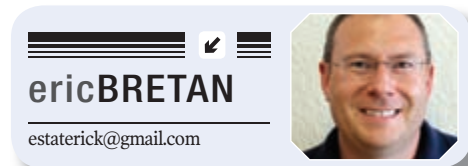


MONEY & INVESTING

Winners and losers in light of a devalued yuan



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People like consistency and predictability in their lives. This is true with the small things in life like knowing that when you order a McDonald's double cheeseburger, it always contains exactly two pickles. It is also true for the more important things like knowing when I go to bed each night that my wife isn't going to strangle me in my sleep. Well, I am at least 99 percent confident that she won't. That one time I forgot our anniversary, it was a little touch and go. But consistency and predictability are especially critical in financial markets. The market can typically handle any news, even really bad news, without too much of a breakdown if it is anticipated. But events that are not expected can really blindsides the market and cause massive fluctuations. That is why last week's move by the Chinese government to depreciate its currency was such a market-moving incident. But why did the government do it and what effect will it have on the rest of the world?

To understand this event, we must first look at the history of the Chinese yuan/U.S. dollar exchange rate. For the last 10 years, the Chinese government has been slowly but methodically making its currency stronger versus the dollar. It

accomplished this by setting extremely narrow bands within which the yuan could trade versus the dollar and then moving the bands each day. If the yuan ever moved beyond these bands, the government would use its trillions of dollars of foreign reserves to move the yuan back in line. China wanted its currency to appreciate for several reasons including, combating inflation, making it easier for Chinese companies to issue and service debt denominated in foreign currencies, giving more purchasing power to the growing Chinese upper and middle classes, and making the case that the yuan should be a global reserve currency. So from 2005 to earlier this year, the yuan/dollar exchange rate went from 8 yuan per dollar to 6 yuan/dollar.

But everything changed last week. Out of the blue (or the red in this case), the Communist Party announced that the yuan would be devalued by 2 percent and that going forward, it would allow the market to play a greater role in determining the yuan/dollar exchange rate. Each day after the announcement, the yuan dropped further and further. Why would the government suddenly reverse course after 10 years? The official explanation was that the government wanted to be more free-market oriented. And it is true that the International Monetary Fund along with most central banks have been calling for the Chinese government to loosen its control of its currency. In fact, the strong yuan, because it was the result of market manipulation, was actually holding back the yuan from becoming



ing a global reserve currency. But most analysts believe that there were more significant reasons for China to take this dramatic step. Primarily, it conjectured that the Chinese manufacturing sector, the primary driver of its entire economy, is much worse off than is publicly advertised and this was necessary to turn this sector around. A weakened yuan would mean that Chinese goods would be even cheaper in other countries like the U.S.

So who are the winners and losers of this dramatic move by China? The big winners are clearly manufacturers in China like Lenovo but also U.S. companies that produce their components in China. This also benefits companies like Walmart, that sell so many Chinese-made goods. Consumers outside of China who buy Chinese made goods will be able to buy those more cheaply, which should combat global inflation, another positive effect. The losers of this yuan devaluation will first be the Chinese consumers. They will see higher prices of anything imported into their country, including food

and energy. The devalued yuan is bad news for luxury goods makers hoping to expand into China like Louis Vuitton, Mercedes or even Apple (Apple stock price fell 5 percent on the day the yuan was devalued) as their products will be even more expensive to Chinese buyers. And countries like Vietnam or Thailand that directly compete with China in foreign trade will be pressured to devalue their currencies to be price competitive, potentially starting a currency war across all of Asia.

Two major questions remain regarding this unprecedented move by China. The first is how far will the government allow the currency to fluctuate? Will it step in if the currency continues to fall or will it truly allow market forces to control price movements? And second, will a lower currency jumpstart a struggling Chinese economy? The Communist Party has already cut interest rates, loosened capital controls and started a massive infrastructure initiative to stimulate slowing growth rates. If this doesn't work, the Chinese government is starting to run out of options. And that could be bad news for the entire global economy. ■

— Eric Bretan, the co-owner of Rick's Estate & Jewelry Buyers in Punta Gorda was a senior derivatives marketer and investment banker for more than 15 years at several global banks. He holds a bachelor's degree in finance from UVA and an MBA in finance from the Wharton School of Business.

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artists because I can't keep up. It's a good problem to have."

Ms. Price Harry's aha moment came while visiting her sister. "She and her friends were all raving about this paint place and I remember thinking, 'Why would I pay \$40 when I can already paint?'" she recalls. "It was in a run-down place and the artist had no personality and offered no assistance. But I remember walking out on a high, thinking 'Wow, this encompasses everything I like.' I learned a lot about wine while working in a fine dining restaurant during college and I've always painted."

Her vision for the Vino's Picasso location in Fort Myers was a combination art gallery, wine bar and painting studio with a cast of outgoing and personable artists. The business hosts at least eight private parties weekly.

