

Cumberland Advisors Market Commentary – Fire and Water

The fires engulfing parts of California are feared to become the nation's worst fire disaster, possibly surpassing 2017 and 2018 fire events. Spurred on by wind gusts of up to 80 mph, this disaster harkens back to Superstorm Sandy, which occurred seven years ago, in October 2012.



Superstorm Sandy soaked the Northeast, and its 80-mph winds caused almost \$70 billion in damages per Wikipedia. It was one of the most costly natural disasters ever to hit the United States. The extent of the damage was also a function of the storm's hitting many densely populated areas that were centers of economic activity. No one yet knows, and it will likely take some time to determine the full cost of the 2019 fires in terms of damages to homes and businesses, lives lost, and the cost of the herculean response by CalFire, municipal fire departments, and others. It is only October, while the deadly Camp fire of 2018 occurred in November, and dry conditions continue to persist. The fires this year, like Superstorm Sandy, have occurred in or near some densely populated areas with high real estate values, many businesses, and intense economic activity.

The state has experienced numerous deadly and damaging fires – think of the devastating 1906 San Francisco earthquake and fire, for instance. The reality of fires, earthquakes, and mudslides are juxtaposed with the draw of the great weather, diverse topography, access to ocean and mountains, headquarters of many industries, fertile land producing the vast majority of the country's produce, and a long independent history. The "California dream" of finding fame and fortune continues to be an allure for many.

As the world's fifth largest economy in terms of GDP, California has tremendous resources, as David Kotok noted in his heartfelt video on the California fires (link included in his recent commentary: <https://www.cumber.com/cumberland-advisors-market-commentary-markets-the-deficit/> or directly at this YouTube link: <https://youtu.be/yW1lbdkxbAw>).

California's population is wealthy. According to data released by the US Census Bureau median household income is 122% of the US national average (notwithstanding large disparities in income). So as long as the state, municipalities, and residents continue to have the resources to protect citizens and rebuild, folks will live in California. However, California does have a high cost of living and taxation, while the state and some local governments are placing ever-growing regulatory burdens on the citizenry. This, combined with increasingly severe and costly climate-related events, may cause outmigration.

Over the weekend California Governor Gavin Newsom declared a statewide emergency, which led the way for securing Fire Management Assistance Grants from FEMA. This program allows municipalities to receive reimbursement of up to 75% of fire-suppression costs. There may also be other assistance forthcoming for individuals, businesses, and municipalities, as well as insurance monies to repair and rebuild, though some may choose to relocate.

In my search for information, I came across interactive maps provided by the LA Times (<https://www.latimes.com/wildfires-map/?fire=easy>) and CalFire (<https://www.fire.ca.gov/>). They show the locations and other data for all the fires in the state, and you can drill down to individual properties. I noticed that my good friend's home was smack dab between the Getty and Palisades fires.

On Wednesday Governor Newsom announced the establishment of

the “Power Outage and Fire Response Resources” website (<https://response.ca.gov/>). It is hoped to be a one-stop portal for resources available to those affected by the fires and loss of power. The site also has a link to a [donations page](#) for those who would like to help Californians affected by the latest incidents.

Like the rest of the nation, we watch as fire after fire erupts and stories emerge of lives disrupted as well as heroes. Our thoughts are with those affected, which, as of last night, include 26 million folks under extreme red flag alerts in California and Arizona.

The state’s credit quality is strong, and financial management and budgeting have improved, albeit over a period of sustained economic growth. The wildfire risk may affect tourism and induce some to leave the state. However, rebuilding generally has some positive economic benefit with the inflow of aid and insurance proceeds. At Cumberland Advisors we invest predominantly in AA-rated bonds issued by government entities with strong economies and demographic trends as well as secure financial operations, management, and liquidity; and we avoid bonds that do not exhibit these characteristics. Events like fires and storms can drain resources, but over time they can be restored.

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