

# Profitable INVESTING Tips

## Stock Market Investing Tips, Techniques, and Resources



## What to Do With Your Dollars Before the US Defaults

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The United States, or at least its politicians, are playing with the possibility of a [debt default](#). We have written about how the mere threat of the US not paying its debts might affect your investments. Now we would like to consider what to do with your dollars before the US defaults and worse comes to worst. The dollar has been the dominant currency in the world for more than six decades. What happens to the value of your bank deposits, houses denominated in dollars, stocks denominated in dollars, or US Treasuries backed by a US government that does not pay its debts when the US defaults on its debt payments? What to do with your dollar now might be a thing to consider.

### Bretton Woods Treaty and US Dollar Dominance

In 1944 when it had become apparent the Germany, Italy, and Japan would not conquer the world, Allied Powers turned part of their attention to ordering the post-World War II world. Part of this was aimed at fixing financial and currency issues that had helped drive the world into the Great Depression and the rest was to create policies and institutions to deal with issues going forward. Nations wanted to promote economic growth, prevent competitive currency devaluations, and ensure the stability of monetary exchange rates. Representatives of 44 nations met in the little town of [Bretton Woods](#), New Hampshire in July of 1944. The International Bank for Reconstruction and Development (IBRD) and International Monetary Fund came into being as a result of this meeting. The dollar was pegged to gold and other currencies were pegged to the dollar. This system lasted until 1971 when US President Richard Nixon took the US dollar off of the gold standard.

### US Dollar Dominance Based on Economic Dominance

The US dollar depreciated in the 1970s due to massive spending for the Vietnam War and spending from social programs enacted during the 1960s Johnson Administration. Despite this, the US economy remained the world's strongest and the dollar continued to be used for international trade. In 2023 88% of international financial transactions include the US dollar compared to 38% for the euro. Note that because there can be one or two currencies used in transactions the total can be more than 100%. The Yuan is used in 7% of transactions and will likely not make a run at replacing the dollar as China is adverse to opening up its financial markets because that could lead to massive capital outflows from China and a financial crisis. Currently 60% of global foreign currency reserves worldwide are in dollars with the euro second at 20%.

### What Is a Dollar Worth and Why?

The value of the US dollar versus other currencies is determined by interest rates in the US versus elsewhere, the strength of the US economy versus other nations, and, particularly, the trust people have in the dollar. What is at stake first and foremost if the US does not pay its debts is the trust the world has in the dollar. If no one trusts dollars no one will want dollars and will sell them for euros, yen, British Pounds or any currency of a

country that pays its debts. Economists warn of a collapse of the dollar if the US defaults on its debts. How far will the dollar fall? No one is saying but a collapse of 20%, 50%, or more is conceivable in worst case scenarios.

### **Should You Be Buying Euros or Bitcoin or Farmland With Your Dollars?**

Usually when there is a financial meltdown in the works holding cash (dollars) is a good idea. But when the problem is the dollar and its value, holding cash in yen, euros, or Swiss francs might be a better choice. The trouble with any of those choices is that a US debt default will ricochet through the world financial markets and touch virtually every transaction, the majority of foreign currency reserves which are held in dollars, and value of every commodity from oil to wheat affecting the price in dollars filling your gas tank and buying a loaf of bread. Gold might not be such a bad idea or farmland where you could move and grow your own food while the world economies collapse worse than during the Great Depression.

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