

# California Drought: Hazardous Yet Profitable

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Scientists can't quite figure it out. It's an unnatural event in every way imaginable.

Off the coast of California, in the middle of the atmosphere, sits an extraordinary region of high pressure in the Pacific Ocean, and it won't budge.

Experts have affectionately dubbed it, the "Ridiculously Resilient Ridge," but it's no laughing matter.

In fact, if the pressure system doesn't lift soon, California runs the risk of forest fires, famine, riots, and even bankruptcy.

The downstream effect for investors is equally urgent. That is, if you're interested in ingeniously leveraging the crisis for personal gain.

The pressure system has forced the mid-latitude storm track well north of its usual position, thus preventing winter storms from reaching the state.

The result is the worst drought in recorded history, with no end in sight.

California Governor, Jerry Brown, has even asked restaurants to stop serving water.

Just how dire is the situation?

Farmers are uprooting some of their most lucrative plants and trees because they require too much water. Nut trees, like almonds, are being especially targeted for termination.

In the hardest-hit region, Central Valley, farmers are expected to lose \$810 million.

More than 80% of the state is in extreme or exceptional drought, which explains why California is presently in a state of emergency.

All 58 California counties have now been designated as natural disaster areas.

T-Minus One Year for Disaster Scenario...

California's major reservoirs dangerously sit below 50% capacity.

Lake Mead, which is fed by the Colorado River, has dropped to record-low levels, too. The lake is a key source of water for Southern Californians.

What's even scarier is the increased reliance on groundwater, which is unregulated. If California's underground aquifers dry up, consequences over the next couple of years could be catastrophic.

Those fortunate enough to still have access to water are auctioning off the rights for over 10 times the long-term average rate, which is a signal that the end may be near.

By "the end," I mean some small communities in California are at risk of running out of water within the next three months.

If the pressure system over the Pacific doesn't lift – providing relief in the form of meaningful rainfall – the entire state could be tapped in as early as a year.

**Even Fish are Being Evacuated...**

The state Department of Fish and Wildlife has been using tanker trucks to evacuate trout from local hatcheries. In total, about two million fish, including 430,000 fingerling steelhead, will be released months ahead of schedule.

Under normal drought conditions, wildlife officials would tap pools of cool water from Folsom Lake to reduce water temperatures at the hatcheries.

But this is no ordinary drought.

Not much water remains in Folsom Lake, and it's certainly not cool enough to provide relief, anyway.

Salmon are being trucked to the ocean, as well, to spare them the dangers of migrating through depleted rivers and streams.

**Wildfires are another concern.**

Through July 19, the California Department of Forestry and Fire Protection reported more than 3,400 vegetation fires that have burned more than 51,000 acres. By comparison, about 2,500 fires and 30,000 acres would burn on an average year.

**El Niño to the Rescue? Not Likely...**

El Niño occurs when rising temperatures in the Pacific Ocean warm the water enough to trigger storms, the offshoot of which is wet winters in California.

**The El Niño phenomenon last occurred in the years 2009 and 2010. Periods of El Niño usually last about a year.**

**So how likely is it to hit this year? Well, the National Oceanic and Atmospheric Administration put the odds at 80%.**

**Good news, right? Well, not exactly...**

**Even if the odds win out, experts say that El Niño will probably develop as a weak event in late summer or early fall. Some are even saying that it'll be delayed for several months, as the warming of the Pacific Ocean slows. "Certain areas are definitely seeing an influence from the El Niño-like pattern," says expert meteorologist, Donald Keeney.**

**Keeney still expects it to hit in late summer or early fall, but warns that it "should only be a weak event."**

**In Lieu of Rain, it's Suddenly Pouring Money...**

**Governor Brown recently allocated \$687 million toward relief efforts, and President Obama is pitching in an additional \$183 million.**

**The funds include Emergency Community Water Assistance Grants for rural communities experiencing water shortages and targeted conservation assistance for the most extreme and exceptional drought areas.**

**The biggest beneficiaries of all that cash, however, are water utility and water conservation companies. In fact, stocks of those companies are enjoying boom times.**

**A quick look at a two-year chart shows an industry in an aggressive vertical ascent. (Notice how every minor price drop is met with more buying.)**

**The biggest players in the group are Pentair (PNR), Veolia Environnement (VE), Aqua America (WTR), American Water Works (AWK), and Watts Water Technologies (WTS).**

**Based on the federal and state funds pouring into the crisis, it's hard to argue against owning any of these stocks.**

**But what most investors don't realize is this...**

**They can use the \$870 million in government aid as collateral of sorts. That is, to finance a generous income stream.**

**All that government money puts a nice floor under the shares. Such a reality makes a put-selling strategy perhaps the smartest and safest moneymaking decision you'll make all year.**

**The moment you sell a put option on, say... Watts Water, you'll realize a cash deposit in your account within seconds. You never have to give that money back, either.**

**If the stock falls below the strike price by the expiration date, you'll be required to buy shares. It's called "getting put," which only happens in less than 10% of cases. If you end up getting put, you'll be the proud owner of a great stock for far cheaper than it's trading now.**

**Can you appreciate why I love put-selling so much? It's really difficult to ever lose.**

**Onward and Upward,**

**Robert Williams**

**In addition to once being a full-time trader of equities and equity derivatives, Robert has also served as the lead financial analyst for a Forbes top-50 private corporation and an analyst for the endowment of a major academic institution.**

**Source: <http://www.wallstreetdaily.com/2014/07/28/california-drought-continues/>**