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Stock Market Investing Tips, Techniques, and Resources



Extreme Weather and Your Investments

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The forest fires in the American and Canadian West as well as historic flooding in Western Europe, China, and India have brought us to consider the relationship between extreme weather and your investments. In this case, we are not talking about the planet warming but about repeated local destructive climatic effects of that warming. As an example of an extreme weather event, we chose a 1941 blizzard that paralyzed the upper Midwest long before climate change or extreme weather events were ever thought of.

Economically Destructive Extreme Weather Event Caused by El Niño - 1941

On November 11, 1941 the [Armistice Day Blizzard](#) hit the upper Midwest. Temperatures fell from above average to below freezing, a foot of snow blanketed a region hundreds of miles North by South. 150 people died as well as thousands of livestock. In this era when no one had ever heard of climate change it was an El Niño year. Beside there being storms along the Pacific Coast of the Americas, more energy was imparted to storms into the midsection of North America.

The point of this example is that a warmer climate is likely to generate more extreme weather events.

Economic Effects of Extreme Weather Events as Opposed to Global Warming

Global temperatures are rising according to long term measurements. Does this affect your investing? For example, the argument that higher temperatures will cause more droughts is countered by the arguments that more Northern and Southern regions will be available for growing crops and that higher CO2 levels will have a “fertilizer effect” that will increase food production.

The extreme weather that we are seeing is likely an effect of “more energy” in the atmosphere and as temperatures rise is likely to continue. Thinking about extreme weather and your investments is not such a bad idea if you want to protect your investments. Here are some of the many local risks associated with extreme weather events.

Where Are the Extreme Weather Risks?

Sea coast cities come to mind as we are seeing stronger and more frequent hurricanes with powerful tidal surges. Add these events to gradually rising sea levels and property investments in coastal cities become risky. Of the ten largest cities in the world, eight are coastal.

- Tokyo, Japan (coastal)
- Mexico City, Mexico
- Mumbai, India (coastal)
- São Paulo, Brazil

- New York City, USA (coastal)
- Shanghai, China (coastal)
- Lagos, Nigeria (coastal)
- Los Angeles, USA (coastal)
- Calcutta, India (coastal)
- Buenos Aires, Argentina (coastal)

Insurance Risks of Extreme Weather

In 2005 hurricane Katrina hit the US Gulf Coast and generated insurance claims totaling \$41.1 billion across six states. It was the largest total loss in the history of the insurance industry. July 2021 German floods have caused an estimated \$8 billion in claims. California wildfires in 2020 caused \$6 billion in losses. As extreme weather events become more common, so will insurance losses.

Local Agricultural Losses Due to Extreme Weather Events

While global agricultural production of crops such as wheat, corn, and soybeans will typically not vary a great deal year to year, yields in specific areas are susceptible to droughts, floods, and severe storms.

As the climate warms, extreme weather events will become more common endangering local investments but not necessarily the entire agricultural sector. Large agricultural companies are diversified across food sectors and geographical areas giving them protection from extreme weather losses.

Local Extreme Weather Risks for Tourism and Construction Industries

Like agriculture, these industries are scattered across the globe. While extreme weather may be devastating in one area it will not affect others. As such investing in a hotel chain like Marriott would be safer than investing in a single hotel in one city. Likewise, investing in a construction conglomerate would be safer than in a single local construction company.

Extreme Weather and Electric Power Companies

When a recent cold snap froze Texas, natural gas pipelines froze and electric power lines were both put out of action. Businesses shut down and people burned furniture to keep from freezing. Electric utilities that do not prepare for extreme weather conditions will increasingly become investment risks. The choice that many of these companies face is to risk problems down the line or spend money now to prepare and reduce their dividends for a time.

Safe Investments as Extreme Weather Events Become More Common

Our belief is that despite a fair amount of recurring chaos associated with global warming and extreme weather events society and the economy will adapt. Setting up business right on the shoreline in a coastal city and only in that location could be risky. Avoiding investments in hurricane, flood, and forest fire-prone areas would seem to be a better idea. Companies that have assets scattered across the country or the globe will be less likely to be devastated by singular events and companies like Apple, Microsoft, Amazon, and the rest that have assets on the internet are likely to avoid any single devastating weather event. Likewise, investments in ETFs that track whole sectors or the entire S&P 500 should be decent ways to avoid having your wealth destroyed by one blizzard, dry summer, flood, or other extreme weather event.

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