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# Warren Buffett on why the dollar will sink

**Andrew Farrell, Forbes |** February 08, 2008 | 14:10 IST

US investors worried about a possible recession also need to fret over the weakening dollar, which, if its value continues to slide, would further erode the value of American assets. They should heed Warren Buffett's warning that the greenback has further to fall.

"In the future, I would predict that the US dollar will decline," Buffett, the world's second-richest man, said Wednesday at a Canadian business conference in comments transcribed in the *National Post*.

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"I don't know what it will look like in the short term, but force-feeding the rest of the world $2 billion a day is inconsistent with a stable dollar."

It doesn't take a financial genius to see the stiff head winds facing the currency. Like many experts, Buffett points to the US' gargantuan trading deficit as the heart of the problem.

The US has run a deficit every year since 1976, but the gap started ballooning in the mid-1990s as Americans' demand for foreign goods rapidly outpaced foreigners' demand for American goods. The deficit hit a record $758.5 billion in 2006.

The deficit means foreigners are sitting on constantly growing piles of American currency. When they shift their holdings out of dollar-denominated assets, the value of the dollar falls.

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The sputtering US economy and the Federal Reserve's rate-cutting campaign are also punishing the buck. They push investors to seek better safety and returns in non-dollar-denominated assets.

Investors should listen to Buffett's thoughts on the currency: He's made part of his sizable fortune by correctly predicting its course before. His Omaha, Nebraska based holding company, Berkshire Hathaway, reaped billions earlier this decade after making a huge bet the dollar would fall.

Other currencies are looking more attractive to the Oracle of Omaha. He told the *Financial Post* Wednesday he made several hundred million dollars betting on the Canadian dollar. Although he already exited the positions, he said he wished he had kept them.

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The only current currency position for Berkshire Hathaway is the Brazilian real. It's been another lucrative move for Buffett's holding company. Since May 2004, the value of the Brazilian currency in dollars has increased by over two-thirds.

Investors looking to take a page out of Buffett's book can play foreign currencies with currency trusts that trade on American stock exchanges, like the CurrencyShares Canadian Dollar Trust. They could also buy American Depositary Receipts for foreign companies, like that of Brazilian miner Companhia Vale.

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