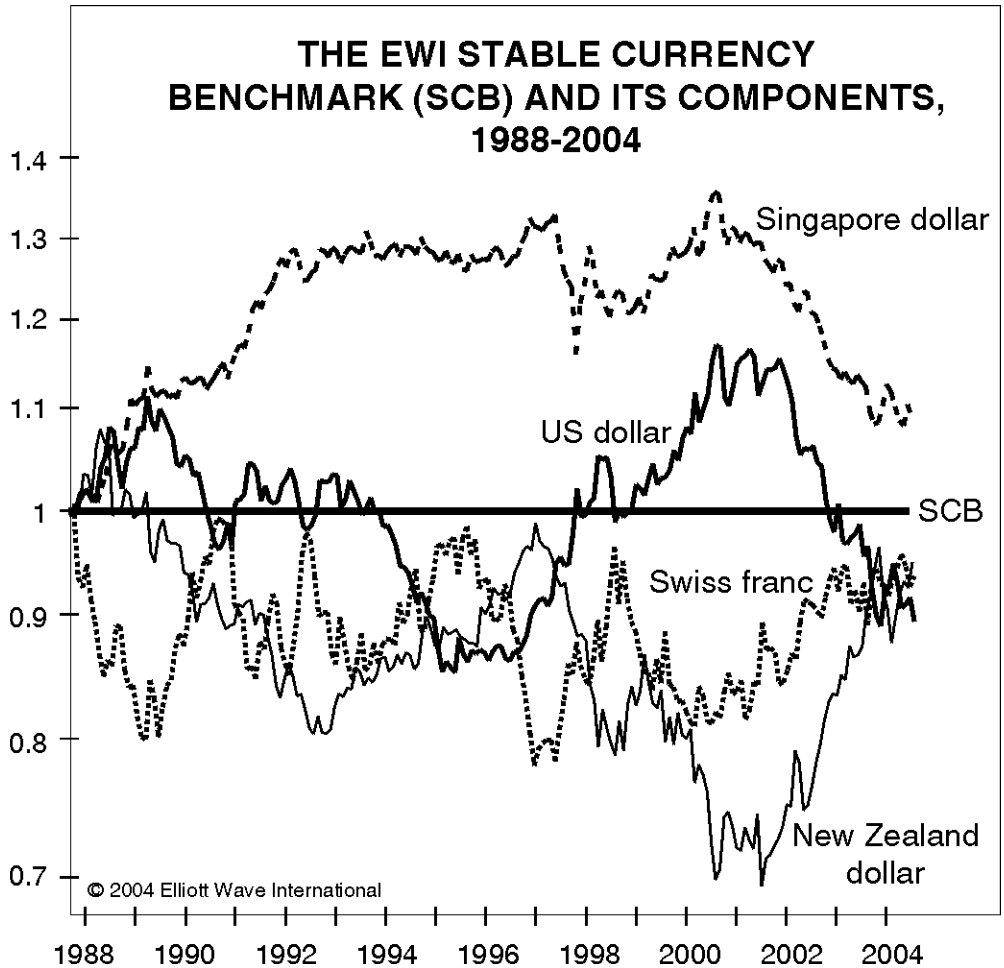


Figure 10

Undoubtedly with sentiment toward the U.S. dollar near an all-time low, some people will complain that the dollar should not be in the mix. This is one reason why it *should* be in the mix. Most investors and advisors get bearish *after* a 3-year decline, not before. They load up on foreign currencies just when their own is ready to recover. Three years ago, people would have complained that there were not enough dollars in the mix. The whole point of holding funds in the SCB is to stabilize one's *global* purchasing power. When one currency is weak, the others are usually strong. The fluctuations tend to cancel out, leaving a stable benchmark of value in a worldwide setting. The accompanying charts show the SCB as the benchmark against which individual currencies fluctuate. Figures 9 and 10 show the SCB against its components on two time-frames, and Figures 11 and 12 shows it against some other major currencies. Needless to say, most minor currencies have been downhill against the SCB.

One must refrain from making judgments about the individual currencies in the SCB based on their value histories from 1971, the year that currencies were freed to float. Beginning in 1978, or 1988 as you can see in Figure 10, gives a whole different look to the U.S. dollar and the Swiss franc. Beginning in 1992 would give a new perspective on the New Zealand dollar. Finally, the past is not the future, and my judgment on these selections is based as much on expectations as on past performance.

