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HERE'S HOW TO PROFIT IF DOLLAR DROPS

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If you're planning a trip to Europe or other foreign locales this summer, get ready for some sticker shock.

Unless, of course, you've padded your investment portfolio with foreign stocks, bonds or other assets.

The U.S. dollar in recent weeks has been sliding like a bar of soap in a bathtub:

* The greenback last week slumped to a 26-year low against the British pound. It now takes two dollars to buy one pound.

* The dollar is also flirting with a new low against the euro, where one unit of the European currency will put you back about $1.36.

* The dollar has been retreating against the currencies of Canada, Japan and other nations. It dropped to a 17-year low against Australia's dollar.

There's no assurance these trends will continue. Sometimes, markets reverse when they hit key psychological levels like $2 per British pound -- a formidable barrier in the past.

Yet the momentum seems to be against the dollar, as traders and investors focus on more robust economic growth in many foreign nations. That could lead to higher interest rates in those countries and bolster their currencies vs. the dollar.

The International Monetary Fund predicts the global economy will expand 4.9 percent in 2007, while U.S. growth is running at barely half that pace.

"The U.S. economy is sneezing, but this time the world's economy isn't catching a cold," wrote economist Ed Yardeni in a report, citing growth in China, Britain and Germany as particularly strong.

"This will force their central banks to continue tightening credit conditions, boosting the foreign-exchange value of their currencies."

Americans can hedge the fallout from a weaker dollar, if it continues, in various ways. One option is to buy gold or other precious metals.

It's also possible to bet directly on foreign currencies. For example, Jacksonville, Fla.-based Everbank.com offers certificates of deposit that couple federal deposit insurance with returns that rise, or fall, based on movements of various foreign currencies.

For a more opportunistic play on foreign currencies, economies and companies, you might take a direct stake in overseas stock or bond markets. Investments earmarked in other currencies often rise when the dollar falters, and vice versa.

Helped by the currency tailwind, foreign-oriented mutual funds are beating their U.S. rivals so far this year. Through April 19, the typical world fund tracked by researcher Lipper Inc. was up 7 percent, versus 5.2 percent for U.S. portfolios.

Payden & Rygel, a Los Angeles fund group, views Europe as still in the early stages of its economic expansion, with profit growth accelerating.

"By contrast, the U.S. has passed its cyclical peak and economic growth is expected to remain subpar in the coming year," the firm says in a report.

It helps that stock valuations in various foreign markets compare favorably to the U.S. situation, says T. Rowe Price, a Baltimore fund group.

A recent T. Rowe Price analysis shows how much the weak dollar boosted returns from the vantage of U.S. investors.

In 2006, the stock markets of Japan, Australia and six European nations rose an average of 16.9 percent in local currencies. But after their returns were translated into dollars, American investors earned 26.9 percent in those markets.

Compared to individual foreign stocks, mutual funds provide key advantages in terms of built-in diversification and professional management.

Many advisers suggest placing 10 to 20 percent of your stock holdings in foreign markets, mainly using mutual funds, but higher figures aren't uncommon.

"All my clients have about 40 percent of their equity holdings in international areas," said David Fernandez at Wealth Engineering LLC in Scottsdale. "A big reason is to hedge the U.S. dollar."

Years ago, that high of a foreign stake might have raised eyebrows, yet Fernandez feels perceptions are changing as more Americans recognize solid overseas investment and economic performance.

"There's more of a realization that we operate in a global economy," he said.

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