

Bauers Family Tree Farms News

A Semi-Annual Newsletter

Issue N° - 6 March 2010

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Farm Update - March 2010

As we sit here in April of 2010, the trees have competed three very suc-



Seedlings in the nursery - May 2007

cessful growing seasons (2007, 2008 and 2009). Three years is an important benchmark for us as after three years the root system combined with the size of the trees makes them much less vulnerable to drought, insects and disease. Nearly all of the trees that were planted in June of



Tree in ground - July 2007

2007 took and exhibited good growth patterns.

As we have mentioned before, the growth of teak is a truly amazing thing to see. To share this experience with you, we have included several pictures of the Tree Farm in this newsletter. The pictures show the trees' progress from seedlings in the nursery in May of 2007 (they had been growing from seed for about two months then) to the amazing size of the trees in December 2009.



Joe with teak tree - December 2007

While the December 2009 picture on the following page is a little backlit, you can see that the tree in the picture is nearly 40 feet tall. To think that a tree can go from a seed the size of a marble to 40 feet tall in 3 years is the reason we use the word "amazing" to describe the trees' growth.

We are now toward the end of the dry season when the trees take a break



Joe with teak tree - December 2008

from the vigorous growth of the wet season and when the woody material of the tree becomes harder and denser. Come mid April the rains will start to return and the growth cycle will start again. Maintenance during this last dry season was less intensive since the trees are now well established. Still, undergrowth was thinned at the end of 2009 to give the trees more breathing room and more heat-reducing air circulation. We also removed growth along the interior roads on the farm and along the main road just outside of the farm. The locals call clearing along the roads "Rondas" (roughly trans-

lated to rounds). By keeping growth along the roads to a minimum, the Rondas help prevent fires from starting in the dry season.

Most of the maintenance performed on the farm during the last three years helped the trees grow with as few impediments as possible. Now that the trees are much bigger and more established, maintenance will begin to focus on the trees themselves. For the first three



Joe and Martin with teak tree - December 2009

years the trees have mostly grown straight up with leaves growing off the trunk. Going forward, while the trees will continue to grow taller, they also will grow their first branches and begin to fill out. We will prune the trees to keep them growing tall and straight and to ensure the best lumber yields when harvest time comes.

We are anticipating a good 2010 growing season and look forward watching the landscape of the farm continue to change from bare pasture to forested land.

Rincon De La Vieja

Located just northeast of the city of Liberia and one and one half hours from the Bauers Family Tree Farm, Volcan Rincon de la Vieja is an incredible adventure that is not replicated anywhere else on the planet.

Rincon de la Vieja National Park is a magical and mysterious place. It has dense tropical rainforest with varied foliage and fauna, two volcanoes, beautiful water falls, waterways, bubbling mud pits, steaming holes called fumaroles and both warm and cold natural water holes.

The two volcanoes are the Rincon de la Vieja and the Santa Maria. Rincon de la Vieja is active. There are seven active volcanoes in Costa Rica, a large concentration of them lie along the same mountain range.

The name Rincon de la Vieja is translated as 'Old Woman's Nook' and refers to the legend of a young girl whose lover was thrown into the volcano by her father, after which she became a recluse with healing powers.

Rincon de la Vieja is the largest volcano in the northern region of Costa Rica and has a dramatic impact on the landscape and weather in this area. Volcanoes are generally known for their destructive qualities, but when you visit this national treasure you are reminded of how fertile and abundant an active tropical volcano really can be.

Rincon de la Vieja is an active volcano that is over a million years old. It last rumbled in 1991, spewing ash and lava down its sides, with the last major eruption occurring in 1983. Even though this volcano remains active, the majority of the landscape in Rincon de la Vieja dense jungle teeming with wildlife, plants, magnificent rivers and waterfalls. Rincon de la Vieja has a myriad of trails which allow you to see all the wonderful features that the national park has to offer.

The trail to the top of the volcanic cone is an 8 hour round trip to hike. When Joe was there in December of 2009, the rangers were not allowing visitors to hike to the top due to high winds and cloud obscuration. Because this volcano rises so high (6,286' above sea level), it captures an incredible amount of moisture as winds come across the Caribbean and then are uplifted by this mighty mountain. The result of all this uplifted moisture is tons of rain (nearly 200 inches a year) which feed 32 rivers and streams. Many of the trails in the park lead to



magnificent waterfalls which run year round. As you hike these trails you are treated a true tropical forest experience.

