Moe, Larry And Euro

Have you ever sat under Newton's apple tree with your thinking cap on and pondered why *The Three Stooges* were invited to all manner of gatherings where at least 30 cream pies were within easy reach and yet this has never been part of your life story?

Thanks to Ben Bernanke and Jean-Claude Trichet, the dollar and the euro took turns over the past two weeks trying to one-down each other (Is this the proper opposite of "one-up?"). First, Ben did a combination of the two-finger eye-poke combined with a shoulder-turning two-by-four swing at his press conference where he one-upped Patrick Henry: Give me paper or give me death!

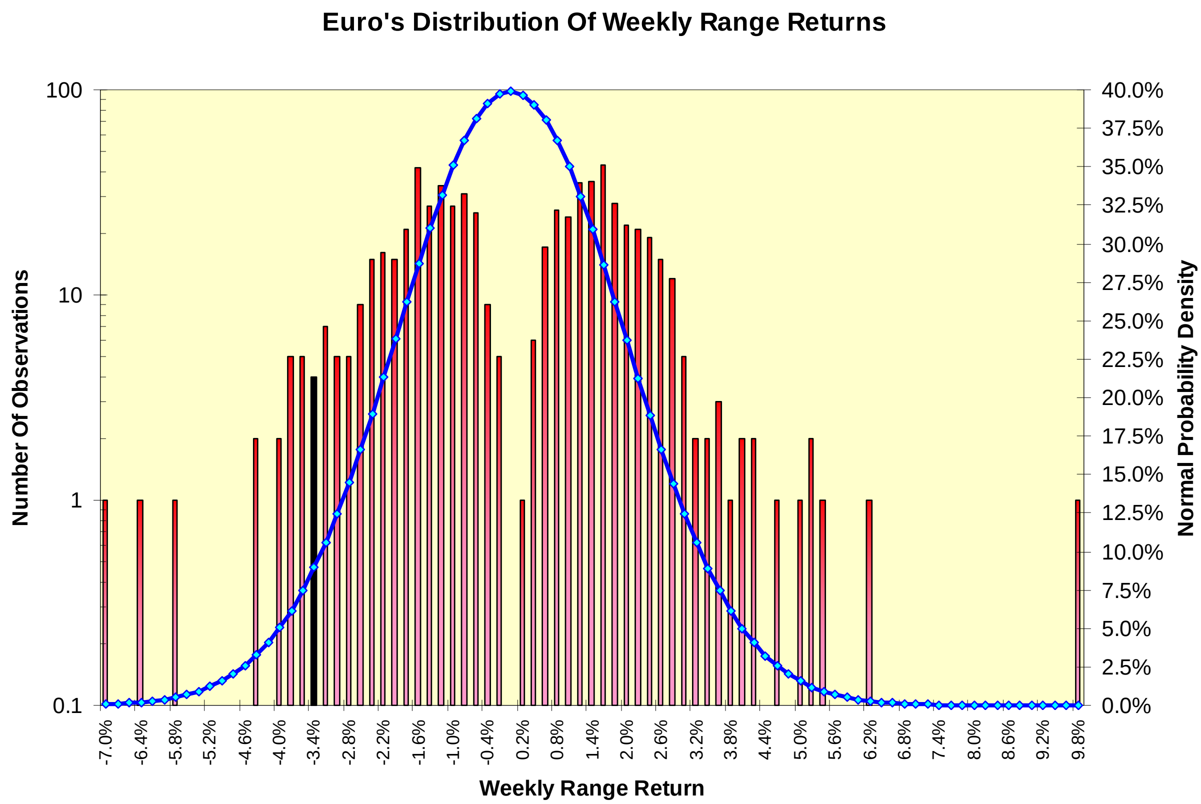
Jean-Claude, having a hyphenated name, did a hyphenated nyuk-nyuk and said at his press conference, "Rate hike? What rate hike?" This was followed by the world's commodity markets doing their own version of the ants-in-the-pants-dance. By last Friday, officials were denying Greece either was looking for the exit or being asked to find the exit on its own. As Claud Cockburn said, "Never believe anything until it has been officially denied."

Bimodal Distribution

If you think the only thing preventing both the dollar and the euro each going to zero is the other, you are correct; keep this up and we all will be bartering chewing gum, cigarettes and cowrie shells. Let's take a look at the weekly chart of the euro since its January 1999 inception. I highlighted the up and down candles with green and red because I know how to do so and it is kind of fun.

Candles In The Wind: Weekly Chart For Euro

What stands out here is the large number of large moves both higher and lower. Let's rearrange the data into something I call range returns, which are the percentage changes from the current week's high or low against the previous week's last trade. We can display these as a histogram complete with a normal probability overlay. Last week's return is highlighted in black.



While the skew for the euro's weekly range returns is slightly positive, 0.049, the overwhelming feature of this chart is it looks like a Bactrian and not a dromedary camel (before you run off and Google this, it has two humps). This makes a mockery of the concept markets have lognormal distributions of returns centered on zero. In the case, the euro either rises more than expected or falls more than expected, and it has been pulling this [stuff] off for more twelve years.

The moral of the story is you should not over-interpret the alternating face-plants of either currency. If the dollar is getting trashed and you buy all manner of non-USD instruments, the joke will be on you. If the euro is getting trashed and you sell all manner of non-EUR instruments, the joke will be on you again.

As Curly discovered, the pie can come from either direction, but it does not seem likely to come from the dowager standing in front of you. They called this slapstick. We call it international diversification of assets. See the difference?