

# THE WISE AG UPDATE



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## COMMENTARY by Murray Wise



This month I present a number of Random Thoughts.

### Barton Biggs

In another page of this newsletter you'll find an article about Barton Biggs and his 1988 prediction that investing in farmland would be very profitable in the future. As it happens, I also wrote an article about that time entitled "The Contrarian's Case for Investing in Midwestern Farmland." We had many of the same thoughts, though I suspect his had a more widespread effect among investors because I was "in the business" of farmland marketing and he was a general investment advisor. The Morgan Stanley platform probably didn't hurt either!

In any case, check out what he had to say. He and I were both right!

### Investors: Don't be Frightened Off by High Land Prices

It's difficult to pick up a newspaper or investment newsletter these days without coming across an article about the historically high price of

quality farmland. And I think all that publicity is having an impact on demand. Some investors may be hesitant to enter a market at it's perceived high point.

Now, as readers know, I firmly believe we remain in a bull market for farmland and expect many more years of increasing value (see the comments of the Barton Biggs article referenced above). The rate of increase is not likely to remain as high and there may even be periods of "adjustment" but the trend will remain accompanied by some volatility.

A decade or so ago, quality farmland in Illinois was selling for about \$4,000 and acre and today we regularly hear of \$10,000 for top quality land. Investors could look at that and feel their feet get cold. However, take a look at the cash flows. The \$4,000 land generated cash rent of \$160 and acre. Today's \$10,000 land will rent for \$400. A quick trip to the calculator and I find the same 4% cash on cash rate of return.

Now, take a look at recent cash returns available on CDs, the bond market, or anywhere. Farmland investment remains a strong alternative.

### Why Some Sales Get Crazy High

As above, we all hear about the \$15,000 an acre sale in northwest Iowa followed by a \$20,000 per acre deal and just shake our heads. Why would prices be that high?

Well, first of all, they aren't that high. Such sales...and there are some...are very few. They're statistical outliers, the exceptions that prove the rule. I think we are all aware of that. However, in examining some of these sales, I see some common denominators. The first commonality is a negative: there are no investors involved, only neighboring farmers. Then, they usually involve one of two situations: Competition between what I will call "un-fond" neighbors or livestock feeders.

Neighbors who don't like one another are occasionally subject to irrational bidding. You might call it the "spite" effect.

See COMMENTARY, page 2

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COMMENTARY *CONTINUED*

Livestock feeders on the other hand see double value in quality farmland because they need acres over which to spread their feedlot by-product. To remain in compliance with their EPA permits, they must have sufficient cropland to support their herd. This second utility makes the land more valuable to them than for the mere

raising of crops. Their bids often reflect this enhanced value.

**Our Logan County Auction**

We just completed a very successful auction in Logan County Illinois. You can read about it in detail on page 3, but I wanted to make a brief comment. I thought it was significant that the

buyers were local people who know the land better than anyone.

For more random thoughts, make sure to visit my blog on our website at [www.murraywiseassociates.com](http://www.murraywiseassociates.com).

## BARTON BIGGS AND THE HANDWRITING ON THE WALL



In 1988 Barton Biggs, then Chairman of Morgan Stanley Asset Management, Inc, wrote an essay in which he envisioned investing in farmland as one of the real opportunities of the future. Of course he was writing in a period following a farm recession, but if we examine his reasoning, we find it is still relevant today. Take a look at these quotations from the essay and our thoughts on their effect on trends today.

*"First, Midwestern American farmland is the best grain-growing acreage in the world. There is no land anywhere that has comparable topsoil densities and is as fertile. The weather provides a perfect combination of heat and moisture and the topography is ideal."*

In our judgement, his point remains valid today. We have some worthy competitors in South America and other regions, but our advantages remain...and we also have a transportation infrastructure edge that complements those advantages.

*"The land, if farmed properly, has an infinite life so it is a self-renewing factory."*

Even more true today as American farmers take advantage of state of the art techniques to improve yields while preserving and enhancing soil quality.

*"The supply (of farmland) is finite and dwindling, and at the same time the world's demand for food is growing exponentially not only with population growth, but also with rising standards of living."*

See China, India and others. The Pacific Rim includes several of the most dynamic economies in the world today. What may have been a prophesy at the time is reality today.

*"...our studies...show that farmland is the best hedge against inflation."*

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***"There is...the psychic benefit of going out and walking the black soil of the back 40."***

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Inflation may seem a tamed tiger today. However, might bureaucrats at the world's largest debtor see inflation as a part of their solution? Ignore planning for the risk of inflation at your peril. Farmland remains the best hedge...and produces cash income as well!

*"Also, the standard deviation of farmland returns is much lower than that for equities, long term bonds, or gold."*

*"...the return pattern for farmland correlates negatively with that of financial assets and has a very low correlation with other real estate."*

Using standard deviation as a proxy for risk in analyzing alternative investments makes sense today as well. And, the negative correlation with financial assets means investing in farmland remains a valuable portfolio management tool on top of everything else.

