

Hurricane futures to go on sale

Professors to see if project can spur accurate predictions

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Got an idea where the next hurricane is headed? Put your money down.

A hurricane futures market Web site will open Monday, and as much as \$50,000 can be pocketed with the right long-shot investment. It's the sort of scheme that only the free market, academic whimsy and a few loose computer wires could create.

The market is the brainchild of an economics professor who lives on Key Biscayne outside Miami. As luck would have it — or maybe not — the Web site opens as Tropical Storm Franklin bears down on him.

The small system formed Thursday east of the Bahamas and had 45 mph winds by 11 p.m. Computer models forecast it to circle in the Atlantic much like Hurricane Jeanne in 2004.

The National Weather Service reported that Franklin, located 100 miles northeast of Nassau, is moving toward the northwest at about 13 mph. The storm is expected to make a gradual turn toward the north with a decrease in forward speed.

David Letson, the University of Miami economics professor, spent fall 2004 popping his computer screen back and forth between the Iowa Electronic Market that used trading to predict the presidential election and the National Hurricane Center's models tracking storms battering Florida.

He and two university professor partners want to see how accurately people can gauge where a hurricane will strike, with money on the line and access to a computer server full of private and public forecasting data.

The market, churlishly enough, is called MAHEM — Miami Hurricane Event Market. It works through the Iowa market, which is run by the University of Iowa.

The partners are not in the forecasting business, Letson said. But they won't quite deny that the market accurately could predict storms' landfall from a few days to a week away. At first, partner and meteorology assistant professor David Nolan was skeptical.

"Over time, I came to see what the market could do. It's not going to supplant or even compete with what the National Hurricane Center can do. Certainly we don't want people to pull their boats out of the water based on MAHEM. It's really a tool to understand people's notions of how hurricanes move," he said.

Then he said, "We hope you could get some useful information out of it."

The other partner, University of Miami economics professor David Kelly, said the point is to use the market to collect and process hurricane information.

Futures markets are the buying and selling of contracts for goods to be delivered at a certain price and time. They're used as "hedges." As an example, an electric company that buys extra power for a weather emergency also contracts to sell that power at a set price if it doesn't need it. Speculators can make big money gambling on the contracts, betting on the weather.

The hurricane market begins trading once a storm is named. Investors plunk down from \$5 to \$500 for contracts on where the storm is going to strike. Their payoff depends on how the rest of the market invests — how long the odds are in the beginning and how many people buy into it by the landfall.

The partners say there's no money in it for them. They are in the publish-or-perish business.

"We're researchers. We write papers," Letson said. "There is some economic theory behind it."

Using financial trades to encourage experts to sharpen their skills as they develop predictions isn't new. Besides election predicting, the Iowa market has used the tactic to inspire health professionals to forecast where flu might strike.

College of Charleston finance professor Perry Woodside was a little bemused and more than a little curious to hear about hurricane futures. If enough people participate, he said, it could even work.

"It's no different from corn futures, pork futures or anything else. All along, the futures market was saying Bush was going to win, when the Big Media polls weren't," he said. But the prospect of it becoming a forecasting tool "is a bit of a stretch. It's based on human expectation not science." Then he added, "The link between the two would be fascinating, quite frankly."

The National Hurricane Center is less than thrilled.

"If they think they're going to help us forecast hurricanes, I don't see how," said center director Max Mayfield. "We use at least a dozen sophisticated models" to forecast a storm's intensity, the radius of hurricane-force winds, and other data. National Weather Service forecasters, he added, "are not allowed to dabble in this sort of thing."

Letson said, "I understand (the center's) position. They have a very important public mission to warn people about storms. The job is easier when people aren't listening to other sources. We think people are smart enough to make the decision."