

The Storm Premium: How to Trade the End of Irma

One of the most common questions that analysts receive these days is, “who are the potential winners from the Hurricanes?”

Unfortunately, there are no real winners.

There’s a good deal of destruction, loss of life, and property damage. I have dear friends in Texas and in Florida, as I’m sure many of you do, too.

So, I try to answer the question as briefly as I can, and move on.

At the same time, I donate funds to relief efforts, and have plans to help rebuild.

In August 2017, a Category 4 hurricane slammed into Texas, dropping 11 trillion gallons of water on the state, triggering catastrophic, unprecedented flooding. Greedy gas station owners reportedly upped their prices to more than \$8 a gallon.

Water was being sold for more than \$25 for a pack.

Insurance stocks like Allstate Corporation (ALL) slipped well under their 50-day moving averages, but are beginning to find support following the storm. In fact, options traders were racing to buy oversold October 2017 90 calls not long after.



Some of the stocks that ran higher following the storm were oil refiners., such as Marathon (MPC) and Holly Frontier (HFC). Many were expected to rise on wider crude differentials and stronger crack spreads as Wall Street became bullish on refiners. That’s because disruption leads to stronger profit margins for refiners that can fill the gap.

Then, days later, Irma formed in the Atlantic Ocean – a 400-mile wide, 185mph beast with wind gusts of more than 220mph. It’s not something to screw around with. The likelihood of further damage, storm surge, big winds, and tornado activity is very high as the eye wall reached shore.

As a result, home stocks like Lowe’s Companies (LOW) ticked higher on aggressive demand. In fact, LOW ran from \$71 to \$77.50 as Harvey and Irma raged. Home Depot (HD) exploded from a low of \$146 to \$156.56 in days, too.



All as product demand skyrocketed with nearing storms.

Or, look at Generac (GNRC), which sells power generators to residential and commercial markets. It's been running higher on the fear of lost power for days. Since August 21, 2017, the stock has run from \$36 to \$44 a share.



So the question now is – how do we trade all of the names that have run higher?

Well, after watching each stock run on the anticipation of disaster, we can begin trading the short side of each name once the storms and the news begin to die off.

We can clearly see just now overbought GNRC is.

It's now challenging an early 2017 high with overbought relative strength, MACD and Money Flow (MFI). It's very likely to pullback to at least \$35 support, in our opinion. We can either short the stock outright, or we can buy to open the GNRC October 20, 2017 42.50 put options.



We can even see just how overbought LOW and HD are, too.

This run in HD can't last. It's very likely to slip following the storm. We can buy to open the HD October 20, 2017 150 and 155 put options here and just wait for the inevitable. And, or we can buy to open the LOW October 20, 2017 75 and 77.50 put option, as well.

At this point, we can make money from Irma and Harvey by trading the death of news.

Let me leave you with this.

If you're in the path of the storm, please get out of the way. This is not a storm to be taken lightly. This is the strongest hurricane to ever hit the Atlantic Ocean. It's so big and so violent that it's setting seismographs used to monitor earthquakes.

Be safe and take good care.