

# Timber Investments for Tough Times

By Thomas G. Harris, Jr. & Sara Baldwin *Timber Mart-South* and Jacek Siry, PhD, Warnell School of Forestry & Natural Resources

Financial markets swooned in late September and early October over troubled credit markets. Both stock markets and bond markets took a dive, with the S&P 500 reaching levels not seen since April of 2003. Pine sawtimber markets were weak as well, affected by the weak housing markets and depressed building construction. In the 4<sup>th</sup> Quarter 2008, the south-wide average was the lowest since the 4<sup>th</sup> Quarter of 1993 and down nearly \$12 per ton from the most recent peak in the 1<sup>st</sup> Quarter of 2006.

Average Stumpage Prices \$/ton vs. the Dow Jones Industrial Avg. & S&P 500							
	Since end of year 2007				Since 1998		
	4Q 08	4Q 07	+/-	%Δ	4Q 98	+/-	%Δ
Pine Sawtimber	\$29.16	\$36.59	(\$7.43)	-20.3%	\$37.61	(\$8.45)	-22.5%
Pine Chip-n-saw	\$18.52	\$18.88	(\$0.36)	-1.9%	\$27.59	(\$9.07)	-32.9%
Pine Pulpwood	\$9.57	\$8.11	\$1.46	18.0%	\$9.92	(\$0.35)	-3.5%
Hardwood Sawtimber	\$23.12	\$22.22	+\$0.90	4.1%	\$17.39	+\$5.73	32.9%
Hardwood Pulpwood	\$8.59	\$6.84	+\$1.75	25.6%	\$4.58	+\$4.01	87.6%
	<b>31-Dec-08</b>	<b>31-Dec-07</b>			<b>31-Dec-98</b>		
Dow Jones Industrial Average	8,776	13,265	(4,488)	-33.8%	9,181	(405)	-4.4%
S&P 500	903	1,468	(565)	-38.5%	1,229	(326)	-26.5%

## Timber Prices Mixed vs. Stock Indexes down

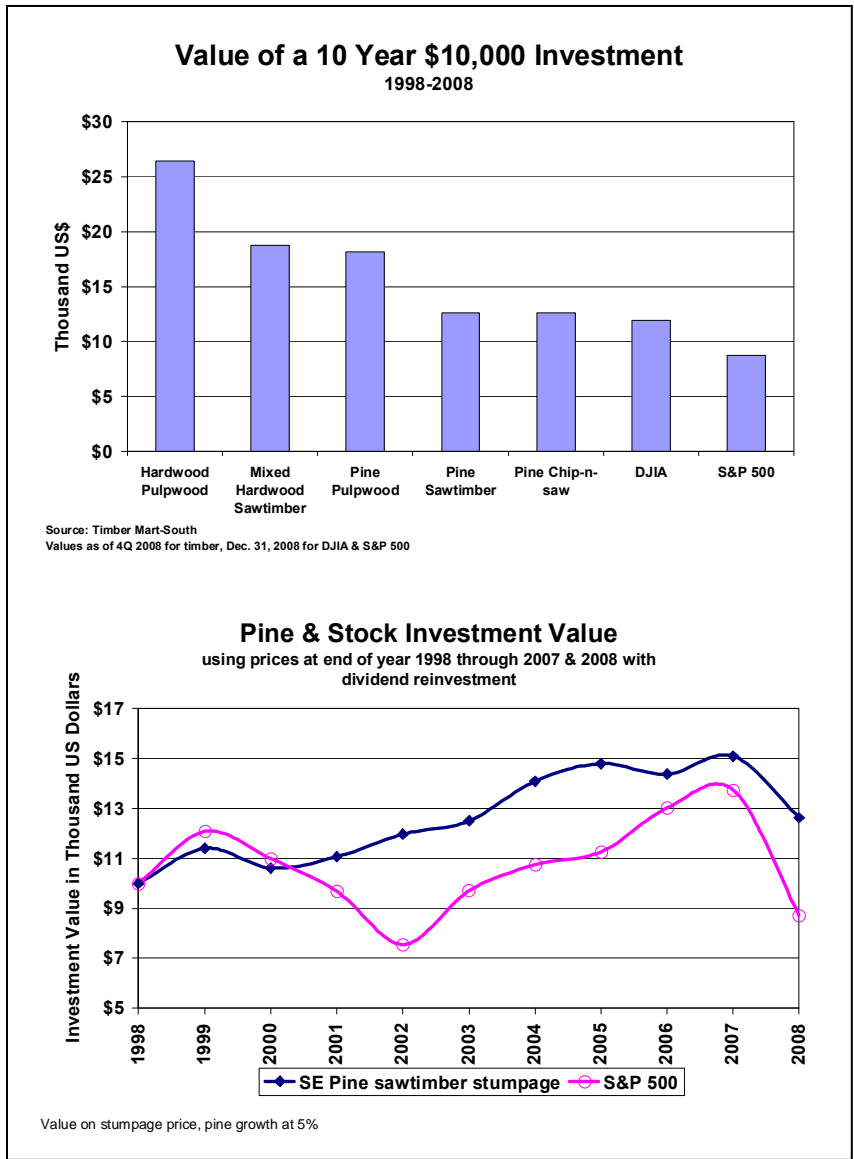
Painting with a broad brush, the picture shows timber as a diversified investment. When looking at price alone: pine timber product prices all lost ground over the ten year period from the end of 1998 to the end of 2008. The table *above* shows price change in US dollars as well as percent change. Hardwood pulpwood prices increased more than 85 percent and mixed hardwood sawtimber also did well. Prices for both products hit historically high levels in the 4<sup>th</sup> Quarter 2008.

