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Timber!

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By PAUL STURM

LONG BEFORE THERE

was Mary Meeker or Abby Joseph Cohen, there was Irving Fisher. Fisher, a Yale economist, stuck his neck out in 1929 and predicted that stocks had reached a permanently high plateau. He got that wrong, but he did a few things right. He was a health-food nut before his time, he invented the Rolodex, and his ideas forever changed the way we think about investing.

Fisher's most creative work had to do with the time value of money. Here's a famous example: Suppose you could earn the same amount from three investments. Would you want a farm, with annual production that's stable and steady? A mine, which offers a quick bonanza, then peters out? Or a newly planted forest, which has no income today but will generate lots of cash when the trees mature?

A trick question. For Fisher and other theorists, the "correct" answer depends on future interest rates and even Alan Greenspan can't be sure about those. But by the end of this column, readers should have it much easier. Take the forest. If you're patient, it beats most other investments hands down.

Since the days of Robin Hood and King John, the wealthy and powerful have owned woodland. But about 20 years ago, a few insurance companies and big pension funds started buying forests as a hedge against inflation. For the first time, economists began evaluating timber in terms of total returns and risk/reward ratios. The track record of early investors and a slew of recent academic research indicate that timber is a near-perfect asset. Studies show that a diversified timber portfolio would have returned 13.3% annually over the past 40 years, compared with 11.6% for the S&P 500. Impressive, but that's just the beginning. Timberland is also remarkably low-risk, with volatility more like

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12,827.34	228.08	2,924.06	74.57	1,355.63	28.59



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Symbol	Price	Chg	% Chg
INTC	26.48	+ 0.65	2.52%
CSCO	17.01	+ 0.53	3.22%
MSFT	30.51	+ 0.60	2.01%
GE	20.74	+ 0.54	2.67%
WMT	69.51	+ 1.21	1.77%
PFE	22.92	+ 0.39	1.73%

bonds than stocks. And it tends to perform best when stocks and bonds go down, making it a neat counterweight.

Unless you've got the means for a seven-figure investment to get into big-time timber portfolios, there are two alternatives for investing in timberland: You can call real-estate brokers in Maine and Oregon (I don't recommend it), or you can buy stock in a few public companies with vast timber acreage and little else. Shares in companies that own trees are particular opportunities now.

Cheap Stocks With Tax Advantages

Timberland shares trade at a discount to the market value of their forest holdings.

COMPANY	PRICE	52-WK HI-LO	ACRES OF TIMBER (MIL.)	PRICE/ACRE (\$)	LOCATION
Crown Pacific	\$7.90	\$19-7	804	300	Northwest
Deltic Timber	28.39	30-17	410	822	Arkansas
Plum Creek Timber	29.53	30-22	3197	633	Diversified
Rayonier	46.50	48-32	2121	595	Southeast
TimberWest*	8.00	8.5-7	825	631	British Columbia

The best reason to invest in timberland is the simple fact that trees grow. Silently and unattended, the average North American forest produces about 8% more timber every year. But the forest isn't just a no-cost factory; it's also a profit-spinning warehouse. As trees get larger, their value increases. Consider southern pine: Wood from 12-year-old trees is used for pulp, and a cord sells for about \$20. When those same trees are 24 years old, they're saw timber, worth perhaps \$60 a cord.

These are beguiling numbers, but it gets better. Though timber prices fluctuate, research indicates that real prices for timber have steadily risen for more than 100 years better performance than any other commodity (with the possible exception of fish). Why? Think of it this way: Timber isn't like oil, where new discoveries expand supply. There are no hidden timber deposits, and demand is robust. Despite substitutes as diverse as steel, plastic, hard-disk storage and CDs, people still want wood and paper.

A timberland portfolio would have returned 13.3% a year over the past 40 years. And it's a low-risk asset.

During the tech craze, timber was a hard sell. Now it's catching on fast thanks to a growing appreciation of its virtues and high-profile investors such as endowments at Harvard and Yale. Already, there's a quarterly timberland performance index.

