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There's a flipside to all this dollar -tility

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The Australian dollar has spent most of May valued at less than $US1.
Source: The Courier-Mail

FOR share investors, the fluctuating Australian dollar is one more piece of the puzzle.

THE parity party has run out of steam.

Following a five-month spell when it was firmly in favour with investors and currency speculators throughout the world, the Australian dollar has spent most of May valued at less than $US1.

In theory, it should now be party time for manufacturers, the tourism industry and other sectors that flourish when the "Aussie" is weak.

But experts say the equation is more complex.

Montgomery Investment Management founder Roger Montgomery said investors should consider the effect of currency movements over the long term on a company's return on equity.

"If the Aussie is declining, then businesses that earn profits offshore will be less on the nose," Mr Montgomery said.

He pointed to Cochlear, CSL and QBE as examples of businesses that should fare better as the Aussie slides.

"These are all high quality businesses that generate a large portion of revenue in the United States and offshore."

But Mr Montgomery said it was important to ignore the "white noise" in daily currency movements and look at the fundamentals that were influencing the changes.

"Trying to forecast currencies is a fools' game - so it is important to see what the influences on the currency might be.

"The daily movements are white noise. The big trends are important to us.

"Whether it is US90c, US95c or $US1 is neither here nor there for us.

"The exchange rate is just a factor that feeds into the model for evaluating a stock.

"We buy cheap. We want our acquisition price, even if worse case scenario, to be right, even if it goes to $US1.20."

Mr Montgomery said the Australian dollar - as a currency closely tied to the fortunes of the commodities sector - would depreciate as iron ore prices sank with slower demand. He nominated Flight Centre as a company that would be affected - because consumers would be less likely to venture offshore as buying power slipped.

CommSec chief economist Craig James said that among the top 40 listed Australian companies, 58 per cent of revenue was generated in Australia.

"It's important for investors to be aware of where company income is generated," Mr James said.

He noted currency changes had little direct influence on many major companies, including banks, utilities and telcos.

"But a weaker Aussie could actually boost the attractiveness of our heavyweight companies for foreign investors," Mr James said.

He added that retailers, manufacturers and businesses in the tourism sector should benefit.

However, miners and farmers "have less to gain as the Aussie dollar has fallen in line with commodity prices".

Bell Potter Securities research director Peter Quinton said that while companies in many industries might theoretically benefit as the dollar lost value, there were no guaranteed winners.

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