



MONEY

Markets factor in the risks of storms ; But impact on stocks could be temporary

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NEW YORK -- Driving rain, gale-force winds and storm surges seem to have little in common with fast-rising interest rates, hedge fund blowups or emerging-market meltdowns.

But that was before a deadly and costly megastorm named Katrina barreled into the Gulf Coast last summer.

As if confusing signals from the Federal Reserve chairman and a Dow back below 11,000 aren't enough to worry about, today, violent weather -- particularly a hurricane -- is viewed by Wall Street as a legitimate market "risk."

Just as inept monetary policy, a big financial bet gone bad, or a liquidity squeeze in developing markets can cause stocks to fall, so can a hurricane that hits oil refineries or densely populated areas.

"The hurricane season is (similar to) an elevated terrorism threat," says behavioral market strategist Woody Dorsey of **Market Semiotics**. "People have Katrina in the back of their minds. But at the moment, it's psychological, because it hasn't happened yet. But it does filter into one's thinking: Will it make gas prices go up? Will it hit the East Coast? In general, people are feeling more vulnerable."

Much of the vulnerability has to do with the fact that crude prices are stubbornly hanging above \$70 a barrel -- and the six-month hurricane season is just a week old, says Jeffrey Kleintop, chief investment strategist at PNC Advisors.

Says Kleintop: "If we get another above-average storm season as experts predict, and we suffer disruptions to energy infrastructure, where does that push energy prices?" Last year's storm caused hiccups in the gas supply chain, causing a spike in crude and prices at the pump.

He worries that investors and consumers will be more vulnerable to an energy shock this year because the slowdown in the housing market makes it more difficult to use their homes as ATMs by tapping home equity, causing more of a cash pinch.

There is, however, a large contingent on Wall Street who view any hurricane-induced stock market turmoil to be short-lived. The reason: "History shows that hurricanes don't typically trigger bear markets or even market declines," notes Sam Stovall, chief investment strategist at Standard & Poor's.

The S&P 500, for example, is up 3.6% since Katrina hit, even after the recent slide. That coincides with other studies done by S&P and Ned Davis Research (NDR) that show hurricanes inflict little damage on the stock market.

That hasn't stopped Wall Street analysts from adding storm watcher to their job description. Citigroup energy analysts hosted a conference call with experts at the National Hurricane Center and the National Oceanic & Atmospheric Administration. Merrill Lynch insurance analysts provided clients with "useful websites for monitoring storms." NDR issued a "2006 Hurricane Weather Forecast."

Donald Luskin, chief investment officer of Trend Macrolytics, says investors shouldn't invest based on hurricane activity. "I would put it in a category of exogenous risks that you really can't do anything about."