Rincon de la Vieja is home to more than 300 bird species, including curassows, bellbirds, parrots, hummingbirds, owls, woodpeckers, tanagers, eagles, toucans and quetzals. Mammals include cougars, howler, spider, and white-faced monkeys, kinkajous, sloths, tapirs, tayras, and even jaguars. There are countless insects including every color of butterfly you can imagine and dragonflies that look just like a helicopter. The park contains over 150 species of trees, including the famous Guanacaste and the Strangler Fig. The park also contains Costa Rica's national flower, the guaria morad, a species of purple orchid.

Money does not grow on trees -- unless you are in the timber business

It has been a tough few years for world economies and investors. In this deep and brutal cycle, most assets classes performed extremely poorly.

An article published in the Wall Street Journal on March 19, 2009 entitled "An Alternative to Alternative Assets," looks at asset allocation and how asset allocation is supposed to limit risk in a well built portfolio over time and over vary economic conditions.

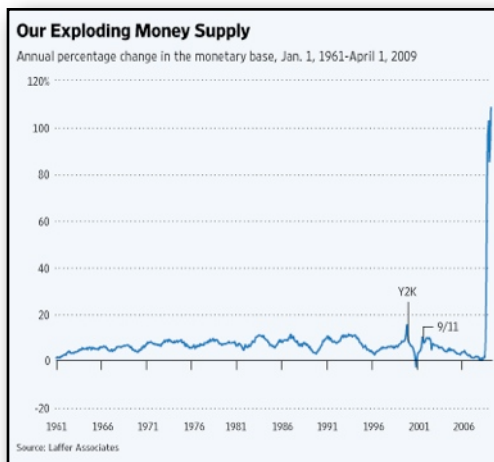
For example, so-called alternative investments like private equity and real estate that were supposed to help investors buffer losses in case of market declines in fact fell along with stocks in 2008 (and continue to lose value nearly three years later). As a result, some public funds are reconsidering how to categorize their investments. Rather than focus on the type of investment, such as stocks or bonds, many fund managers are considering lumping holdings based on how they might perform under various economic conditions, such as slow economic growth or inflation.

While the jury is still out as to how and when the United States will recover from this most recent recession, we believe that inflation is an major, upcoming hurdle for investors. Let's take a minute to discuss the factors that create inflationary pressures.

In the long term, the major factor on inflation is growth rate of the money supply. The following chart demonstrates the recent and alarming rise in the US money supply.

Inflation in the short and medium term is essentially driven by supply and demand pressures in the economy. It is important to keep these short term affects in mind as low supply and weak demand can mask the long term affect for a number of years. While the United States has

just seen one of the biggest growth rates in the money supply in most of our lifetimes, inflation rates remain low due to the weak short term supply and demand pressures in the economy. However, when the United States economy begins to recover significantly, supply will increase, as will demand. These two factors, along with the recent increase in the money supply, make higher rates of inflation much more likely in the near future.



Controlling inflation is one of the charters of the Federal Reserve. When inflationary pressures on the economy begin to take effect, the Federal Reserve may choose to raise interest rates in order to tighten the money supply. After such a deep recession, increasing interest rates will be a bit of a high wire act as the Fed attempts to balance inflation with economic growth.

While we can't predict precisely how inflation and economic growth will play out in the coming years, it seems likely that inflation will be an important factor for investors to take into account. Fortunately, investing in the Bauers Family Tree Farm provides an effective hedge against inflation and acts as a cushion during times of poor stock performance.

The most dramatic effect of inflation in relation to investing in the Tree Farm, the price of timber, should go along for the ride. In addition, the correlation of timber as an investment to many other assets classes like bonds and stocks is low. These two factors make timber investment a smart addition to your portfolio.

Here are few more positive attributes of the timber industry. The biggest driver in the value of timber is biological growth. Fortunately, biological growth is not affected by any economy, monetary policy, or political agenda.

Also, historical returns on timber have been good. As we mentioned above, a big driver is biological growth (the other driver being price increases). We see price increases coming from two areas. The first is general inflation effecting prices up and the second is increased demand for commodities including timber. We project the world populations to continue to increase. More people means more demand for commodities and less earth to derive those commodities from.

We think timber fits the bill as the right alternative asset for a number of situations, including slow economic growth and high inflation.

Thank You

Thank you for your support. Here's to another great year!

- Jake, Joe and Jaime

