



Fund managers are often shy about discussing the role that foreign-exchange movements or other macroeconomic factors play in their portfolios. Managers often portray themselves as stock pickers, viewing the market through a microscope, not a wide-angle lens. But the dollar's swoon - it fell 7.1 percent against the euro in 2004 - is forcing them to adjust their focus.

"Most stock managers think of themselves more as long-term investors in business, and thus currency doesn't play a very big role in their portfolios," said Bridget Hughes, an analyst at Morningstar. But "we have been hearing of more managers buying more overseas stocks over the past year or so," she said. The wanderlust has been rewarded. The average equity fund in Morningstar's database that mainly invested outside the United States climbed 18.3 percent last year, while the average U.S. stock fund rose 12.7 percent.

Holdings that have proved fruitful during the dollar's decline, they said, have included European and Japanese companies that sell into their domestic markets, generating revenue in the strongly appreciating currencies. Those that have done better still are ones able to produce goods in the United States or dollar-based emerging markets before turning around and selling them for euros or yen.

Francis Claro, manager of the Evergreen Global Opportunities fund, has 70 percent of his portfolio invested outside the United States. Claro has been concentrating on European companies with strong domestic sales. An example is Trisa, a Spanish company that owns the newspaper El País and has interests in book publishing and radio.

"Trisa is benefiting from an upturn in the advertising market," Claro said. "If you have a Spanish newspaper that costs $\text{€}1$, you've had the benefit of increased pricing power as a U.S. investor without the company having to raise the price to its readers."

Another business that Claro likes for its strong euro sales base is Mobistar, a Belgian provider of mobile telephone services. "It's a local-currency play; all of its revenues are in euros," he said.

Ray Mills, manager of the T. Rowe Price International Growth and Income fund, has also been buying European companies with strong domestic businesses, particularly banks like Barclays in Britain, BNP Paribas in France and Nordeain Norway.

A sinking dollar highlights candidates for managers to sell, not just buy, said Ron Holt, co-manager of the Vanguard International Value fund. "As the dollar weakens, companies that

derive a lot of earnings in dollars are beginning to look less compelling to us," he said.

One company to avoid because of the dollar, he said, is Signet, a British jewelry retailer. "The majority of its profits are in the U.S., and they have been impacted by the weaker dollar," he said.

Holt said a falling dollar could give companies a boost on the other side of their balance sheets. Companies that make products in countries whose currencies closely track the dollar, including many in Asia and Latin America, can cut costs without having change the way they manufacture or sell.

One company he favors is Johnson Electric, a Hong Kong-based concern that makes motors for devices like DVD players and car mirrors. Most of its manufacturing is done in China, where the currency, the yuan, is pegged to the dollar.

Claro, at the Evergreen fund, likes companies that benefit from a weak dollar when both buying and selling. Puma of Germany, for example, makes athletic shoes in emerging markets with weak currencies and sells two-thirds of the shoes to European consumers, he said.

Holt of Vanguard said that Japanese electronics companies like NEC and Canon were suffering less from currency movements than might be supposed because "you do not have the same type of mismatch between costs and revenues as you would have had 10 to 15 years ago," he said. "There is less of that because most of these guys have moved their production to China."