*"There is...the psychic benefit of going out and walking the black soil of the back 40."*

We know many investors who began as sentimental owners of the family farm ground, but we also deal with hard nosed investors who see the tangible, boots-on-the-ground nature of farmland as an advantage to their acquisition. This one's hard to measure, but our experience would indicate it's a real effect.

Mr. Biggs used a number of analytic techniques in addition to some intuition to develop his thesis. Now, these many years later, he has been incorrect only in his assessment of the rate of return farmland has generated. Mr. Biggs suggested investing in farmland would make one rich *slowly*. ♦

## AN INTERVIEW WITH A SATISFIED CLIENT



### Press Release: Logan County Farmland Brings \$2,675,000

Lincoln, IL (Dec 1 2011) A 302 acre farm in Logan County, IL sold to five different bidders for a total of \$2,675,000 Wednesday—an average of \$8,857 per acre. Murray Wise Associates managed the sale, which attracted 30 registered bidders to the American Legion post in Lincoln.

Sounds good, but one might expect a public relations release to make the best of the situation in any case. Were the sellers actually as pleased as the release makes it seem they should be? We decided to talk with the sellers and find out.

Jim Perry is a business man who was part of the family group that wished to sell the farm. We caught up with him for a phone conversation a few weeks after the sale took place and he graciously agreed to discuss the process as he saw it.

After the family decided to sell, he told us he spent a lot of time trying to select the right system or firm to market the property. “I talked with realtors in several communities and with varied backgrounds, but I just didn’t think any of them seemed capable of truly marketing the farm.” He was frustrated because he wanted to make sure the sale was successful for he and the other members of the family.

Finally, the answer to his dilemma came from an unlikely source. “I was visiting with an old fraternity brother of mine in a cabin in Michigan and told him what we were doing. I just wasn’t satisfied with the potential

marketers I’d talked with. They didn’t seem to have a real plan for marketing the ground.” Now, as it turns out, his friend is a reader of these newsletters and felt comfortable enough to suggest Mr. Perry give Murray Wise Associates a call.

“When I returned I did a little research on the firm, then called and told them what I wanted to do and what I expected from a representative. What I got back from Joe (Bubon) and Kenny (Schum) was exactly what I



wanted. It was a complete marketing plan laying out what they would do, how it would get done and when. I was impressed. I even sent a copy to my friend as I wanted him to see what he’d help me get involved in.”

After settling the necessary arrangements and details, Joe and Kenny began executing the marketing plan. Mr. Perry was pleased to see that things were being done as promised and working as anticipated. “They were in Lincoln eight or ten times. They talked with local farmers

and bankers. Anyone who might be interested. Very thorough. I was very impressed.”

Arriving at the sale site on the big day, he found a good crowd. He told us, “There were a lot of people there. Lots of qualified bidders.”

Mr. Perry was also impressed with the professionals who ran the auction. The property was divided into five tracts and initially there was an aggressive bid for the entire property. However, gradually bidders on individual parcels came to the fore. “They really worked it hard. Back and forth between bidders and got six or eight people involved in the competition.” When it was over, five different parties had combined for what Mr. Perry considered a fine result.

“They had made an estimate of what the total would be before the sale and the eventual result was very close, exceeding their guess slightly. They are truly professional. They know what they’re doing.”

In summing up his experience, Mr. Perry once again emphasized the professionalism. “The key to me was the initial proposal. The execution was excellent, but the proposal was complete and thorough. It set Murray Wise Associates apart from the others. I would call these guys the ‘Subject Matter Experts’”.



# THE WISE AG UPDATE

## COMPANY NEWS



### *New Associate Richard Brown Will Concentrate in the West*



Murray Wise Associates President Ken Nofziger recently announced that he had successfully convinced **Richard Brown** to join the firm on a full


time basis. Mr. Brown has been serving as a consultant on projects undertaken by Murray Wise Capital. Now the new Vice President will bring talent, and experience to the full range of company activities, opening a new branch office in Idaho Falls, Idaho.

"We are delighted to bring (Richard) on full time," Ken told us. "He will

be actively involved in all areas of the business—financial advisory, land auctions, and farm management—with a particular focus on Utah and Idaho."

Richard earned his bachelor's degree from Brigham Young University and, after several years of experience at financial institutions, received his MBA from Duke. He's worked with several institutional asset management firms, specializing in analysis and identification of opportunities in agriculture.

Ken says that bringing Richard on board is another in a series of steps intended to infuse Murray Wise Associates with the sort of young, innovative talent necessary to take advantage of opportunities the firm sees developing. Many of those

opportunities can be found in the West and Ken expects Richard to amplify the company's presence in the region. 

## RECENT SALES

\$3,503,200 – February – 381± Acres in Vermilion County, IL – Productive Illinois Farmland

\$845,000 – February – 347± Acres in Mason County, Illinois – Golf Course CRP and Farmland

\$3,895,000 – February – 430± Acres in Boone and Webster Counties, Iowa – Productive Central Iowa Farmland

