

Bauers Family Tree Farms News

A Semi-Annual Newsletter

Issue N° - 3 August 2008

Farm Update

We are seeing great growth rates in our second growing season. Page 1



Guest House

The guest house is nearly complete. Page 2



Inflation

Timber provides protection and stability in times of turbulence. Page 3



Farm Update - August 2008

After a resting period during the dry season the farm is back into full growth mode. The rain started falling in April and became consistent in June giving the trees the moisture they need to continue their growth. When it comes to teak and the tropics growth is impressive. Trees that had reached 8 to 10 feet in December of 2007 are now more than 15 feet tall. By December of this year a number of the teak trees will reach over 20 feet tall. Though tall the trees are still quite skinny as they use most of their energy growing up rather than out. The ability to grow tall quickly is an important survival tactic in the tropics. As water and fertile soil are plentiful it is a race among the plant life get as much light as possible. Teak goes after the light by growing straight up and deploying its enormous leaves along the trunk. This tactic is a very important reason we chose to grow teak. Not only do we get a quick growing tree we get a

The first growing season is the busiest with the starting of the trees on the nursery, preparation of the land, field planting of the trees and continued maintenance.



nance. As the rain started to fall and became steady the next step was evaluate how the trees had done over their first dry season. Any trees that did not make it or that were not growing the way our forest engineer thought they should be were replaced. Fortunately for us there were very few trees that needed replacing. The next step was for the crew to go back into the field and to cut a three foot wide path around each of the tree rows. Grasses and the undergrowth can grow very quickly in the tropics. By keeping it trimmed back we are able to get more light, water and nutrients to each of the trees so that they can firmly establish their root systems. As you will notice in some of the photos we leave a large section of the grass and undergrowth untouched in between the trees rows. Leaving this swath of grass in place provides an important protection against erosion as



tree that grows vertical in its early stages of life giving us a long straight bole perfect for cutting into timber down the road.

During 2007 we had a crew of over 40 diligently working on the farm to make sure all the trees get off to the right start. Though the first year is the most eventful the second may be the most important. The first work of the second growing season began in the dry season. Due to the large amounts of rainfall that we received in 2007 we had to go in and repack some of the access roads that run through the farm. These roads provide important access to the workers as they make their way around the farm doing their maintenance.

heavy rains fall. Keeping the topsoil in place not only helps protect the waterways on the farm, but it also helps the trees to establish a good root base and foundation for growth. After the area around each tree row is cleared and the rains are steady just the right amount of fertilizer is applied to each tree. The fertilizer bags are carried in by horse and the



fertilizer is applied by hand so as not to disrupt the soil around the trunks of the trees. Another evaluation of the trees is made as they get into their full growth mode. The trees are checked to make certain there is a single trunk growing and that there has been no bifurcation of the trunk. Any trees not growing properly will be pruned or otherwise rectified. The second half of the growing season maintenance will be similar to the first half. From August through December the trees will be evaluated, undergrowth will be cleared and a second fertilization take place.

Guest House nears completion

In February 2008 ground was broken on the construction of the guest house. As you can see by the pictures the project is



well under way and the house is starting to take shape. The house sits at the top of the farm and will enjoy fantastic views of the farm and surrounding mountains. The pictures also reveal the stout but simple construction of the house. Unlike the

United States which mainly uses 2 x 4 wood frame construction, the Costa Rican way of building uses concrete, cinder block and steel to frame the house. The reason for this is simple, wood frame houses in the tropics wouldn't last very long. Due to the insect damage and rotting issues, wood frames would quickly lose structural integrity and need complete rebuilding. The stouter structure is also needed because of the large amount of rain and sun the country receives. It is for this reason that the guest house is built of the strongest most weather resistant materials.

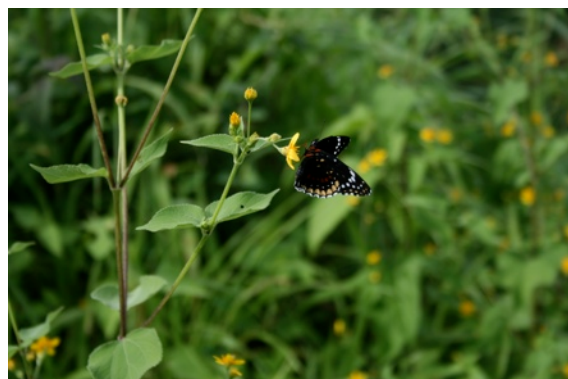
To finish off the house it will be roofed, stuccoed in certain areas and glass will be installed. The house will have an incredible open feel with large picture frame windows, high ceilings and large open areas. There will be no need for a heating or cooling system as the temperatures at the farm are nearly always in the pleasant range. Between the roof and the top of the walls will be open ventilation giving the house fresh tropical air at all times. One of the most interesting features of the house are the open-air showers. These showers will really give you the ability to enjoy the surrounding nature and pleasant tropical weather. The back decks adjoin the master bedroom, the living area and the guest bedrooms overlooking the entire farm.

