TFSA Investors: Beware the Looming Risks of the U.S. Dollar

Description

Ray Dalio, founder of the world's largest hedge fund, Bridgewater Associates, recently outlined his biggest worry, namely, that the United States dollar would depreciate rapidly in the years ahead.

According to Dalio, the country has held on to its favourable spot as the most preferred global reserve currency for too long. Now, with the looming debt crisis and ongoing trade war, the currency could lose this position and depreciate in value against other currencies.

In interviews with CNBC and Bloomberg, he said the depreciation could be as much as 30% and could occur within the next couple of years.

As Canada's largest trading partner, the U.S. has a significant impact on the domestic economy. A weakened U.S. dollar will have knock-on effects on the balance sheets of Canadian corporations and the assets held by average investors in their tax-free savings accounts.

Here's a look at what could happen and how investors can protect themselves if the greenback tumbles:

Lower exposure

The first step for investors who have lost confidence in the U.S. dollar is to limit exposure to companies that earn more in greenbacks than loonies, which means eliminating stocks that export raw materials, energy or services across the border.

Auto-parts supplier **Martinrea International**, for example, generates a significant portion of its sales overseas, much of which is denominated in the U.S. dollar. The company made more than $2 in the U.S. for every dollar it earned in Canada last year.

Similarly overexposed is real estate company **Tricon Capital Group**, which manages assets worth $7.2 billion, 91% of which are located in the U.S. Rental income from these properties could take a hit if the greenback falls against the loonie.

Several others, from oil exporters to banking service providers, have similar exposure to the United States.

As the trade war heats up, Trump's policies add to the country's deficit, and the inverted yield curve suggests a recession, investors might want to lower their exposure to the world's most popular currency.

Diversify beyond North America

However, the issue for Canadian investors is the fact that the loonie is closely correlated with the greenback. 99% of crude exports and 75% of total exports from Canada went to the U.S. in 2017. This makes the domestic economy tied at the hip with the American economy.

This is probably why the yield curve inverted in Canada recently as well. There's a good chance that a depreciating U.S. dollar will unleash economic pressure on the Canadian economy and dollar.

In order to mitigate this risk, investors may have to look for stocks with a more diversified stream of income. Adding exposure to India (through **Fairfax India Holdings**), China (through **iShares China Index ETF**) or Bitcoin (through **HIVE Blockchain Technologies**) may be good options.

Of course, investors can always add exposure to precious metals such as gold (through the **S&P/TSX Global Gold Index Fund**) or gold mining companies (like **Barrick Gold Corp.**). Ray Dalio is certainly bullish on gold at the moment.

Foolish takeaway

Nothing lasts forever, and the dominance of America's currency is already showing signs of receding. According to several experts, like Ray Dalio, the greenback could lose as much as a third of its value.

With that in mind, TFSA investors may want to limit their exposure to North America through investments in foreign companies, index funds, gold and bitcoin.

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Date
2025/07/27
Date Created
2019/08/20
Author
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