



EURO DEBUT COULD BE GOOD NEWS FOR U.S. INVESTORS

The euro. It sounds like a trendy European disco. In reality, it is a new currency that is expected to dramatically change the European economic landscape and affect the rest of the world's economy, including U.S. investors and businesses.

The euro debuted January 1 of this year. It is now officially the common currency of 11 European nations under what is known as the European Monetary Union (EMU). Participants include France, Germany, Ireland and Italy, but not the United Kingdom, Denmark or Sweden, who may join later.

Initially, the currency will exist primarily in electronic form, used mostly by financial institutions, large companies and credit card companies. It also will be available in traveler's checks. Consumers will still carry around in their pockets the currency of their home country—the franc, the lira, the deutsche mark—but the currencies will be permanently fixed in relationship to each other and to the euro. No more currency fluctuations. Within six months after the arrival of 2002, however, the national currencies will be phased out and physically replaced by euro bills and coins.

So what does the transition to a single European currency mean for U.S. investors and companies? Beyond the obvious impact for U.S. travelers in Europe, the impact could be significant in time for both U.S. investors and U.S. businesses. First, the euro is expected to strengthen the European market. It will do this by eliminating the costs and complications due to exchanging one European currency for another. Consumers and businesses will be able to more easily compare the prices of goods and services.

Second, interest rates and the money supply will be set by the European Central Bank, based in Frankfurt. This is expected to stabilize the euro and make it competitive with the U.S. dollar.

Third, nations participating in the European Monetary Union must follow certain economic guidelines. Among them: annual budget deficits cannot run higher than three percent of the country's gross domestic product (GDP) and the country's debt cannot run more than 60 percent of its GDP. (Greece wasn't allowed into the EMU because it couldn't meet the financial criteria.)

European companies have been responding to this new era for the past couple of years. Streamlining and cross-border mergers are dramatically up as European companies prepare for increased competition among themselves. Experts think the euro will result in lower taxes and interest costs, and leaner companies patterned after U.S. companies, which should propel earnings growth and efficiencies of scale. The merger in 1998 of Chrysler and Daimler Benz is an example experts cite as indicative of the impact of the euro.

In time, the European economy and investment markets are expected to compete on more even terms with the United States. Europe already generates roughly the same portion of the world's gross domestic product, around 20 percent, as does the United States. Eventually, its bond market will rival that of the U.S. Treasury market.

A stronger European economic bloc will mean stronger markets in Europe for U.S. companies to sell in. Stronger European companies and improved earnings also may make European equity and bond markets more attractive to U.S. investors who want an international component in their portfolio. Some international investment experts see this revival of the European economy coming at a time when the Asian markets are down and the U.S. market may be headed for a slowdown. Investors who've selectively picked specific countries in Europe also will need to think more in terms of the entire region.

The transition, as one might expect with anything this massive, is not without its risks. Experts anticipate significant job disruptions and layoffs as companies and economies restructure themselves. Inflation remains a concern, as well, though high inflation rates in some countries have come down since the EMU guidelines went into effect. And there is the problem of converting computer systems to the euro at a time when year 2000 computer problems also loom.

Nonetheless, for investors who want an international component—many Certified Financial Planner practitioners recommend such a component for diversification—Europe will be a strong lure. Investors will want to watch Europe closely to see how well these potentially positive benefits take hold.

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