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Dollar to fall – buy these stocks

28/04/2014

by Peter Switzer

One of the scariest forecasts out there for Aussie travellers and importers is the dollar prediction by Deutsche Bank's Adam Boynton, which has it at 66 US cents!

Now I think this is a huge call and I would be more inclined to see a low around 80 US cents sometime next year, but after 16 years of teaching economics at the University of New South Wales (UNSW) and writing about it in newspapers since 1985, you simply can't trust the dollar. It defies theory!

Down, down – the dollar goes down

Though CommSec says the dollar will head to 97 US cents this year, I reckon when the Yanks start raising interest rates in 2015 the greenback will rise and the Oz dollar will start to dip. And where it will go, nobody knows. Lower seems logical, given that China's growth should be a little challenged for a few years. A stronger China would put a floor under our dollar.

So let's accept that the dollar goes south and that will be more likely in 2015, rather than 2014, but when it does happen, the traders and the people who live in the now will say "let's chase stocks that will do well with a lower dollar."

Well, markets will often move ahead of that – say six months before – and so I suggest that maybe it would be smart to get in even earlier.

This Ukraine mess might provide an even better buying opportunity and so I asked Roger Montgomery to select stocks that would benefit from a lower dollar. I presumed a lower dollar would improve the intrinsic value of some companies but wasn't sure if Roger would concur but he surprised me by agreeing with me. He doesn't always do that.

The picks

Here are the companies he thought would be worth considering if you wanted to get in ahead of any dollar dive: CSL, Flight Centre, Ainsworth Game Technology, carsales.com.au and Seek.

What I like about these companies is that I could buy them as long-term holds anytime, maybe except for Ainsworth, which would be a more short-term play to cash in on a falling Oz dollar and an improving US economy, where Ainsworth makes a fair bit of money.

I like the overseas strategies of carsales.com.au and Seek and even though their PEs are high, I do think their earnings will grow over time, and they will become solid, permanent fixtures and not just 'here today gone tomorrow' offsprings of the Internet age.

I think Flight Centre’s founder, Graham ‘Skroo’ Turner, is an exceptional business brain and he now has a business that does well even with a rising dollar, because he has grown the operation worldwide.

And CSL is a company everyone likes because it is a quality operation that has struggled with the high dollar for some time. Maybe if CommSec is right on the dollar then there could be some buying opportunities later this year but I think a lot of investors have bought the company to sweat on a dollar drop.

If you wanted to try to beat the dollar’s dive and buy in before the stock market takes the currency-created bait, you might put a collection of these companies together, so you spread the risk. This means you are not exposed to one company’s individual issues that could prevent the dollar improving its bottom line.

On Saturday, I showed that selling in May and staying away to September has historical hip-pocket problems but I think there could be a sell-off in May this year, maybe linked to the Ukraine. If there is, I will be a buyer and a stayer and the stocks I will be looking at will be the ones above.

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