The benchmark will be adjusted on a quarterly basis to ensure that there are equal-value portions of the four currencies in the mix. The basis for adjustment will be their value in terms of gold. The SCB, as long as its components remain under the purview of sober governments, should be "as good as gold" in terms of maintaining value and *better* than gold in terms of cost and liquidity.

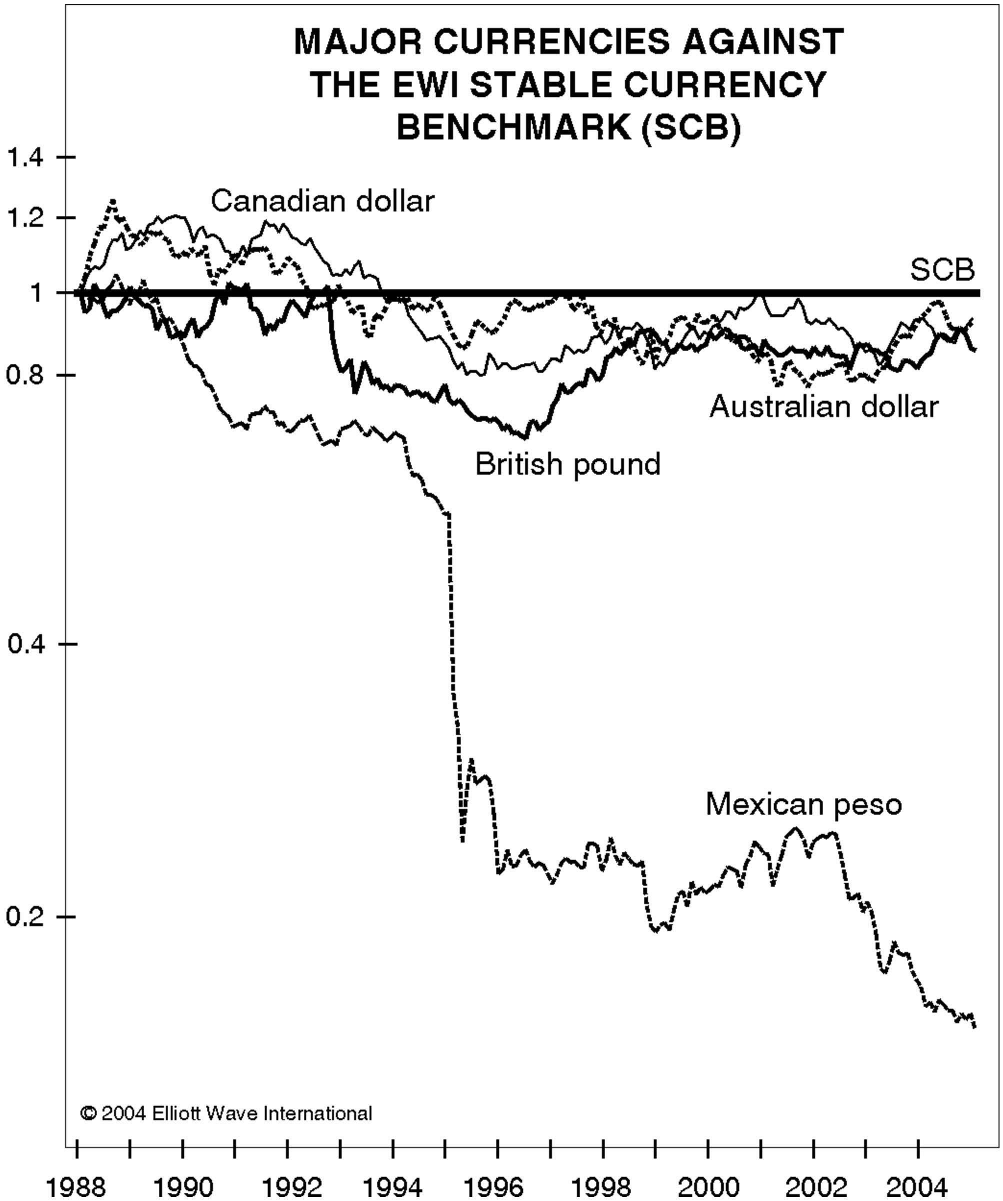


Figure 11

You may think of the benchmark as a *new currency*. You can measure anything in the world against it, thereby sidestepping wild individual currency fluctuations. The diversification inherent in the SCB mitigates the risk of choosing to hold your assets in one currency if that one were to get hammered during a global meltdown. It also gives you a consistent measure to value the price of goods, services, stock indexes or anything else. If you own stocks in a foreign country because its stock market is rising, you might lose the value of the gain in a depreciating currency. The SCB gives you a way to value all the world's investment indexes with a stable benchmark, which will thereby reveal if it is truly in a bull or bear market in terms of global purchasing power. Figure 13 shows the DJIA, the Nikkei and the FTSE indexes against the SCB, which factors out local currency fluctuations to give you truly comparative values. I am personally intrigued by the clarity of the five-wave decline in the DJIA from its all-time high, a pattern masked by the nominal Dow's denominator of depreciating dollars from 2001 to the present.

