

The California Wildfires' Financial Toll

Excerpt below from "The California Wildfires' Financial Toll"

By Randall W. Forsyth, Nov. 16, 2018 1:06 p.m. ET



In every disaster, natural or man-made, a price is exacted first in human terms. From the relative safety of where I write this, I can recall the damage from superstorm Sandy that crippled the Northeast six years ago, and from which many in the area have yet to recover. Yet that pales next to the wildfires that have engulfed California, which follows this year's crop of hurricanes in the East. The toll isn't only human, either; our foster dog rescued after Hurricane Florence just left for her permanent home on Thursday.

One has to wonder, though, what effect the seemingly annual wildfires will have on the perceived livability of California and on the state's population trends, Patricia Healy of Cumberland Advisors writes in a client note.

If California were a sovereign nation, its gross domestic product would be the fifth largest in the world, ahead of Britain's. Given that, California's strengths and resilience are formidable. Even so, Healy points out, municipal-bond investors should diversify among credits within the state—something the wild fires have emphasized again.

Taxes are a powerful incentive for California muni investors to stick with in-state credits, which are exempt from state and federal taxes. The top state income tax bracket is 13.3%, and under the new tax laws, the federal deduction for state and local taxes is capped at \$10,000. Diversification among various types of credits and sectors, from tax-supported general obligations to revenue bonds for water and health-care

systems, can mitigate risk for investors sticking to their home state, she adds.

There are considerations other than dollars and cents, however. Philippa Dunne of the Liscio Report, who grew up in Malibu, writes that the fires were a central part of her childhood. Dragging panicked horses from their stalls for the safety of the beach when fires raced through her area was her job, which provided a unique perspective.

Read the full article at www.barrons.com