

Bauers Family Tree Farms News

A Semi-Annual Newsletter

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Farm Update

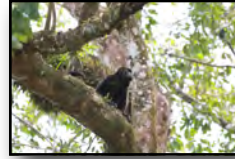
Farm continues to look good.

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Farm Update - October 2012

As of October, 2012 the trees have been in the ground more than 6 years and are a little more than halfway through their sixth growing season. The trees continue to exhibit good growth patterns, with the crowning out of the trees and the increasing girth of the trees being the most noticeable devel-

opments during the last growing season. This canopy of leaves will absorb more sunlight, which will be photosynthesized, turned into energy, and further fuel the trees' rapid growth. The dense canopy will also encourage competition between the trees and encourage them to continue growing tall and straight as they compete for as much light as possible. The gain in girth of the trees has also made considerable progress this year. The largest trees on the farm are now more than 38 inches in circumference, as compared with average circumferences of 25 inches of the larger trees at the same time a year ago.

ages the development of a larger, straighter trunk, which is important as nearly all future timber will come from this lower portion of the tree.

The farm is approaching the time when we need to consider culling smaller trees to enable larger trees to continue to develop vigorously. There is a delicate balance between giving the healthier larger trees more room to grow and keeping robust competition between the trees going. However, we have decided to keep the competition going one more year, and we will look to start doing some select culling next year.

Another milestone this year was the trees' considerable amount of flowering. Flowering is a clear sign of maturity of the trees. Mature teak flowers from June to August and produces and puts down seeds from September through December of each year.

Weather on the farm has taken a slight detour from years past. Over the last few years we have been in a "La Nina"



opments during the last growing season. All of the trees on the farm are now crowning out with vigor, creating a dense canopy of thick, large leaves.

Quite a bit of maintenance was performed on the farm this year. During May and June, the entire farm was cleared of bushes and undergrowth growing around the trees. Taking out the undergrowth ensures more water, nutrients and light go to the trees and also keeps any parasitic plants, such as vines, off the trees. Clearing undergrowth is no easy process, as all the work is performed by hand with a machete and done over the entire 175 acres where trees are planted. We cleared out several difficult-too-access slopes where undergrowth can grow quite quickly.

Also, as the trees have started to crown more heavily, more pruning has been necessary. Pruning keeps the trees growing tall and straight and encour-



weather pattern with much more hurricane activity rolling across the Atlantic and into the Caribbean. The combination of these two patterns created above average rainfall for the farm over that time period. This year has shaped up to be more of a “El Nino” pattern, which has the effect of the in-



tense part of the rainy season starting later with less water falling on the farm. Even with a slightly below average rainfall year, the trees have exhibited excellent growth, and the farm is currently lush and green.

The “El Nino” weather pattern is associated with warmer-than-average water temperatures in the tropical Pacific. La Nina has the opposite effect, where tropical Pacific waters become cooler than usual.

Pura Vida - A Costa Rican Way of Life

When you fly to Costa Rica and step off the airplane, you will immediately notice several differences. First, the language spoken is Spanish, and then you will quickly realize that you are in a very humid tropical climate. Upon further investigation, you might notice that all the locals use the phrase “Pura Vida.” “Pura Vida” literally translates to “Pure Life” in English. However, in Costa Rica, Pura Vida has not only

taken on many different meanings but it has become somewhat of a symbol of the national culture for people in the country.

In Costa Rica, saying “Pura Vida” can have many different meanings, depending on how it is used. For example, when you greet someone, you can say “Pura Vida” to mean “Hello.” And, you can also say “Pura Vida” to say goodbye. Also, if you just won the Costa Rican Lottery the first thing out of your mouth might be, “Pura Vida!” If you just had a baby or graduated from college, people may congratulate you by saying, “Pura Vida.”

Saying “Pura Vida” in Costa Rica is not exclusive to positive events; in fact probably the most common use of the phrase is when things go wrong. In situations of mishap or failure, “Pura Vida” translates similarly to the French saying “se la vie,” or “That’s life” in English. Due to its extremely rugged, rainy tropical climate, things seem to go wrong in Costa Rica quite often. For example, the electricity and even roads are frequently out of service due to deluges of rain that last for days.

