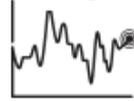


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## Penta Daily

Insights and advice for families with assets of \$5 million or more.

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## Time to Buy Trees

By Sonia Talati

Douglas Donnell, timberland asset executive at [U.S. Trust](#), is bullish on trees. They're an inflation hedge uncorrelated to either stocks or bonds, he says, and a smart investment to consider as we possibly head into a deflation-to-inflation environment.

Timber is, after all, a "[biological hedge](#)." Trees grow regardless of the politics in Washington, D.C. or the economy, continuously earning you a wood return, no matter how much chaos is around us. In a paper shared with clients, Donnell noted that "trees allow you the flexibility to harvest more when prices are high and harvest less when prices are low. This flexibility allows [inventory] to be 'stored on the stump,' while continuing to grow, independent of the pace of economic activity."



There are three ways you make money with timberland. There is, of course, the cash flow you earn from harvesting the trees and selling the timber. Then, there is the biological return, the increased value of the trees you haven't harvested as they grow each year. Finally, you benefit from the appreciation of the underlying forest land you own. Add all this together and the average timberland return from 1991 to 2015 was 11% net of fees and expenses, Donnell claims in his paper. The returns "should fall between those offered by stocks and bonds. The asset class is bond-like, in that the natural growth of the forest produces income with some certainty. Real pricing changes over time may allow returns to approach or exceed those of equities." He thinks returns will be closer to 7% this year.

Interested? Look for direct investments and comingled funds buying timberlands, Donnell says. One U.S. Trust client,

for example, purchased over 200 acres of timberland in Washington state at a discount, after the housing market collapsed in 2008. The timberland had been high quality, but lumber was little in demand during the Great recession. Today the client's timberland is probably worth some 15% more than he paid for it eight years ago. And that is on top of the returns he picked up by harvesting timber over the same period.

Your private bank can help you find such quality timberland to own directly. U.S. Trust offers this timberland management service in separate accounts with a minimum of \$5 million—and can be as large as \$100 million. The bank generally charges 6% all-in fees. Comingled funds are another option, often with higher minimums that can be anywhere from \$5 million to \$100 million, and are offered by the likes of [Forest Investment Associates](#) and [Hancock Timber Resources Group](#).

If you are investing directly, remember that diversification is as important with timber as it is with other investments. The Northeast region of the U.S., for example, has maple, oak, and walnut trees, all good for, say, high-grade cabinetry. You might want to put a chunk of your portfolio here, and then balance it out with different kinds of timber regions, says Donnell. The Northwest produces Douglas Firs and evergreens, for example, great lumber for making fine studs and beams. Donnell recommends allocating around 50% in the Southeast region, 30% in the Pacific Northwest, and 20% in the Northeast.

Also look for properties stocked with young trees. They are cheaper to buy and have time to grow in value before they are ready to harvest. Pick timberlands with a large quantity of these, but then balance that holding out by a smaller selection of mature trees, which are ready to harvest and can earn you some immediate returns. The right mix will give you a “balanced approach between revenue and appreciation,” Donnell claims. Also know your timberland revenue stream won't be continuous: When those mature trees are first harvested, you'll get a revenue stream, but then you go into a holding pattern which lasts until the next batch is ready to harvest—normally a few years down the line.

Patience pays off here and plays to a wealthy family's competitive advantage of being able to invest for the long term. Such wealth is ideally suited to the slow and steady growth found in trees.

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