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MONEY WISE

MONEY REALLY DOES GROW ON TREES

Figuratively speaking that is! As investors struggle with the vagaries of the financial markets and the falling value of paper money many are turning to 'real assets' as a means of preserving their wealth. Real estate is an example but when you need cash in a hurry you cannot sell a bathroom. Other real assets include gold, other commodities, collectibles such as works of art and agricultural products. Let's just consider what investment opportunities we can actually find growing on trees, or in the case of Agarwood within the tree itself.

But first we should consider the environment

There is much debate on the negative impact of irresponsible agricultural developments. Every day an area of rainforest the size of New York City disappears. Throughout South East Asia we are seeing pristine forests that stood for millions of years being replaced by vast palm oil plantations. Many countries are getting concerned about the damage being done to the planet. France has just announced plans to impose a penal tax on the import of palm oil. Other countries could move the same way. But there are plenty of other products that are available to investors who want to keep the planet green.

Bamboo – the wonder plant

In pre-historic times bamboo would grow to heights of over 85 meters. It is still the fastest growing plant on the planet. In recent years the harvesting of hardwood has become more and more a challenge as forests become depleted and environmental concerns grow. Fortunately bamboo offers a viable alternative.

Every part of the bamboo plant has a value. Trunks are used for flooring, construction and furniture, midsections can be woven into mats and food can be produced from the shoots. The sawdust created during milling can be used to make high grade paper.

As for the contribution of bamboo to the environment, it reduces erosion as its roots and falling leaves absorb 90 percent of rainwater compared to between 35 to 40 percent by other trees. Bamboo forests provide habitat for wildlife. They also function as the lungs of the earth as they absorb far more carbon dioxide than other trees covering a similar area.

A single clump of bamboo can produce 15 kilometres of marketable wood. The world market for bamboo is currently valued at \$10 billion. This is expected to reach \$20 billion by 2015.

Agarwood – a resin worth more than its weight in gold

In the forests of South East Asia, including Indonesia, an evergreen known as the Aquilaria tree grows. Roughly 1% will become infected by a fungus which spreads from deep in the heart of the wood. As a result of natural resistance to the fungus, a thick dark brown resinous core is formed. The resin is known as Agarwood which for centuries has been one of the most prized and valued aromatic resins in the world. The resin is used for medicinal purposes, as an additive in up-market brands of cosmetics, in aromatherapy and in religious ceremonies.

It is so valuable that farmers would cut down 100 trees to find the one containing the prized resin. Fortunately this destruction is no longer necessary as the trees can now be scientifically injected so that every one produces high quality Agarwood. This solution is a win for nature, a win for man and a win for investors.

Jatropha – the biodiesel ‘Miracle’ tree

There is considerable pressure in the world to rely less on fossil fuels for our energy needs. There are some very clean alternatives such as geothermal, wind turbines and solar energy. The capital investment required however is still high in terms of the immediate returns. Nuclear energy is also considered a ‘clean’ alternative but the recent disaster in Japan has shown the devastating effects of a nuclear accident.

Fortunately there is an option that can help to meet energy needs without destroying forests and depriving people of food. The option is Jatropha, an inedible plant that can grow in the most miserable of soils and in any warm climate, whether tropical or arid. It can survive on as little as 200mm of rain per year. Its seeds contain up to 40% oil which can easily be processed into high grade diesel fuel. The quality has already been demonstrated in trials by several airlines, including Air New Zealand.

What are the investment returns and risks?

For those who can accept the risks of 'outside the box' investments returns can be expected in the range of 10% to 15% per annum. But investment opportunities are generally unregulated and subject to unknown risks so would not be appropriate for the small investor who should stick with more conventional assets such as cash, stocks, bonds and property. But for the adventurous and well-heeled investor a little planting of 'money seeds' can lead to a useful financial 'harvest' and can also contribute to a greener world.

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