So when the road washes out and nobody can leave their small town for a week until crews arrive to fix the road, the Costa Rican way is to say, “Pura Vida” and refrain from getting angry and frustrated. In such situations, the Pura Vida attitude can be a reminder that even though what you’ve planned for the week is not going to happen, life is still pure and you can still have fun and enjoy your week. If you embrace the Pura Vida attitude, you might just find that you can have even more fun and enjoyment doing what you are doing versus doing what you planned.

So next time you are in Costa Rica and you meet someone new, remember to say, “Pura Vida.” Or if you just caught wave and a stood up and surfed for the first time, don’t forget to say, “Pura

Vida!” But most importantly remember to say, “Pura Vida” when your car breaks down or there is no internet service. You might just find that life is more pure without those things for a while.

PURA VIDA!

A Brief History of Institutional Timber Investment

Timber Investment has been around for several centuries. Several hundred years ago in Europe, forested land was an important investments among the nobility. Unfortunately, much of these timber holdings were completely depleted to build out villages, cities and naval fleets, so that little of this important timber legacy remains today. This situation is in marked contrast to the past thirty years, where timber holdings have become more and more common in institutional investor’s portfolios. In fact, institutional holdings of timber grew more than 60 times from about \$1 billion of holdings in



1980 to more than \$60 billion in late 1990s.

The first push of timber into institutional portfolios was the passage of The

This is commonly referred to as the Sharpe Ratio and timber has historically scored well on this basis.

- Timber works for inflation hedging. Timber like agriculture products, precious metals, and oil and gas investment is considered a real asset. A real asset is one that derives its value from its utility. Because wood is used so widely across the world economy, as inflation sets in the price of timber usually follows suit giving timber a close correlation with inflation.

jected to grow from around 6.9 billion today to more than 9 billion by 2040. Increased population as well rising incomes in emerging economies such as Asia, Latin America and Central Europe will increase consumption of wood and wood product while at the same time increased population will make less land available for timber production.

Soft Values:

- The final thing some institutional investor like about timber is that it is "green." Timber plantations are an environmentally friendly option. Plantation take pressure of natural forests by producing logs in a con-



Employee Retirement Income Security Act (ERISA), enacted in 1974. ERISA, among other things, pushed private pension funds to diversify their portfolios outside of common equity and fixed income investments. Around the same time the big holders of US timberland (think large companies like Kimberly Clark and Georgia Pacific), were no longer able use capital gains treatment of their timber harvests. This lead to willing sellers of the timber with buyers looking for alternative investments. The institutions jumped on board as they began to realize the positive investment attributes of timber.

When looking into timber as an investment the group of institutional investors discovered a broad array of attributes that would be attractive to their portfolios. At a broad level these attributes fall into the following 4 categories; 1) portfolio fit; 2) intrinsic attributes; 3) positive market fundamentals; and, 4) soft values.

As they dug further into these attributes the following was realized.

Portfolio Fit:

- Timber has a favorable risk adjusted return. Historical returns versus the standard deviation show how well an asset class compares to another in terms of getting paid for taking risk.

-Finally timber is an excellent diversification tool as it has a very low correlation with other investment classes. To say this another way the growth of timber and its subsequent value really has very little to do with what is going on in other markets such as real estate or the stock market.

Intrinsic Attributes:

- The most import intrinsic attribute of timber is biological growth. This is much different than just about any other investment or financial security where as long as the sun us shining and the rain is falling timber will get larger and more valuable regardless of what else is taking place in other financial markets.

- The second intrinsic attribute is the flexibility to raise or lower timber harvests in response to timber price movements. Not only does timber afford this flexibility, but it can be done with little to no opportunity cost as trees continue grow while one is waiting for prices to improve, which makes hen more valuable over time.

Positive Market Fundamentals:

- As the world continues to grow, upward price pressure is expected on commodities and real assets, and it is likely that timber be a part of the wave. The world population is pro-



trolled environment, getting better growth rates and preserving the natural forests from damage.

Self Directed IRA

We have many investors in the farm who have purchased and own trees through their Self Directed IRA. Did you know that you can transfer funds from a normal IRA account (stocks or mutual funds) and purchase trees is a Self Directed IRA? Did you know that you can contribute your yearly maximum (normally \$5000 per year) to a Self Directed IRA to purchase trees? It is easy to do - Ask us how.

Thank You

Thanks for everyone's continued interest and support.

Jake, Joe, Jaime