

Tuesday 6th November 2007

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Why it's time to bet on Europe

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ARTICLE

06.11.2007

A favourite topic of desperate property magazines and supplements these days are the bargains on offer in the US.



by **Merryn Somerset Webb**

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Want a condo in Tampa? Add the weakness in the dollar (down 20% against the pound in two years) to the fall in house prices there over the past 18 months, and you can probably get a three-bed flat for 30% less than you would have paid two years ago. Tempted? You shouldn't be.

House prices in the US have already fallen substantially. They saw their biggest fall in 16 years in the 12 months to this August, with the biggest declines in the cities where prices were once the hottest: down 10% in Tampa, nearly 8% in Miami and Las Vegas and 7% in Washington.

Yet there is still no sign of things bottoming out. There is a record supply of unsold homes across the country and demand has all but collapsed; there are already more than 17m empty homes in the US. So houses are going to get cheaper. Worse (or better, depending on which angle you are coming from) they are going to get even cheaper in dollar terms.

The dollar has been falling like a stone for months thanks to the clear weakness in the economy and the expectation that the Federal Reserve will be forced to keep cutting interest rates. It's now at record or near record lows against most currencies. It is tough to see what might make that change. Note that while the numbers on economic growth for the third quarter were better than expected, there is plenty to suggest that won't be the case in the fourth quarter.

Consumer confidence is back at the lows it hit post Hurricane Katrina two years ago, while companies - from the obvious casualties in the DIY and construction businesses to Procter & Gamble ([PG](#)) and Hershey ([HSY](#)) - have made statements pointing to weakness in their domestic markets.

There may be inflation risks building in the economy (the oil price hit \$95 a barrel this week and the sharp fall in the dollar is pushing up the price of imports) of the kind that usually precipitate interest rises, not cuts, but with the housing crisis still terrifying consumers it would be a bit much to expect the Fed to raise rates any time soon.

So, while you might want to nip to Miami to do your Christmas shopping, don't let yourselves be beguiled into forking out for a flat too. Instead, with your investments in mind, you might like to take a look at our own currency. The pound isn't exactly on everyone's wish list either. Sure it's at a 26-year high against the dollar, but it's down 4% against the euro and there is good reason for it to be down a lot more than that over the next few years.

We have the same kind of trade deficit as the US (we import more than we export and cover it with financial flows) and we are in danger of seeing exactly the same kind of economic slowdown as them too.

Our consumers are horribly overstretched. Numbers out from Credit Action last week showed total UK personal debt at £1,380 billion, up 10% in 12 months, while the average level of unsecured borrowing per person in Britain is a nasty £4,554. At the same time, our housing market, the strength of which has been papering over the cracks in our economy (just as it did in the US until very recently) is now really wobbling. The general level of activity in the market ? a good leading indicator of where prices might go ? has slowed substantially, with fewer buyers registering and the lowest number of new mortgage approvals for two years.

None of this necessarily means UK interest rates will fall (our central bank is caught between the same rock and a hard place as the Fed, given the rising prices of almost all commodities), but as in the US it is difficult to see how they can rise,

something which makes the pound look quite fragile.

So what can investors do about it? Well, first we can make sure we are holding gold. It may be at a 28-year high (it has nearly quadrupled since I first starting writing about the joys of owning it here), and in the short term there is every chance it will give back some of its gains, but it is still the best hedge there is against weak currencies.

The other possibility is to look at upping your investments in Europe to take advantage of the possibility that the pound will fall against the euro. Right now I'd suggest doing so via an income fund. They invest in relatively mature and stable companies that pay out high dividends and tend to do better than average in volatile markets - at the moment the European markets are offering them rich pickings.

There is, for example, **Axfood** ([AXFO](#)), a Swedish retailer which offers a current yield of more than 8%, and Italian oil major **ENI** ([ENI](#)), which pays about 5%. If you are lucky, buying into these will give you the dividend, a currency gain (as the pound falls against the euro) and a capital gain too.

There isn't much choice when it comes to European equity income funds, but Argonaut's European Equity Income Fund, run by Oliver Russ, looks like the obvious one to pick up. It yields about 4.4% and has returned 20% over the last year. But one word of warning ? it charges an initial fee of more than 5%, so if you buy it make sure you do so via a discount broker.

First published in The Sunday Times 4/11/07

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