Farmland as an Investment

A Brief Comparison between Farmland and Traditional Investments

For many Canadian investors, the idea of including agricultural land in their investment portfolio isn't even on their radar screens. The vast majority of Canadian capital has been placed in more traditional vehicles, such as stocks, bonds or savings accounts. Even for those that hold real estate as a part of their securities, owning farmland is probably not high on their list of priorities.

Part of the reason for the lack of interest in rural dirt is likely due to its perceived boring nature, the "Country Hick" perception of many urbanites and last but not least, unadulterated ignorance of one of the best investment opportunities over the last thirteen years, with average annual returns (equity and dividends) exceeding 10% per year, every year.

Despite the low profile, agricultural land is rapidly replacing blue chip stocks as the investment of choice for "widows and orphans" because of its steady continuous growth and high annual dividends. In fact, a Guelph University study of southwest Ontario shows that a full one third of agricultural landlords are actually retired couples or widow(er)s.

The purpose of the side by side comparison between traditional investments with farmland is to prove beyond a shadow of a doubt why the latter should be considered as an integral part of any investment portfolio.

Equity Stocks

A stock market is a public body for the purpose of buying and selling equity securities (stock, also known as company shares), debt securities (banknotes, bonds and debentures), and derivative contracts (forwards, futures, options and swaps) at an established price. The securities and derivatives are listed with their corresponding real-time prices on a stock exchange.

One of the most important functions that a stock market serves is to offer a method for companies to raise money by opening company ownership to the general public.

In this way, shareholders supply money to the company for capital expansion or acquisition, and the company provided fractional ownership to the shareholders.

The benefit the stock exchange provides for the investor is the ability to buy and sell stocks quickly and easily. This liquidity that an exchange affords is an attractive feature for traders who are actively involved in capitalizing on brief upwards and downwards stock movement.

The largest stock market in Canada is the Toronto Stock Exchange, more commonly known as the TSX. Although the TSX trades shares in a broad range of corporate and government equities from Canada, the United States and Europe, it is the world leader in the number of listed mining and oil and gas companies it has on its books.

As the third largest stock exchange in North America behind the New York Stock Exchange and the NASDAQ, the TSX is also the seventh largest in the world based on market capitalization.

Generally speaking, the total value of shares in a given exchange is a reliable indicator of the economic activity and corresponding social mood within the jurisdiction represented by the exchange. A positive feedback loop forms when rising stock prices result in higher investor confidence which in turn fuels ever higher stock prices, eventually resulting in a stock market bubble.

Historically over the long term, the Canadian and U.S. equity markets have shown a rise in price greater than the rate of inflation and long-term growth is the primary reason many people invest a portion of their retirement savings in equity stocks. Unfortunately, the stock market will sometimes react irrationally to economic or financial headlines even if the news is completely unrelated to the fundamental value of the securities themselves.

The perfect example of this phenomenon happened on "Black Monday", October 19, 1987, when the Dow Jones Industrial Average (The Dow) lost 22.6% of it value. Although it was the Dow's biggest single day percentage decline, no reasonable motivating factor for the crash has ever been detected.

While many of today's investors were not around to experience the brunt of the great depression that started in 1929, the North American stock indices have exhibited six major stock market corrections in the last twelve years, not counting the European debt crisis which we are still experiencing or "Fiscal Cliff" that is hanging over North American markets like the sword of Damocles.

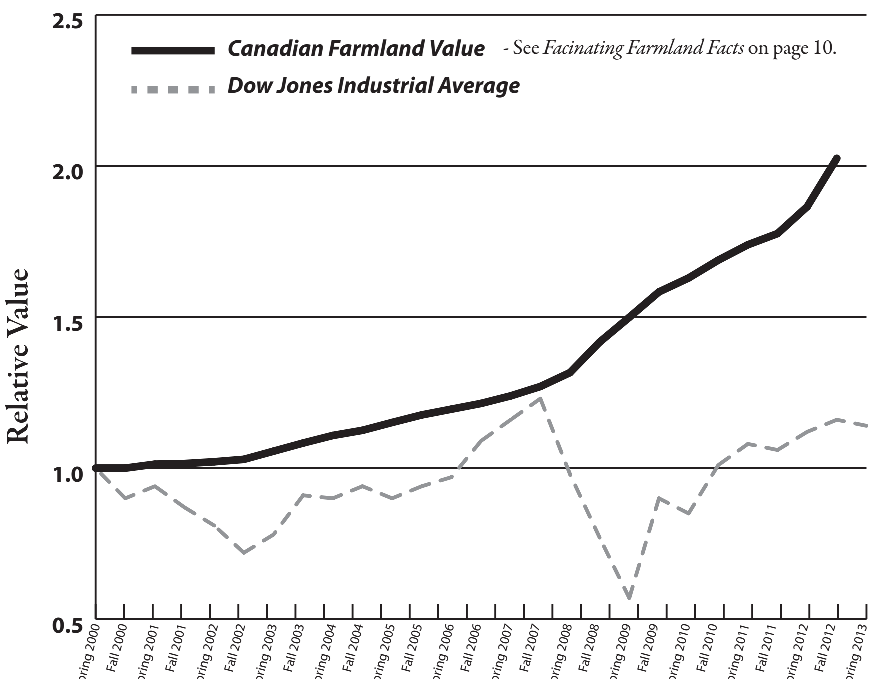
Not only have these price plunges hampered the long term equity returns, but many investors experienced severe anxiety as they periodically watched their retirement investments go up in smoke.

Listed on the following three pages are comparisons between the three major stock indices and the value of Canadian farmland. See *Facinating Farmland Facts* on page 10.