Pine sawtimber, the largest timber product category by volume fared somewhat worse, down 20 percent. All three pine prices were lower in the most recent quarter than ten years ago.

For comparison, the Dow Jones Industrial Average (DJIA) was down 4 percent over the same period and the S&P 500 down nearly 27 percent.

## How did timber fare compared to stocks?

We revisited our “value of a timber investment” exercise, last calculated in mid-2005 in a relatively stable market. (See *Forest Landowner* Vol. 64, No. 4, July/August 2005.)



Our method separates the timber from the land component to demonstrate the performance of a hypothetical “pure” investment in growing trees. An investment in any one timber product, of course, is not possible, and forest investors do not usually purchase timber without the underlying land. However, by calculating the quantity (tons of timber or shares of stock) that could be purchased with \$10,000 at the end of 1998 (using 4<sup>th</sup> Quarter 1998 south-wide average timber prices and December 31<sup>st</sup> 1998 stock index prices) we can calculate the change in value of investments in seven different vehicles over ten years to the 4<sup>th</sup> Quarter 2008.

We used stock index prices for December 31<sup>st</sup> 2008. For timber, we incorporate biological growth and price appreciation or depreciation at the end of each year, excluding the “land”

component. For the S&P 500 and the Dow Jones Industrial Average (DJIA), we reinvested the quarterly dividends on an annual basis.

**Timber Fared Better than Stocks when Growth Considered**

All timber categories fared better than stocks in this exercise when growth and dividends were considered. The \$10,000 investment in hardwood pulpwood stumpage increased the most, to more than \$26,000. Pine sawtimber and chip-n-saw ended about the same, near \$12,600. The S&P 500 investment lost money over the ten year period, ending just above \$8,700. The DJIA investment made a profit but ended at \$11,915, about \$700 less than pine sawtimber and chip-n-saw.

Charting the growth in the pine sawtimber investment against the investment in the S&P 500 shows that timber growth, we used 5 percent on average here, moderates timber price declines. The yield on dividends per share in the S&P 500 ranged from 1.1 percent in 1999 to 1.9 percent in 2007, before jumping to 3.2 percent in 2008.

In conclusion, timber is a diversified investment and makes a good addition to a portfolio. This simple example does not capture all the complexities of timber assets, but does demonstrate the value of growth. The growth of diverse products even in a single species stand can compound over time to make timber and thus timberland investments competitive with others.

*Timber Mart-South (TMS) has reported Southeast U.S. timber prices for more than 30 years, publishing quarterly reports used by private companies, consultants, landowners, and others to assess market prices. The University of Georgia, Warnell School of Forestry & Natural Resources is under contract with the Frank W. Norris Foundation to compile and publish TMS quarterly reports. Quarterly reports for single states include north and south regional averages, as well as high average and low average price for eight major products. To order or obtain more information, please call 706-542-4756 or see our website at [www.TimberMart-South.com](http://www.TimberMart-South.com).*