Construction on the house should be wrapping up before the end of 2008. Investors and potential investors are highly encouraged to come and see the farm first hand. If you are plan-

ning a trip to Costa Rica, a couple of nights at the farm needs to be on your itinerary.

Bauers Family Tree Farm Web Page

Work on the official website of the Bauers Family Tree Farm is almost complete. You will now be able to go online and read about the farm. The website will have a vast amount of information about all aspects pertaining to the farm. You will also be able to view an incredible photo gallery that has pictures of the farm, wildlife, Costa Rica, the guest house and much more. The web site will also provide links to all issues of our bi-annual newsletter as well as links to articles written about tree farming and the timber industry. Visit www.bauersfamilytreefarm.com and read up on the farm.



Inflation!

As we sit writing this newsletter in August of 2008 we continue to witness one of the toughest investment environments we have seen for sometime with no end in sight. Credit and housing markets continue to be in a funk and may we may not have seen the worst of it yet. Many investment experts agree that the country is in recession and inflation continues to rise heavily driven by the increased costs of energy and commodities all the while the dollar has been weakening against other world currencies. All this commotion reminds us of why we think timber is an excellent addition to an investment



portfolio. Organic growth, inflation hedge and consistent long term growth keep us liking this asset class.

We have included the following article from Moneyweek that highlights these investments highlights of timber.

If you want good long-term growth, think timber

Jeremy Grantham - chairman of Grantham Mayo and Vna Otterloo, a Boston-based firm that oversees \$60bn in assets - has been scaring investors witless over the summer. At a conference in June he announced that stocks are overpriced to

the extent that the market is now just about as risky as he has ever seen it. "The next few calendar years," he warned, "look like a black hole as overpriced markets, dangerous leverage and a gigantic hedge-fund business collide with the house-building phase of the US presidential cycle, plus the contraction phase of a long interest cycle." The result of this combination? He sees the Standard & Poor's index falling 38% over the next couple of years. So what's an investor to do in the face of a bear market like this? Go for quality, says Grantham. And today, that means cash, conservative hedge funds and, more interestingly, timber. His rationale for this is simple: timber is not only a stable and predictable addition to a portfolio, but has outperformed the S&P index since 1910. It is the only asset class in existence that has gone up in three out of the four major market collapses of the 20th century. Better still, timber appears to give you a substantial degree of inflation insurance, says James Stewart in SmartMoney, and in these uncertain times that is not to be sniffed at. During the highly inflationary 1970s (1973-1981), timber's performance (up 22%) came in third behind oil and natural gas, for example - that put it well ahead of traditional inflation hedges, such as property and commodities. Even in the low inflationary 1980s and 1990s, timber was the second-best performing asset group, with average annual returns of 11% from 1982 to 2003. Other than equities, in the entire 30 years "no other asset class came close". All this rather suggests that, long term, timber is something we should all own. But there are also a slew of shorter-term factors that suggest now is a good time to buy. Demand for wood, pulp and paper is soaring along with the global economy, and China and the US in particular appear to have nearly insatiable needs for lumber. China needs timber as it gets on with basic infrastructure and home building, and the US needs it as its citizens go on a renovation binge - in 2003 they spent \$130bn on home improvements, up from \$105bn in 2000. And while demand is on the up, supply isn't there to meet it: timber is renewable, but only over very long periods. No wonder that lumber prices have soared more than 50% in the last year and that Harvard University has put a "startling" 12% of its endowment

cash into timber. Today, it seems if you want security and growth, you should forget the equity markets and "think of crisp pine-scented air and virgin forests: think timber". All the factors seem be pointing to higher prices from here, but, as ever, in the shorter term even timber is not a one-way bet. If, for example, China slows considerably, or if rising interest rates in the US mean house building there falls off, demand for lum-



ber, and hence prices of timber and woodland, may fall. That said, the beauty of owning timber is that it can be harvested at any time. If prices are low, you just leave your trees alone to mature further (as Grantham puts it, "if the rain rains and the sun shines, then the suckers grow") until prices rise. In the meantime, your trees will just get more valuable, and in the UK you can continue to take advantage of a few rather nice tax breaks: there's no capital gains tax to pay on woodland and if you've owned it for two years, then when you die there's no inheritance tax to pay either.

Thank You

Thank you for your continued support. With the guest house nearly complete we would love to see you at the farm soon.

- Jake, Joe and Jaime