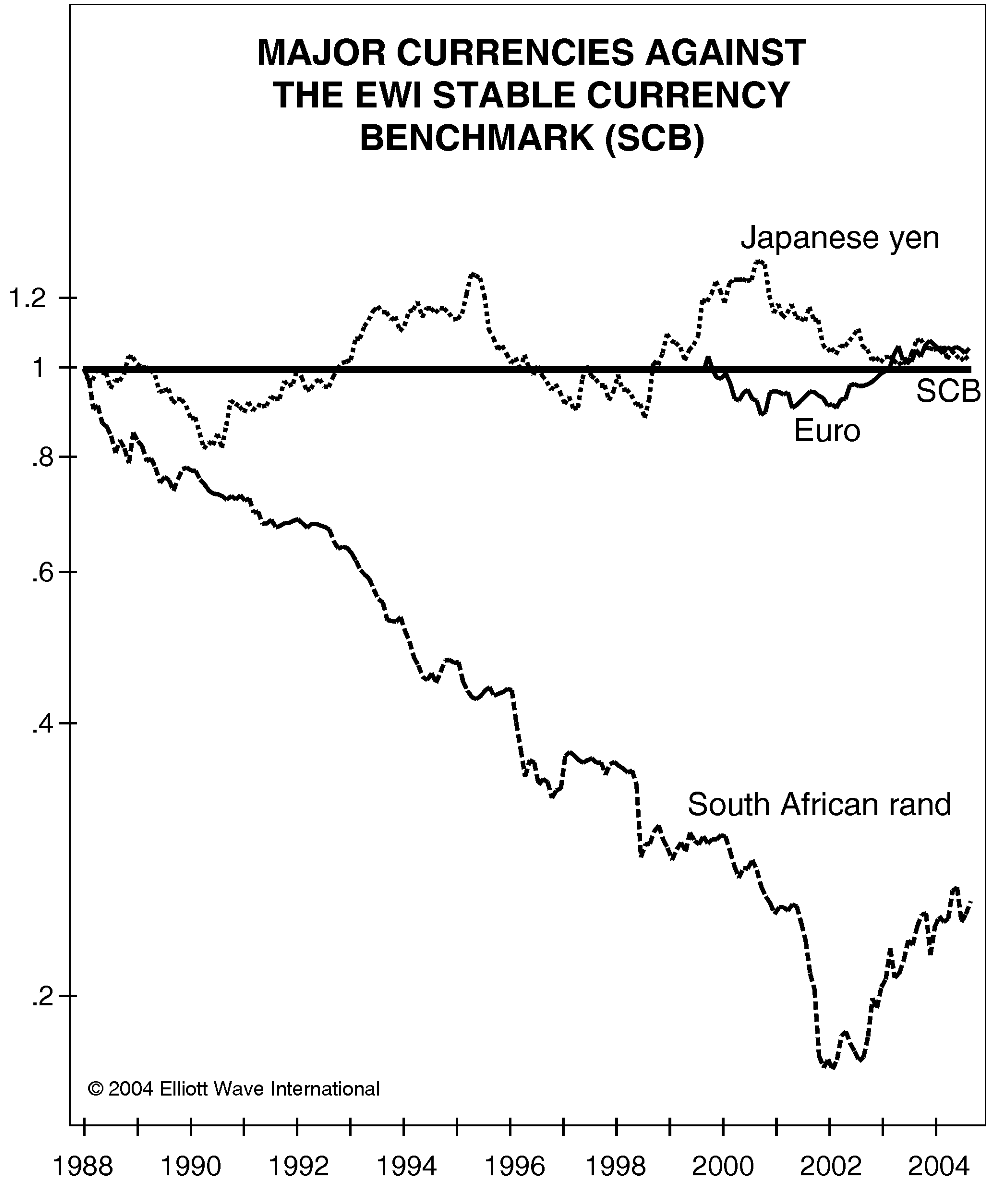
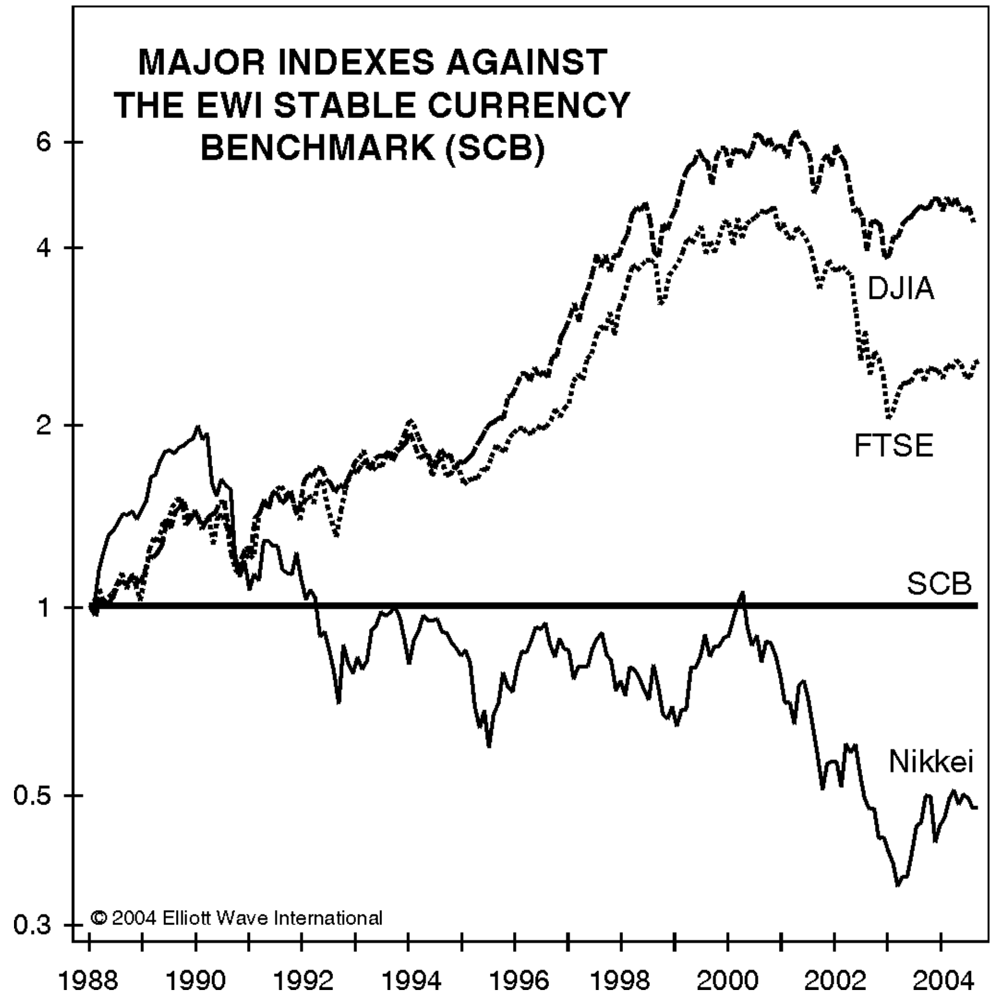


Figure 12

Whether you are a global fund manager or a sophisticated, globally oriented investor, I hope you will find this benchmark useful in coming years. As we will see in the next section, there is now an easy way to avail yourself of this benchmark to make your savings stable on a global scale.


MAJOR INDEXES AGAINST
THE EWI STABLE CURRENCY
BENCHMARK (SCB)
6
4
2
1
0.5
0.3
DJIA
FTSE
SCB
Nikkei
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1988
1990
1992
1994
1996
1998
2000
2002
2004

Figure 13