

The Ultimate Agriculture Investment

An Interview with Dr. Steve Sjuggerud | Investing Outside of the Stock Market

This idea comes from Dr. Steve Sjuggerud, editor of *True Wealth*, one of the world's most popular investment advisories.

In this interview, Steve reveals one of his all-time favorite “alternative” investments... an asset the average investor has never considered... but that has consistently beaten stocks and bonds over the past 30 years.

If you're like most investors, you're looking for ways to earn big, safe long-term returns. This interview will show you a great way to do so... while diversifying your money outside of the U.S. dollar and traditional investments.

Stansberry Research: You've done a tremendous amount of research on timberland investing over the years... and you've been a big proponent of this idea. You've called it “the ultimate agriculture investment.” What is so special about timberland?

Steve Sjuggerud: Yes... I've literally been all over the world researching timberland investing. I've spent hundreds of hours on it. I've recommended many timber stocks to my readers over the years. And I've personally invested in timberland.

There's a long list of reasons why investing in timberland is a great idea... and consistently produces big returns.

First of all, trees grow year in and year out. Trees in good growing regions in the U.S. grow at 6%-8% per year. They grow through recessions. They grow through wars. They grow through stock and real estate crashes. They grow through everything. They give you built-in investment growth that isn't guaranteed with a stock.

Along with the tree growth, the price of wood has grown at a consistent rate throughout the years. It's extremely difficult for a company to increase the prices of its goods by 6% every year, but the price of wood, according to legendary money manager Jeremy Grantham, has increased by that amount for the last 100 years. Specifically, he says “stumpage” prices – the value of all

the wood on the stump – have beaten inflation by 3% a year over the last century.

Another nice thing is timberland is a resource investment, but it's not a constantly depleting one, like a gold mine or an oil well. Trees will grow back. It's a sustainable resource investment.

And not to ramble on, but you should know, timber is uncorrelated to the stock market. It makes sense... the trees have never heard of the Nasdaq bubble... and they don't know what a “War on Terror” is. This makes timber a great place to park money in big portfolios... where you need diversification.

Stansberry Research: But what happens to your timberland investment in a down year, when lumber prices crash?

Sjuggerud: That's a great question. What happens when the market is slumping? When you can't get the price you need to make the business profitable? Did you just waste eight... 15... 25 years on an investment with nothing to show for it? The answer can be summed up in five words: “*Bank it on the stump.*”

In the industry, it's a phrase that means if conditions aren't right for harvesting your crop, you just keep letting it grow. You keep the profits on the stump and wait for a more profitable time to sell your timber – most likely, when timber prices are in your favor.

One of the great benefits of owning timberland is you don't have to harvest it every year. It's not like fruit, where it's ripe just once and then you have to pick it. Instead, it grows exponentially on the stump for years.

This is not to imply that timber is an absolutely risk-free investment... But with the ability to bank it on the stump, investing in timber does come with an extra safety net. “If the rain rains, the sun shines, the suckers grow,” Jeremy Grantham once said. “If you don't want to sell, they get bigger and more expensive.”

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Arnie Rogers, Licensed Real Estate Broker

Verdura Realty, LLC • 254 East 6th Avenue • Tallahassee, FL 32303

Cell: 850.491.3288 • Email: arogers@verduraproperties.com

www.VerduraProperties.com



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Stansberry Research: Those are tremendous attributes. How has timberland performed over the years?

Sjoggerud: Take a look at this table of the period from 1971 to 2010... which was filled with all sorts of bull and bear markets for stocks...

Year	Annual	Account Size
1971	4.4%	\$10,000
1972	11.0%	\$11,104
1973	58.7%	\$17,625
1974	20.8%	\$21,290
1975	1.3%	\$21,564
1976	16.0%	\$25,021
1977	48.5%	\$37,154
1978	29.5%	\$48,103
1979	31.0%	\$62,991
1980	5.4%	\$66,405
1981	2.6%	\$68,132
1982	-1.8%	\$66,919
1983	0.6%	\$67,294
1984	3.2%	\$69,434
1985	-2.6%	\$67,656
1986	3.3%	\$69,916
1987	26.6%	\$88,513
1988	30.1%	\$115,174
1989	37.4%	\$158,191
1990	11.1%	\$175,687
1991	20.3%	\$211,281
1992	37.3%	\$290,131
1993	22.4%	\$355,033
1994	15.4%	\$409,850
1995	13.8%	\$466,574
1996	10.7%	\$516,637
1997	18.9%	\$614,333
1998	9.0%	\$669,746
1999	12.9%	\$756,344
2000	4.4%	\$789,681
2001	-5.2%	\$748,256
2002	1.9%	\$762,340
2003	7.7%	\$820,773
2004	11.2%	\$912,697
2005	19.3%	\$1,089,288
2006	13.7%	\$1,238,287
2007	18.4%	\$1,466,549
2008	9.5%	\$1,606,184
2009	-4.8%	\$1,529,730
2010	-0.2%	\$1,527,309

From 1971-2010, an investor in timber saw average annual returns of over 14% – turning \$10,000 into over \$1.5 million. That's better than stocks and bonds over the same period.

Here are the rough numbers on where timberland returns come from:

- 1% Land value increase
- 6% Biologic growth of the trees
- 3% "Stumpage" price increase (the price of the actual tree)

Stansberry Research: So timberland can serve as a good alternative investment when stocks are in a bear market?

Sjoggerud: Absolutely. One of the worst-ever bear markets in stocks began in the late 1960s and lasted until about 1980. An investor in stocks during that time lost money, due to inflation.

However, as the table shows, an investor in timber never had a losing year during that period. More often than not, the returns were in the double-digits... with a 59% return in 1973 and a 49% return in 1977.

To sum up, timberland offers high returns... It is a sustainable asset that can provide returns for centuries... It has no correlation to the stock market... It's less volatile... And it constantly grows in value.

Stansberry Research: So, how do you go about buying timberland? What's the easiest way to own it?

Sjoggerud: It's important to point out that rather than just going out and buying a forest, you want to make sure to invest in *managed timberland*.

The reason it's important to make the distinction is simple: Managed timberlands, according to a study

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conducted by the University of Georgia and published in the *Journal of Forestry*, generate returns almost four times higher than non-managed lands.

With managed timberlands, you get just what it says. You get professional managers who cultivate the trees, look after them, and harvest the trees and their products at the right time.

They look to earn extra cash by selling hunting rights to the land. They harvest and sell the straw and seeds that fall from the trees. Good managers even look to sell chunks of your timberland if a real estate developer comes along and offers a sky high premium for your land.

My point is everything on the “tree farm” – even the tree farm itself – is for sale. You can make these types of managed timberland investments privately, or there are usually a handful of publicly traded timberland companies on the exchange at any given time.

The big names in the U.S. are Weyerhaeuser (NYSE: WY), Rayonier (NYSE: RYN), and Plum Creek (NYSE:

PCL). To spread your risk, you can buy the U.S. big names through an exchange-traded fund with the symbol: WOOD. You can get much broader international exposure through the Guggenheim timber ETF (NYSEARCA: CUT).

Stansberry Research: There are many good points to timberland investing. Any negative ones?

Sjoggerud: When you compare the built-in yield of timberland to any other asset class out there, timberland wins hands-down.

The only problem is *time frame* – you can sell a stock or bond immediately, but you can't get rid of acres of timber like that. It's illiquid. You've got to hold it for some time to maximize its value – the ideal timeframe is infinity. It's definitely not for traders... it's for long-term thinking investors.

And keep in mind... like all investments, you have to make sure you buy timberland at a reasonable price.

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