Television news may highlight timberland "risks" but many disappear on close examination. Fire and other disasters ravage less than 0.5% of privately owned forests annually. Even after the Mount St. Helens eruption, 80% of the damaged timber could still be sold. Smart investors minimize confrontations with environmentalists by avoiding old-growth trees and selling conservation easements.

Owning timber outright means thinking in decades, not years. And investing in companies that know how to manage timber assets is preferable to buying a

Symbol	Price	Chg	% Chg
IBM	195.11	+ 3.71	1.94%
C	27.18	+ 0.79	2.99%
TWX	38.20	+ 0.33	0.87%

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forest. Two years ago, for example, **WorldCom** Chairman Bernie Ebbers paid \$400 million to buy 480,000 acres of Alabama pine plantations from **Kimberly-Clark** a nondiversified investment when prices were high, financed with borrowed money. Today his WorldCom shares have collapsed, and the woods are full of rumors that his land will soon be on the market.

While some timber investments require serious bucks, it's helpful for small investors to understand how the big guys operate. The best players, called timber investment management organizations, are highly sophisticated. Collectively, so-called TIMOs manage \$9 billion, mostly for pension funds. TIMO deals typically involve a minimum of \$5 million per investor. The fund might own forests of various ages in the South, Northwest and maybe Australia or New Zealand. A common strategy is to have trees ready to harvest at all times for sale as pulp or lumber.

There's a lower-end option, courtesy of Jeremy Grantham. He's a respected money manager with a knack for independent thinking and bullish views on timber. A subsidiary of his firm, Boston-based Grantham Mayo Van Otterloo, offers 10-year investment partnerships in amounts starting at \$250,000. Grantham keeps 20% of his personal portfolio in timber.

Then, for the rest of us, there are the stocks in my table. You can invest any amount and sell tomorrow. The good news is that they're cheap: Timber traditionally trades at a discount when it's owned by public companies. Private buyers pay \$1,000 to \$2,000 an acre, but as the fourth column in the table indicates, you can buy land held by these companies for a fraction of those prices.

I sense a bargain. Most corporate timberland owners need wood to keep their mills running and see timber more as a raw material than an investment. But timber is a real business at the outfits on my list. They sell logs, not paper products. As Wall Street catches on to the benefits of owning trees, I think these companies will trade at closer to private-market prices. As real-estate investment trusts or limited partnerships, some are also exempt from corporate taxes, which gives them another advantage.

Plum Creek Timber is the biggest pure play in timber and my personal favorite. It is completing a merger with Timber Co., a Georgia Pacific spinoff, that will double its size and increase diversity by adding acreage in the South. As a REIT, Plum Creek offers a fat yield with an extra plus. Those dividends are capital gains, not ordinary income a gift from the Internal Revenue Service to timber investors.

Payouts are lower at **Deltic Timber** and **Rayonier**, but they have additional lures. Deltic has land close to several towns, so there's significant development value. Profits are off because of losses at a joint-venture fiberboard plant that used expensive natural gas for fuel. The plant will now burn waste wood, and earnings should increase substantially.

Rayonier differs from the other stocks in that half its revenue comes from nontimber businesses cellulose and specialty pulp. But management is selling some of those assets and has considered forming a timberland REIT, a move that could reward shareholders.

Crown Pacific and are special situations. Crown, structured as a tax-exempt limited partnership, is a turnaround. Shares collapsed earlier this year, when it

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suspended a 56-cent quarterly payout. Management didn't want to cut timber when prices (hurt by reduced demand from Asia) were low. Now Crown is selling nontimber assets to reduce debt, and its lumber mills should benefit from the recent 20% tariff on Canadian lumber imports.

TimberWest owns choice land on Vancouver Island, among the few large private tracts in western Canada. Its shares trade in Toronto (but can be purchased through many U.S. brokers) and are popular with yield-conscious Canadians. The company sells logs rather than lumber, so it may actually benefit from the higher U.S. tariffs. These apply only to finished products, and therefore could increase demand for Canadian logs. TimberWest payouts are also exempt from the normal withholding on Canadian dividends a goodie even Irving Fisher would appreciate.

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FINANCIAL GLOSSARY

Words used in this article: Internal Revenue Service, pure play, limited partnership, ordinary income, money manager.

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