Timber: The One Asset Crushing Stocks

By The Sovereign Investor on April 15, 2016 4:32 pm in Business

When you're hot on Wall Street, you are treated like a rock star. At a hedge fund investor conference in San Francisco, I was mobbed by people who wanted to speak to me. I was put up at the Fairmont Hotel, where suites go for $3,000 a night. At the fanciest restaurants in the capitals of the world — Geneva, Paris, Frankfurt — big-money investors would hang on my every word. Investors sent me $1,000 bottles of champagne, Tiffany vases, gold cufflinks and cases of wine as gifts.

Our hedge fund was up 20% for five years straight. Every big-money investor craves this kind of high-level, consistent performance. However, it's rare. And when investors find it, they flood you with money.

Billions and billions of dollars. Our hedge fund grew from $1.5 billion in 2006 to over $5 billion by 2008. Our asset management company, which had about $5 billion under management in 2006, grew to over $25 billion in assets by 2008.

In our hedge fund, we took 20% of the profits we generated with investors' money. On top of that, we charged investors for all expenses, as well as an annual fee of between 1% and 2%.

Yes, it's obscene!

Now, the thing is, you really don't have to have big money or pay these outrageous fees to get high-level, consistent performance. Sometimes you just need an expert like me to point you to how to get this on the cheap.

There is one investment in particular that generates high-level, consistent performance that big-money investors love. And it's available to everyone. Unlike our hedge fund, you don't have to give up 20% of your profits.

It's an investment that I bet you've never heard about. Big-money investors like the ones that used to invest in my hedge fund know about it. And they put their money into it because it gives high-level performance consistently. So, what is this investment?

One of the best-performing assets over the last 27 years is timber, outperforming stocks, bonds and other commodities. Timber, based on returns between 1987 and 2014, generated 12.66% in returns per year compared to 10.42% for stocks, 6.69% for bonds and 4.82% for commodities.

If you had put $1,000 into timber in 1987, you'd have $28,940 today versus $16,076 for stocks, $5,998 for bonds and $3,646 for commodities.

Not only does timber outperform all these assets, it's consistent, too. In the last 27 years, there have been just three down years.

In some of the worst markets in history — deflation, inflation, crisis — timber holds up like a champ.

In 2008, when stocks crashed, timber was up 9.5%.

The Great Depression, when stocks sank 70%, timber was up 200%.

From 1973 through 1981, when inflation was rampaging at 9.2% per year, timber kept chugging higher, gaining 22% per year.

Timber is rock-solid in terms of delivering the thing that people want in investing. What's that? High-level, consistent returns that you can count on year after year.

Profits 101 = More Demand, Less Supply

I've put my own money into timber. My investment is through a plot of timberland in North Carolina. The land is being used to grow a mix of hardwood trees such as oak and softwood trees such as pine. The forestry plan for the land is to harvest trees beginning 2018. So, my investment hasn't generated cash yet. However, land prices are rising rapidly because people are moving to North Carolina. My timber investment can pay off for me either through income from selling the timber or selling the land.

continued

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Why did I put my own money into timber? Because its demand/supply balance is solidly in favor of me making money.

And because trees take time to grow. You can encourage your trees to healthy growth through good foresting practices. However, you can't make them grow much faster than they grow naturally. On average, a tree takes 16 to 20 years to grow. So, supply can't go up overnight. And demand grows steadily. We use timber to make houses, furniture and paper. Current estimates are for timber demand to rise by 1.4% per year over the next 15 years.

Land to grow timber on is shrinking. That's because we keep using land for housing and commercial development. There are also huge amounts of land being set aside for environmental reasons.
Bottom line: Timber supply is limited by biology and land. Demand keeps rising as more people use wood in houses, furniture, etc.

How to Invest in Timber

Buying land with trees is one way to invest in timber.

Another way is to buy into companies that own forested land in the stock market. Most of these companies are too small to recommend here. Later this year, we will launch a research service to cover small-cap companies. You might see me recommend a timber company for that service.

However, you can invest in timber by buying the **Guggenheim Timber (NYSE Arca: CUT) or the iShares Global Timber & Forestry (NasdaqGM: WOOD).**

Two things about these exchange-traded funds (ETFs): First, they are both fairly small, each having about $150 million invested in each of them. Even though both are run by high-quality ETF companies, you could see them pull the plug on these ETFs if more money isn't invested in them over the next couple of years.

Second, ETFs trade every day. Because of that, they are going to be much more volatile than owning actual timberland. Even so, these ETFs should give you high-level, consistent performance over the long term.
Regards,

Paul Mampilly
Editor, *Profits Unlimited*