How far can the dollar go down?

Theoretically, the US Dollar can go to zero. While unlikely, it should be remembered that nearly every currency that has ever existed throughout history, eventually has a crash that destroys 90% of absolute value, or more.

Won't foreign Central Banks support the dollar?

Why should they? If you are hungry, and your 600 lb. neighbor (who is now so fat he can't even walk anymore he needs to use one of those little carts) missed a few meals, which happen to be 5x expensive as yours, would you finance his dessert? Of course not. You are thinking many things, but supporting his habit of overeating isn't one of them. The US consumes over 25% of the world's resources but produces less than 10%. Economists may not care for such a crude analogy, but the situation with the US Dollar is very, very simple, and should not be overcomplicated. The USD has been a reserve currency for the post WW2 world, but since Nixon abandon gold standard, the USD is backed by only the belief and faith in US Government. We are seeing a commodity boom, not because of a bubble in commodity asset prices, but because of a decline in the USD, the world's reserve currency in which many commodities (especially Oil and Gold) are priced. In any event, it's not likely that foreign central banks will bail out the dollar, because that would in effect make them eat a realized loss in their current account. Moderately wealthy nations cannot afford to take the loss of the US, the largest and wealthiest economy in the world. The US has been a financial big brother who have bailed out other failing economies – but the US has no big brother to lean on, except maybe Russia, although that wouldn't go over too well in Washington. So if the US Defaults, who can come to the rescue?

Gold is cheap

Adjusted for inflation, Gold should be above 1500 – without considering any boom. Many are wondering if commodities can continue to increase, without considering how depressed commodity prices were in the late 90's. An economy can live without services, or money, but people cannot decide not to eat or use Oil. Gold is money, the high price in Gold is reflective of investors concern about the value of money – any money. The US Dollar is a reserve currency so when USD goes down, so do many other currencies. The majority of USD holders are foreigners, but that is changing (in the past 10 years foreign USD holders have decreased from 77% to 62%).

What to do?

An argument of this nature should end in a 'what's next' or 'what you should do'. Unfortunately, this is a complex situation with no magic bullet solution. On a basic personal finances level, one should sell your mortgage at any price and become debt free with low cost of living. Don't bet on any economic upturn that will save your finances, things will only get worse. Second, do what you do well – no matter what the value of the dollar or the state of the economy, there will always be demand for goods and services (unless you happen to be in real-estate business, in which case you could start looking into farms.) The good news is that in any time of chaos, uncertainty, and reorganization, there are always massive opportunities. Taking advantage of them may not require huge amounts of capital. Knowledge of the situation can cause one to be 'in the right place at the right time' or at least not 'in the wrong place at the wrong time' – for example it would not be smart to be in south Florida amidst economic suffering which could lead to crime, rioting, overall fraud, and a depressed local economy.

Property surrounding small country towns has been doubling in 1 year! Farmland has increased by as much as 500% in some areas over the last few years. There are plentiful opportunities in this market, but they may not be the traditional opportunities that investors are accustomed to.

It's 2008

There is a new market thinking, accept it or not. We don't live in the 1970's, it's not 1970 it's 2008. In 1970 Russia was communist, now there are more billionaires in Moscow than in New York. In 1970 Oil had not yet peaked, there was no Internet, financial markets were not deregulated to the extent that they are now, there were no derivatives, no climate change, and no Oil hungry China. In 1970 Europe was scarcely organized, only 25 years of reconstruction post ww2, and there was no Euro.

Thinking Different

Therefore, the only way to survive in the New Investment Paradigm is to be nimble and stay ahead of the information curve. In any field, applied intelligence can earn a solid position and even great profits. Safe havens are no longer safe as they were, the bond market is getting destroyed by inflation, TIPS (inflation protected bonds) are trading negative for the first time ever, meaning you are betting inflation will be worse than the small loss you will take on the bonds.

A trader named Paulson made a record Wall Street profit on single trade, shorting SubPrime loans. Gold investors are happily sitting on 300%+ returns since 2002. Those holding US Dollar short positions have doubled their money in several years. CTA programs have achieved 70% - 150% in 2007, trading currencies, commodities, and futures. Anyone long Oil or Gasoline futures in the past months would have been very profitable.

Clearly, there are hundreds of opportunities but no clear 'magic bullet' solution that could be recommended, compared to 5 years ago when a US Dollar short or Long Gold portfolio could have been safely recommended. It is for this reason Elite E Services is launching a Global Opportunities Hedge Fund, which should be ready by late spring. If you are trading for yourself, take quick profits and don't hold any positions for the long term, and seek new opportunities. Keep in mind the opportunities may be biased toward the Short side than the long side, as DOW and NASDAQ components will be hit by a sinking dollar, sinking US Economy, and credit problems.