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Storms Remain 'a Threat Hanging Over Market'

History Shows Most Hurricanes Hit After the Season's Sept. 1 Midpoint; Atlantic Is Expected to Turn Active

By LIAM PLEVEN
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The coast isn't clear just yet.

When Hurricane Ernesto fizzled out last week, investors exhaled, sending natural-gas and oil prices sharply lower, insurance stocks higher and the broader Dow Jones Industrial Average on a three-day rally. Then on Friday, forecasters at Colorado State University lowered their hurricane forecast for the year, more good news for anyone worrying about a repeat of 2005's disasters.

But storm season isn't close to over. That means investors need to look out, because energy supplies and refining operations in the Gulf of Mexico region could still be hit, potentially affecting the broader economy, oil and natural-gas prices, and stocks.

Last week marked the official halfway point of the storm season and not a single hurricane had hit U.S. coastlines, the first time that has happened since 2002. Yet history shows most storms come after the Sept. 1 midpoint of the season.

Since 1851, at least 279 storms have hit the U.S. coast with hurricane-force winds, and of them, 160, or 57%, have come in September, October or November. A total of 96 especially violent storms -- Category 3 and up -- have made landfall, and among them, 60, or 63%, have hit on Sept. 1 or later. History shows that September has been the most active month of all, giving birth to 104 -- more than a third -- of all known storms in the past 155 years.

"It's clear that the season is not over," says Antoine Halff, the head of energy research at Fimat USA

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LLC, a brokerage firm. "It's still a threat hanging over the market."

The Colorado State University hurricane-forecasting team on Friday said the hurricane season will be below average, based in part on the ocean-weather patterns it tracks. The team still expects three hurricanes, two of them major, to form in the Atlantic basin this month. But it has reduced the overall number of days it expects tropical storms and hurricanes to be active during September and October.

If the next month passes without a big storm, stock prices could rally further, and energy prices could face some downward pressure. Some insurance stocks, particularly among Bermuda-based reinsurers, started the summer with a repeat of the bad storms -- and big payouts -- in 2006 already priced in. The weather will likely have a big impact on how they perform in the weeks ahead.

The stocks of reinsurers -- who write policies that back other insurers -- are up 7% in the past two months, among the best-performing groups in the financial sector. One of the biggest players in this group, billionaire Warren Buffett's [Berkshire Hathaway](#), is up more than 5% in the past month alone.

Energy stocks, which benefited when storms helped push oil and gas prices higher last year, were down more than 4% in the quiet August of 2006. After Katrina last year, oil and gas stocks rallied.

History suggests that if storms do hit, it could be a bumpy ride for investors. A look at 12 of the costliest storms since 1965 shows that the Dow Jones Industrial Average fell by 1% on average in the days before they struck land, and then the market rallied by a similar amount after they hit. In some cases the gyrations were large; in the two weeks before Charley in 2004, the Dow dropped 3%, then bounced 3% after it hit.

Sam Stovall, chief investment strategist for Standard & Poor's Equity Services, says hurricanes are usually regional events, with often limited repercussions for the broader national economy and short-lived effects on the market. Six months after 1992's Andrew, the S&P 500 was up 7%, and six months after Charley, it was up 13%, Mr. Stovall wrote in a report after Katrina last year. Six months after Hugo in 1989, by contrast, the S&P 500 was down 2%, he noted.

"A hurricane comes along, it diverts our attention," says Mr. Stovall. Later, he says, "We revert to the original trend."

When hurricanes do serious damage to the nation's energy infrastructure, the risks are larger. But the more time passes without a major storm, the better-positioned the energy markets will be to absorb one if it comes, says Mr. Halff, of Fimat.

One reason: The cushion in gasoline inventories is currently in the top half of its five-year range for this time of year and the cushion for distilled products like diesel and heating oil is above its five-year range, Mr. Halff notes.

With the peak driving season of summer past, and the peak heating season still some ways off, he says, near-term demand pressures are "perhaps lower." That could put downward pressure on prices if no major storms hit, though many other factors also come into play.

After Ernesto weakened, crude oil contracts for October delivery dropped, closing below \$70 on Aug. 29 for the first time in more than two months.

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Though September is often the harshest month for hurricanes, the fact that there haven't been any major storms thus far is noteworthy. Katrina, Charley and Andrew are among the five costliest storms in U.S. history, and all hit in August. And Hurricane Agnes, which also did considerable damage, struck in June, in 1972.

But several other big hurricanes in the top 10 hit later in the year. Rita last year, Ivan in 2004, Hugo in 1989, and Betsy in 1965 were all September arrivals, and Wilma last year landed in October.

The Cruellest Month

September has been the month with the most hurricanes overall, and some of the most expensive.

How the Dow Jones Industrial Average has performed before and after some of the costliest hurricanes in the U.S. since 1965

HURRICANE	DATE	DJIA TWO WEEKS BEFORE	DJIA TWO WEEKS LATER	DJIA ONE MONTH LATER
Betsy	Sept. 9, 1965	2.38%	1.09%	2.27%
Camille	Aug. 17, 1969	-0.69	1.93	0.69
Agnes	June 19, 1972	-1.32	-1.40	-2.67
Hugo	Sept. 22, 1989	-1.03	3.87	0.28
Andrew	Aug. 24, 1992	-3.28	1.67	1.85
Charley	Aug. 13, 2004	-3.10	3.76	4.98
Frances	Sept. 5	1.48	0.24	-0.80
Ivan	Sept. 16	-0.44	-1.60	-3.04
Jeanne	Sept. 26	-2.58	0.08	-1.58
Katrina	Aug. 29, 2005	-1.61	2.10	0.86
Rita	Sept. 24	-2.43	-1.22	-0.33
Wilma	Oct. 24	1.43	1.94	5.11
AVERAGE		-0.93	1.04	0.64

Sources: National Hurricane Center; Insurance Information Institute

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