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# WEALTH IN A CHANGING WORLD



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# What in the world

**R**evolutions. Earthquakes. Tsunamis. Floods. Sovereign debt crises. New taxes. In just a few short months, it appears the world has gone mad. The shocks – whether geological, geopolitical or political – seem to just keep coming.

And economies and markets are behaving almost as unpredictably. While in March our sharemarket fell to a six-month low, a month later it was at a one-year high, near 5000 points. Meanwhile, our dollar tumbled below parity but then rose 8 per cent – to its highest level in three decades.

At least the behaviour of oil and gold was less erratic. As tensions have escalated in North Africa and the Middle East, the crude price reached 29-month highs, raising concerns about inflation. And, as is customary in those circumstances, investors sought safety in the traditional safe haven of gold, which hit a fresh record.

At home, the economic indicators are delivering surprises, too – but not in a uniform direction. Borrowing for housing is tumbling faster than forecast, as new loans slumped 5.6 per cent in February following a revised 6.3 per cent drop in January. On the other hand, unemployment data came in firmer than expected, falling from 5 per cent in February to 4.9 per cent in March. But we're all apparently feeling downbeat regardless; the Westpac-Melbourne Institute Index of consumer sentiment fell to its lowest level in nine months in March, and ticked up only slightly in April, as prices spiked from bananas to electricity following seven interest rate hikes.

No wonder the notion that Australian households are subsidising the resources boom is gathering pace: commodities prices and our terms of trade are higher than they have ever been. It's pretty much the reality of our much-discussed two-speed economy. In such a patchy and uncertain environment, and with the global recovery by no means assured, what is an investor to do? That's what this issue of *Financial Review Smart Investor* tries to answer for you.

On page 20, our economic commentator, David Bassanese, looks at the impact natural disasters have historically had on economies. Could they really stimulate GDP? How long will we need to wait and what sectors will be the main beneficiaries?

Then, in our cover story on page 26, we tackle the big question: how do you build wealth in a world where the accepted paradigms of investment are undeniably changing? Patrick Commins highlights four mega-trends with the potential to shape the future and the stocks that, as a result, are in perfect position to become powerhouses.

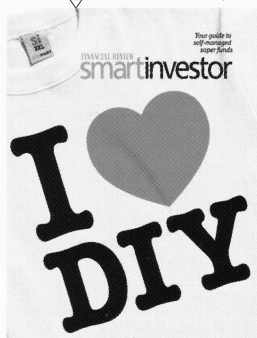
If it's currency trading that has piqued your interest, Penny Pryor examines the outlook for our rampaging dollar and three other key currencies on page 50. And with some analysts predicting the gold rush is far from over, should you invest? We look at the pros and cons of gold as an asset class in our new back-page analysis piece, For & Against.

There is one thing for sure this month: with the global recovery uncertain and unexpected disaster recovery bills at home, a government committed to balancing the books is going to deliver a painful budget. We'll report on what it means for your financial strategy in our next issue.

Until then, keep your investments smart.

*Nicole Pedersen-McKinnon*

Don't miss your free 28-page guide to DIY, inserted in this issue.



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