Diversifying Farmland Portfolios

No matter what you're putting your money into, investment is all about balancing the risk vs the reward. That principle is true for investing in farmland, too.

And part of making sure you tilt the momentum toward the "reward" side of the equation is making sure your portfolio is diversified. In other words, you have to make sure one asset doesn't dictate how your entire portfolio performs.

Usually, this means spreading your investments out among different industries, different kinds of stocks, etc. But when it comes to reducing your risk in farmland investing, you have to diversify what the land is producing, where your land is, and more. Otherwise, you're even more at the mercy of market conditions, weather and natural disasters, or other factors outside of your control.

When you're starting your farmland investment journey, it's important to look at the factors you can control, including the top ways you can diversify your farmland portfolio. You'll want diversity in:

Water Availability

Many regions of the country are experiencing severe drought and aquifer depletion problems. For example, California's central valley, where the majority of the nation's lettuce, strawberries, and almonds are grown, is an amazingly fertile area — when the weather cooperates. When the region has regular snowfall in the Sierras, plus summer rains, it's one of the most productive regions in the world. But the Valley's aquifers are drying up, and farmers there have been in historic drought for years.

Outside of California, the Ogallala aquifer in the Midwest is drying up in areas where it isn't recharging adequately. And in many areas, it is drying up completely. Aquifer scientists say it would take 6,000 years to refill — a huge concern, considering the reservoir is in the nation's "breadbasket," where one-fifth of U.S. agricultural production occurs.

Both California and the Midwest are great areas to invest in, but one should be aware of the potential water risks. The Southeast, and Georgia in particular, have excellent aquifers that recharge quickly. In addition, they get an average of 45 to 50 inches of rainfall annually.

At the end of the day, minimizing water shortage risk is critical, so a mix of regional investments should always be in the farmland investor's mind.

Weather patterns

You might think that diversifying your portfolio by investing in land with differing weather patterns means you have to look at vastly different areas of the country. And sometimes that's true. It could be helpful to invest in land in both the Heartland, the West Coast and the Southeast. One should realize, sometimes weather patterns can vary within a state, or even within a small region of a state. For example, one parcel of land you own could be near a river or the coast and experience higher chances at flooding during certain seasons. Meanwhile, on the other side of the county, you own another parcel that's on higher ground and a good distance away from any body of water, which insulates it from flooding risk.

Weather patterns can vary drastically because of location, wind patterns, over-farming practices, the effects of seasonal events like La Niña and El Niño, history of long-term droughts, and more. So it's important to diversify your farmland portfolio by investing in tracts with various weather patterns. That way, if one area gets too much rain one year, for instance, you can lean more heavily on your other holdings to make up for the income loss. Having all your assets in a region that's frequently the victim of drought could spell disaster for your investment income long-term.

Crops / commodities

The easiest way to diversify your farmland investments is to make sure your land is producing multiple crops or commodities. Relying solely on the wheat crop, for example, leaves you particularly susceptible to climate or market conditions specific to that crop. But when your land is producing multiple products, you keep your options for income open, even if one crop is struggling that season.

That's why all Field Yield land includes acres ready to farm row crops, but also acres of timber: having multiple options for income on your land insulates you against risk.

