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The SmartMoney Report: Why Some Brave Retail Investors Are Getting Bullish on the Buck

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The dollar may not be in great shape, but a surprising number of investors are taking the bold position that a recent reprieve is just the beginning.

In spite of modest gains last week, the dollar is still near its lowest levels since mid-2008. But some fund managers, financial advisers and retail traders have turned bullish.

Hedge funds have been net sellers of euros and buyers of dollars for the past 12 weeks, according to UBS AG. David Hoffmann, who runs the Legg Mason BW Global Opportunities Bond fund, argues the value of transparency: At this point, everyone knows what the U.S. fiscal problems are, while the state of other major economies is still murky.

Individual investors also are taking up the contrarian charge. Currensee, an online foreign-exchange platform for individuals, says 60% of its most successful traders, who are often followed by other retail traders, have been selling euros and buying dollars.

Justin Krebs, a trader and instructor at the Online Trading Academy, an investing-education firm in Irvine, Calif., says his students are shocked at the idea of betting on the dollar, and that reinforces his view that bucking the conventional wisdom will be profitable in the long run.

But while betting on the dollar has pockets of support, experts say it is still a gamble for individual investors. An estimated 465,000 individuals now trade foreign currencies in the U.S., double the number of five years ago, according to financial-services researcher Aite Group. But they rarely are as well-protected as professionals, who tend to be more diversified and cushioned against losses if the dollar doesn't recover.

Still, it is hard to argue against a trader eager to make a gutsy move. "You cannot make money doing what everyone else is doing," Mr. Krebs says.

What would it take for them to be right? Stronger economic data could offer a reprieve for the dollar. So could any event that makes investors flee risky assets. Any progress the U.S. government makes in addressing the burgeoning debt situation also could boost the dollar, says David Woo, head of global rates and currencies research at Bank of AmericaMerrill Lynch.

On the other hand, signs of a faltering economy and prolonged stimulus measures could depress the dollar further. Even dollar optimists expect a limited rebound, not a new bull market. Recent events have led Jim Holtzman, financial adviser at Legend Financial, which oversees \$380 million, to rethink taking a contrarian bet.

For some, those risks actually sweeten the pot. "If you are going with the crowd, you may eke out a few percentage points. But if you are right on a contrarian trade, you are looking at double-digit returns," says Brett D'Arcy, chief investment officer of D'Arcy Capital Management.

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Feeling Contrarian?

There's more than one way to bet on a U.S. dollar rebound.

-- Sell Australian dollars: After riding the Aussie dollar's climb against the greenback, some fund managers are reversing course.

-- Go all-in: Exchange-traded funds like the PowerShares DB US Dollar Bullish Fund track

the dollar against a basket of currencies.

-- Consider managed futures:
Funds like AQR Managed Futures
Strategy benefit from the volatility
of currencies like the dollar.