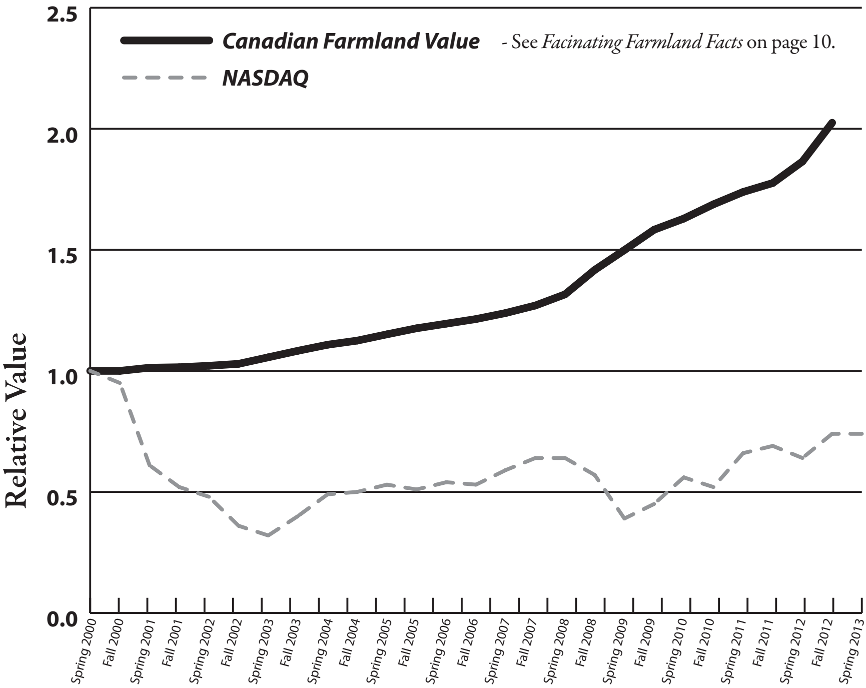
The first thing that catches the eye when the value of Canadian farmland is compared to stock market indices is the steady growth of agricultural land versus the wild swings of the stock market. Since the Dow Jones Industrial Average (The Dow) first moved above the 10,000 barrier on March 29, 1999, it has crossed the 10,000 mark 34 gut wrenching times to date (December 31, 2012). The other aspect that jumps out of these comparison graphs is the disparity in the amount of equity gain. From January 1, 2000 the value of rural acreage has more than doubled over the last 13 years for annual compounded return of 5.5%.

The Dow, however, started the year 2000 at 11,497 and in the ensuing 13 years has managed to rise an incredible 1607 points to 13,104 (December 31, 2012), a whopping increase of 14%; less than 1% per year, much less than the rate of inflation.

A Comparison of the Value of Canadian Farmland to the Value of the Dow Jones Industrial Average



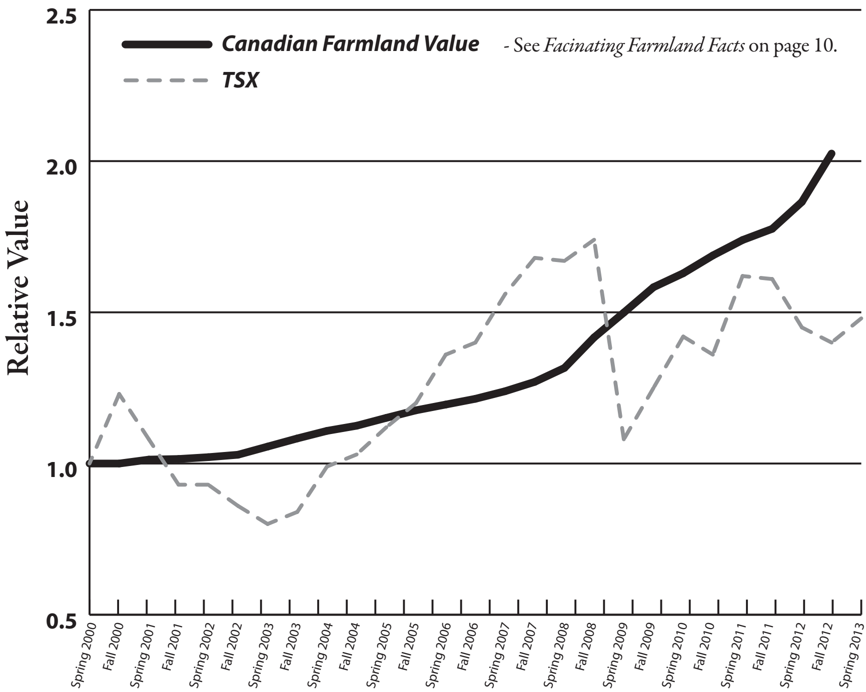
A Comparison of Canadian Farmland Values to the Value of the NASDAQ Composite Index



Graph Farmland Value Vs NASDAQ

A comparison of farmland values to the NASDAQ is even more bleak. The exchange started 2000 at 4069, and after a brief rise to its record high of 5048 on March 10th 2000, it plummeted to 1140 on October 4, 2002 and has gradually clawed its way back to its current 3020 (December 31, 2012), a loss of 1049 points (-26%) in thirteen years.

A Comparison of Canadian Farmland Values to the Value of the TSX Composite Index



Graph Farmland Value Vs The TSX

The spread between the TSX and agricultural land is a little more forgiving. The TSX closed on December 31, 1999 at 8414 and since then has progressed to 12,434 (December 31, 2012 close) for a gain of 4020, approximately 44% or about 2.2% compounded over 13 years, just a shade higher than the rate of inflation. (For the entire 2012, the TSX gained a paltry 3%, while marginally beating inflation, it wasn't anything to write home about either.)