



The Goldman Guide

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Weather Creates Opportunity

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In some circles it is considered a taboo subject. However, there is no mistaking it. When major weather events or events in general strike, they have an impact on the global economy and stocks, and usually present a specific buying opportunity in the stock market.

Almost exactly 20 years ago, Hurricane Andrew, a Category 5 hurricane, slammed into Florida essentially leveling small towns such as Homestead and others. I recall the vivid images of the destruction path it left in its wake. It was horrific and sad and was a major reason why certain commodities shot up in price shortly thereafter. Lumber, steel, orange juice and other commodities made a quick and sustained jump higher while Home Depot (NYSE – HD) and Lowe's (NYSE – LOW) made huge gains as Floridians attempted to rebuild. As the cost estimates began to roll in however, the insurance stocks dropped sharply.

At the time, Hurricane Andrew was the costliest hurricane ever in the U.S., with a price tag if over \$26 billion.

Seven years ago tomorrow is the anniversary of Hurricane Katrina hitting New Orleans. The fallout from the mess there is legendary, as is the cost. It is referred to as the costliest natural disaster in U.S. history, with an estimate expense of \$81 billion, and the deadliest, with over 1,800 lives lost. (cont'd)

Key Takeaways

- ⇒ Review your portfolio ahead of tragedy
- ⇒ Commodity-based stocks might run
- ⇒ Insurance stocks are to be avoided
- ⇒ Oil, away from the Gulf could jump
- ⇒ Be wary of unsustainable moves

Follow Your Instincts

Oil prices shot up as did many other commodities related to construction, while thousands of new cars were later sold at auction to buyers not fearing the hurricane damage.

Four years ago this September, Hurricane Ike ravaged southeastern Texas. I remember it like it was yesterday as my sister, who was pregnant and due any day, had to flee Houston, only to give birth 2 days later and have no home to go to with power for nearly 10 days. Ike was the second costliest natural disaster.

How ironic is it that tomorrow, 7 years to the day, it looks like another hurricane will pack a wallop in the Gulf Coast, and Louisiana in particular? Moreover, aside from helping potential victims rebuild after the fact through prayer, donations and physical help, what should investors expect and what action should they take?

Oil prices could see a spike if rigs are damaged or offline for a meaningful period of time. Commodity prices, especially those related to construction will rise. Maritime transportation of goods up-and-down the Mississippi, which has already been problematic due to the drought upstream, may be delayed and perishable items go unused and wasted. Insurance companies may take it on the chin, depending upon the level of damage.

Perhaps selling property and casualty insurers with exposure to the region should be sold, while oil E&P providers with no exposure to the region, such as Double Eagle Petroleum (NASDAQ – DBLE - \$3.86), should be bought. Abraxas Petroleum (NASDAQ – ABAX - \$2.04), which has assets in the Rocky Mountains, the Permian Basin and Alberta, Canada may also be a good play, but it has a very small amount of exposure to the Gulf. Buying construction services firms or residential production providers, along with regional consumer discretionary firms are a good bet. Goldfields (NYSE –GV -\$2.27) is a heavy construction firm in the region, with expertise in transmission lines, concrete foundations, etc.

There are usually a number of plays that emerge after the damage is assessed. While we believe that these stocks may be solid beneficiaries of a hurricane, it is wise to monitor the industry closely as well.

Until next week..

Key Statistics

<u>Index</u>	<u>Close</u>	<u>YTD</u>
DJIA	13125	8.4%
S&P 500	1410	12.5%
NASDAQ	3073	18.0%
Russell 2K	810	10.5%

(figures are rounded)

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