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Alternative Answers

By [GREGORY ZUCKERMAN](#)

In this column, we answer your questions about alternative investments. Send them to reports@wsj.com.

Q: Could you provide a few specific investment vehicles in farmland and timberland?

Bob Cooper, Osprey, Fla.

A: More investors are exploring ways to invest in farmland and timberland, in part because of growing concerns about inflation.

"Most economic indicators point to an inflationary period somewhere on the horizon and, if so, farmland has a history of being an excellent hedge," says Gene Dunbar, senior vice president and national manager, farm and ranch services, at U.S. Trust, [Bank of America](#) Private Wealth Management. He adds that "world population is predicted to increase by 70 million annually," boosting demand for farmland.

Also, soaring grain prices and growing interest in corn and soybeans for biofuels have helped farmland values in recent years.

Since most farmland investment funds are set up as private-equity vehicles, accurate return information is hard to come by. Geoff Burke, managing director at Agro-Ecological Investment Management Ltd., which manages funds that invest in farmland in New Zealand and other areas, says dairy land in New Zealand historically has appreciated at a rate of about 12% a year, while the value of mixed-crop land in the U.S. has risen at about an 8% rate.

Some agricultural funds developed by investment firms accept investments as low as \$10,000, but others have a minimum investment of \$5 million. Mr. Burke's firm requires an investment of at least \$1 million.

For investors with more limited means, analysts recommend exchange-traded funds like the [Market Vectors Agribusiness ETF](#), the [iPath Dow Jones-AIG Livestock Total Return Sub-Index ETN](#) or the [PowerShares DB Agriculture Fund](#). They all track the returns of agriculture and livestock. But they haven't provided much diversification; they're all down more than 20% in the past year. Shares of [Monsanto Co.](#), which makes agricultural products for farmers, provide another option.

Dangers abound, however. Most investment vehicles targeting farmland aren't liquid, making it difficult to sell quickly to lock in a profit or avoid a loss. Also, in "certain regions with higher levels of political risk, the danger factor ramps up significantly," says Mr. Burke. And rising commodity prices "on the surface seem good for agriculture, but they also drive up

costs and therefore squeeze margins," he adds.

Recent history also is cautionary. Farm real-estate values in the U.S. dropped 3.2% in the past year, the first drop in more than 20 years, according to data from the Agriculture Department.

As for timberland, Matthew Tuttle, president of Tuttle Wealth Management in Stamford, Conn., says "unless you have big, big bucks" it's hard to find an appropriate investment, as the few funds that focus on the sector are mostly aimed at institutional investors.

Some investors choose to buy timber-focused shares, such as those of [Rayonier Inc.](#), [Plum Creek Timber Co.](#), a real-estate investment trust, and [Pope Resources LP](#). But some analysts warn timber prices are due for a fall. And Mr. Tuttle notes these shares often rise and fall with the stock market, rather than with timber prices.

Q:Are convertible bonds attractive for individual investors? What's the best way to invest in them?

A:Convertible bonds took a drubbing last year. These investments—which pay a yield like a bond but can be converted into shares of a company at a certain stock price—tumbled by 30% or more in 2008 as hedge funds, dominant players in this area in recent years, dumped investments to raise cash.

Lately, though, investors have been sniffing out bargains, attracted by an investment that pays a yield but also enables investors to profit if stocks keep rising. Convertible bonds have climbed more than 40% this year. Mr. Tuttle recommends an exchange-traded fund, the [SPDR Barclays Capital Convertible Bond ETF](#), that tracks the returns of U.S. convertible bonds with outstanding issue sizes greater than \$500 million. It's up more than 12% over the past three months and has an expense ratio of 0.40%. He also likes the [Calamos Convertible](#) fund, up 8% over the past three months, and the [Greenspring Fund](#), which is 50% in value stocks and 50% in convertible bonds and is up more than 5% over the past three months.

John Lekas, senior portfolio manager of [Leader Short Term Bond Fund](#), recommends convertible bonds issued by [Penske Automotive Group Inc.](#) and [ProLogis](#), a real-estate investment trust.

Convertibles don't usually do as well as stocks in a bull market, however, nor do they provide the protection of Treasuries or some other bonds in a sell-off. And they can be harder to analyze than stocks since they combine an equity and debt investment.

Also, many convertible bonds are issued by lower-rated companies, so buying individual securities, rather than a fund, can be dangerous.

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