Currency risk

Lesson: zerotoinvest.com/en/lesson/currency-risk/

Name _____ Date _____

EXERCISE 1

You convert 10,000 euros at 1.10 dollars per euro and buy US stocks. They rise 8 percent. The rate is now 1.20 dollars per euro. How many euros do you have?

Your answer

EXERCISE 2

How many euros would it have been without any change in the exchange rate?

Your answer

EXERCISE 3

Interest rates are 4 percent in the US and 2 percent in the euro area. Roughly what does currency hedging cost per year?

Your answer

EXERCISE 4

Your ETF holds only US stocks but trades in euros. Do you have currency risk?

Your answer

Tip: the calculators on zerotoinvest.com help you check your answers.

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Solutions: Currency risk

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Exercise 1. $11,000 × 1.08 = $11,880. 11,880 ÷ 1.20 = 9,900 euros. A loss despite the share price gain.

Exercise 2. 11,880 ÷ 1.10 = 10,800 euros, an 8 percent gain.

Exercise 3. Roughly the interest rate gap: about 2 percent a year.

Exercise 4. Yes. What counts is the currency in which the companies earn their money, not the trading currency.

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