

Can Hurricanes Create Investment Opportunity?

Written by Rob Copeland

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Natural disasters are always bad—the impact on human lives and property is something that nobody wants.

That's certainly the case with a storm like Hurricane Matthew, which hit Florida and the Southeast earlier this month. But the truth is that the storm, like other unfortunate events, has had an impact on the economy and on certain investments. And that may lead to investment opportunity.

Specifically, we're looking at the stocks of property insurers that are exposed to the Florida market. Because of claims that those insurers will have to pay, shares of their stock have fallen significantly, to the point where some of them now look like attractive opportunities.

As often happens when negative headlines crop up, investors follow their immediate impulse and sell off companies that may be affected. Media hype prompts investors to overreact in many cases. As a result, prices of stocks are driven down to an extent that doesn't make sense.

The cycle typically plays out with a stock having a sharp decline when the bad headlines occur, and then, when the market realizes it's over-reacted, the stock becomes a buying target and its price pops. This is the situation that we expect to occur with selected insurance companies in the Florida market.

But there may be even longer-term opportunity for the right insurance companies. Florida has for several years imposed tight restrictions on the amount that insurers can raise their premiums every year. That's led a lot of companies to pull out of the state.

The property insurers that have remained have by and large done pretty well, because Florida hasn't been hit with a major storm in several years. But Matthew may help the state's insurers persuade elected officials to ease restrictions on premium increases. The alternative, insurers might argue, is that more companies will leave the state, eliminating competition and options for consumers.

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If the industry can successfully argue for greater premium increases, Florida may once again become attractive to insurers that have pulled out. And that could make companies that have lots of business in the state attractive as buyout candidates for larger, out-of-state firms. Stockholders of acquired companies often reap significant rewards when the deals occur.

Among the insurers that we've been watching closely is Universal Insurance Holdings, Inc. (ticker: UVE). The company specializes in insuring properties along the Florida coast—a business most insurers won't touch. The company's loss reserves—the money it sets aside to pay out claims—are in good shape, it's well positioned in the market, and it's well managed.

UVE is an example of an insurer that's been "on sale" because of fears arising from Hurricane Matthew's impact. Investing in it now could be a smart short- and longer-term play.

A word of caution: Investing is complicated. Do-it-yourselfers can and do make mistakes in selecting the right stocks to buy, deciding when and how much to buy, and recognizing when to get out.

Working with an experienced and knowledgeable investment advisor is the best way to spot opportunities where the potential reward outweighs the risk. Please contact us if you'd like to discuss investing further.