Hank and Liz Weisiger started Bisque IT as a pick-and-glaze pottery painting studio but now offer traditional wheel throwing, clay hand-building, glass-fusing mosaic art and step-by-step acrylic on canvas painting instruction. Most of their business is word of mouth and via Google searches.

"It's really hot with the ladies because it's a great way to socialize, relax and get out and do something different," says Mr. Weisiger. "We have ladies' nights, host private parties and have grandparents who bring their grandkids here as soon as they get in town."

Ms. Finch says 40 to 60 percent of her clientele are women.

"This business is driven by women and it's great to see them get together and enjoy a different social experience," Ms. Giubardo says.

Adds Price Harry: "Men come in drag-



COURTESY PHOTO

Splash artists in West Palm show their work.

ging their feet but leave pleased and surprised."

"We've hosted office parties with men and even had a 40-year-old son bring in his 60-year-old dad," says Mother Earth's Ms. McHugh.

Weisiger also takes painting parties to restaurants, bars and fundraising events. "We're all about being tied into the community," he says. "We're not in it to make tons of money but ultimately we're making a living, have three kids and a house five minutes away."

For the artists and business owners it's rewarding to see a naysayer excited about their finished project. Overcoming the I-can't-do-it mentality is one of their biggest challenges.

"People are having a good time and learn a lot. They're getting together with friends and learning something rather than going to a bar or going out to eat," says Ms. Merritt. "I love hearing people say, 'Oh my God, I did it.' There's always the person who has never painted before that does really well because they pay attention the most and follow instructions. One lady brought her painting home and her husband asked where she bought it. For the longest time, he didn't believe she painted it."

Customers at Gail Velasquez's Paint Escape, a paint-your-own-ceramic studio in Cape Coral, often doubt themselves yet are always "amazed at how good it really looks," she says. "The instruction

is pretty simply: Give it lots of paint and that's pretty much it."

For 14 of the 15 years since she left teaching special education to open her business in 2000, Ms. Velasquez has offered ladies' nights wine and painting parties every Friday night, accommodating up to 25 guests.

"We have 800 pieces people can pick from, we talk about colors and everybody does something different, whether it's a mug, a serving piece, garden sculpture or figurine."

Paint Escape also hosts birthday and adult parties, wedding and bridal showers and even team-building programs.

"People are getting back into doing this," Velasquez says. "It's one of those extra things they stopped doing when money got tight with the recession. It's also a great way to make things for the house or personalized gifts that express caring."

"People always come in and say they can't paint but after walking out, they're euphoric like I was," Ms. Price Harry says. "It really builds self-esteem and the therapeutic benefits of painting are amazing I'm working on getting a private grant to bring foster children, kids from low-income homes and mental health facilities to bring them into paint."

Painting with a Twist offers the monthly fundraiser, "Painting with a Purpose," donating half of the profits to charity. They're almost always a sellout. September's is Big Hearts for Big Dogs.

Jobs for starving artists

Vino's Picasso and other paint-and-sip studios also benefit the local arts community, hiring Southwest Florida artists to lead classes and create original artwork. Ms. Price Harry employs about 10 during the off-season as instructors and also uses local artists for her website. Each class includes a lead instructor and an assistant roaming a classroom of up to 40 painters.

"I'm the only nontrained artist on staff," she says.

With a gallery of more than 3,500 paint-

ings Painting with a Twist is the largest national employer of artists.

Most of these businesses offer online calendars depicting the painting of the day, easy registration and payment. Popular themes include beaches and palms. Vino's Picasso also offers Paint your Date, Paint your Pet, live nude model classes and wine-glass painting. About 90 percent of the studio's customers have never painted before.

Ms. Merritt offers a repertoire of about 30 paintings she's created, adding to her portfolio after customizing a painting for a client's party theme.

The paint party business is also fun for owners.

"At 9 a.m. I told my husband I was going to quit my job — I was tired of the corporate world — and I didn't know what I was going to do," Ms. McHugh says. "By noon I told him I was going to open a pottery studio. It just fell into my lap and happened so quickly."

Ms. McHugh had dabbled in art and pottery for fun and until that moment had never thought of it as a career. Mother Earth offers parties for all ages and guests have the option of painting everything from piggy banks and pendants to garden sculptures, trinket boxes and vases.

"Anyone can do it and it's a lot of fun," she says. "Their work can be handed down to grandchildren and great grandchildren. There was one 94-year-old woman who had never done anything like this before and she loved it. We have a knitting club from a senior group coming in. We could take everything to them but they're coming here because they want to get out. They're so excited."

"It's definitely a trend that has taken off. There's no question," says Ms. Price Harry. "There's a similar concept now every five miles. We have competition. I'm a capitalist and know I offer an amazing experience. I'm local and my art comes from here. I'm excited to forge ahead and continue with what I do." ■