

Natural disasters can strike anytime, anyplace. Fortunately, your portfolio doesn't have to suffer major damage when they do. It is possible to help protect your investments from declines after a natural disaster and potentially uncover growth opportunities when the storm clears.

COULD A NATURAL DISASTER PUT A DENT IN YOUR FINANCIAL PLAN?

Overview

From wildfires on Maui to powerful hurricanes along the East Coast, recent news cycles have reminded us that Mother Nature can pack a powerful wallop. Natural disasters are not new; Pompeii was lost to the lava nearly 2,000 years ago. Yet they seem to be happening more frequently and with more ferocity than ever before, with six of the 11 most expensive natural disasters in the U.S. over the past 40 years occurring between 2012 and 2022.¹

The 11 Most Expensive Natural Disasters in the U.S. since 1980²

Year	Event	Amount <i>in billions, adjusted for inflation</i>
2022	Hurricane Ian	\$112.9
2021	Hurricane Ida	\$59.5
2017	Hurricane Harvey	\$148.9
2017	Hurricane Maria	\$107.1
2017	Hurricane Irma	\$59.5
2012	Superstorm Sandy	\$82.0
2008	Hurricane Ike	\$40.2
2005	Hurricane Katrina	\$186.3
1993	Great Flood of 1993	\$38.6
1992	Hurricane Andrew	\$51.3
1988	Drought and Heat Wave	\$50.6

In the first nine months of 2023 alone, there were 23 confirmed weather- or climate-related disasters in the U.S., each with total losses over \$1 billion.³ And that doesn't include the drought affecting numerous states across the Midwest, where a lack of rainfall has caused negative impacts on crops and livestock.

Natural Disasters and Your Portfolio

Each new natural disaster serves as a reminder that our lives and property are often at the mercy of the elements. Even our portfolios can be impacted by tornadoes, hurricanes, wildfires,



droughts and floods. Companies of all sizes and across industries may see their operations disrupted, due to damage to facilities, lack of power or other utilities, or even decreased manpower as employees tend to their personal property. This can result in cash-flow issues for the company, decreased production or inventory shortages due to post-disaster supply-chain snarls. These challenges can dampen companies' earnings, possibly affecting how investments within your portfolio perform. They may also lead to higher costs for consumers as demand for products exceeds availability and companies raise prices in response.

Recovery from natural disasters such as these doesn't happen overnight. One report revealed it took three years for cities and businesses in Texas to resume normal life and operations after Hurricane Harvey hit the region in 2017.⁴ The Great Flood of 1993 lasted nearly 200 days in some locations, impacting farms and businesses across nine states and stopping barge traffic on the Missouri and Mississippi Rivers for almost two full months.⁵

Battening Down the Hatches

One way to help protect your portfolio from declines following a natural disaster is to diversify across a wide range of security types, classes or industries. Potential loss is mitigated by spreading assets across a large number of companies and industries; when one asset category declines, other categories may offset losses by outperforming.

You might also consider diversifying internationally across different hemispheres. Since the Northern and Southern Hemispheres experience opposite seasons, they aren't subject to the same types of weather disasters at the same time.

While you can't buy insurance to help protect against stock market declines, property insurance can help pay for emergency expenses or property damage. Owning the right amount of insurance reduces the need to liquidate your portfolio or sell assets to cover household expenses or loss of income.

Assessing the Damage After the Storm

The good news is natural disasters don't tend to have a long-term impact on stock market performance. For example, the S&P 500 dropped when Hurricane Ian pummeled Florida in late September 2022. The index had more than recovered its losses just one month later and gained nearly 1,000 points over the following 12 months.⁶

Natural disasters may also present investment opportunities, especially in certain industries. Gas prices may rise if a hurricane takes refineries offline. Building materials and construction work become hot commodities as people in the affected areas rebuild



or repair damaged homes and structures. Stock prices may rise as a result, although these are generally short-term price changes due to proactive investors looking to take advantage of a temporary surge or to help protect their portfolio from losses. Prices tend to normalize as recovery continues and companies resume regular operations.

Final Thoughts

One of the best ways to help protect your investments from the impact of the increasing number of natural disasters each year is to be prepared. Using standard defensive tactics such as diversification can help mitigate potential losses when natural disasters happen. You can also potentially add a component of growth by investing in developing industries that are working toward long-term strategies to help offset the impact of extreme weather.

If you are impacted by a natural disaster, you may be able to offset losses with tax deductions for property damages. Visit www.irs.gov/newsroom/tax-relief-in-disaster-situations to see if you meet the criteria for tax relief.

^{1,2} David Muhlbaum. Kiplinger. Sept. 1, 2023. "The Most Expensive Natural Disasters in U.S. History." <https://www.kiplinger.com/slideshow/business/t019-s001-most-expensive-natural-disasters-in-u-s-history/index.html>. Accessed Sept. 11, 2023.

³ National Centers for Environmental Information. "Billion-Dollar Weather and Climate Disasters." <https://www.ncei.noaa.gov/access/billions/>. Accessed Sept. 11, 2023.

⁴ Patricia Kirk. WealthManagement.com. Oct. 6, 2022. "How Much Hurricane Ian Disrupted the Supply Chain." <https://www.wealthmanagement.com/industrial/how-much-hurricane-ian-disrupted-supply-chain>. Accessed Sept. 11, 2023.

⁵ National Weather Service. "The Great Flood of 1993." https://www.weather.gov/dvn/071993_greatflood. Accessed Sept. 11, 2023.

⁶ Yahoo! Finance. "S&P 500 (^GSPC)." <https://finance.yahoo.com/quote/%5EGSPC/>. Accessed Sept. 11, 2023.

This content is provided for informational purposes. It is not intended to be used as the sole basis for financial decisions, nor should it be construed as advice designed to meet the particular needs of an individual's situation. None of the information contained herein shall constitute an offer to sell or solicit any offer to buy a security. Individuals are encouraged to consult with a qualified professional before making any decisions about their personal situation. The information and opinions contained herein provided by third parties have been obtained from sources believed to be reliable, but accuracy and completeness cannot be guaranteed by AE Wealth Management. Neither AEWM nor the firm providing you with this report are affiliated with or endorsed by the U.S. government or any governmental agency. Investing involves risk, including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values. AE Wealth Management, LLC ("AEWM") is an SEC Registered Investment Adviser (RIA) located in Topeka, Kansas. Registration does not denote any level of skill or qualification. The advisory firm providing you this report is an independent financial services firm and is not an affiliate company of AE Wealth Management, LLC. AEWM works with a variety of independent advisors. Some of the advisors are Investment Adviser Representatives (IARs) who provide investment advisory services through AEWM. Some of the advisors are Registered Investment Advisers providing investment advisory services that incorporate some of the products available through AEWM. Information regarding the RIA offering the investment advisory services can be found at <http://brokercheck.finra.org>. 9/23-3100692