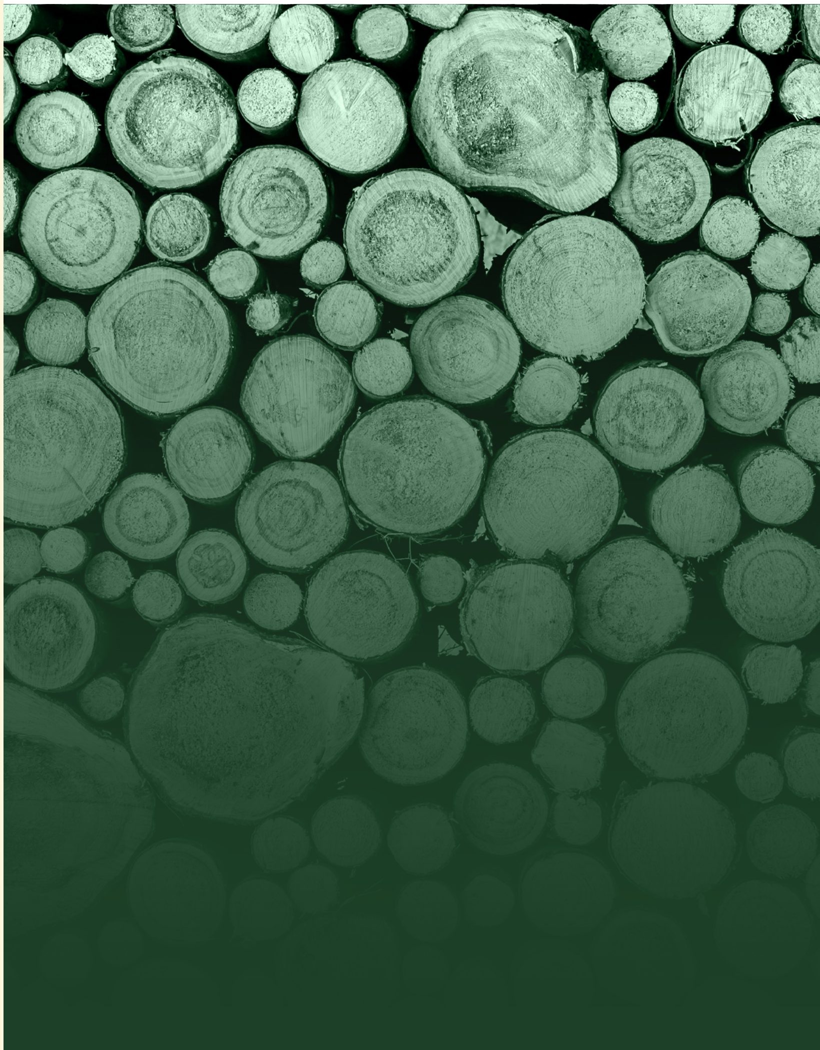
Diversifying the crops and commodities you produce also helps you maximize the land you have. Arrange the crops in a way that they grow in different areas at different times of the year; that way, your farmland is in use year-round, with little down time.

Tenants

When you're looking to diversify your farmland portfolio, looking to the land (what's being grown and where) might be the first thought. While that's important, looking to diversify in people is vital, too.

If you've chosen to charge cash rent to earn income from your farmland investment, you'll want to think about diversifying the types of tenants you work with. For example, depending on geographic region or their own experience in agriculture, different farmers could be used to different rent structures, have larger (or smaller) teams to help them, be accustomed to different farming methods, and more.

So, don't just invest in different types of land: choose to work with different types of growers. Producing only one commodity (and relying on it solely for your income) is risky. But so is only working with corn farmers from the same county in Iowa, for example.



Geographic area

Owning farmland in a variety of regions throughout the country is an excellent diversification strategy for your farmland portfolio. When you focus your investments solely in one region or one county, you're dependent on that area's weather, local laws, market conditions, etc. But when you spread out your investments among different regions, you alleviate some of that risk. Sure, weather and water access will always be a factor, in any region in the world. But if there's a huge drought in one region, and you've got land in a state 500 miles away, your luck might fare a little better. Different states also have different agricultural laws and regulations, as well as access to different varieties of seed and natural resources. Depending on a region's climate and agricultural history, they might also have different farming methods at their disposal.

For example, here's an idea of farming conditions in different regions of the U.S. Your income could vary drastically, depending on where you invest.

When you buy farmland through Field Yield, we help you navigate the questions about where to invest, how to diversify the land you own, and what you can do to protect yourself against investment risk. We actively manage the investments we offer to maximize value for our investors. Investing in farmland is a solid opportunity for return, but requires smart balancing of risk to see the rewards.

Still have questions? Contact us at FieldYield.io

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