# *Mitigating Risk* in Farmland Investing

**"Risk-taking is an inevitable ingredient in investing, and in life, but never take a risk you do not have to take."**

That quote is attributed to investment manager, financial historian, and economist, Peter Bernstein. He may have been talking about general investment principles, but what he said holds true specifically in agricultural investing, too.

With that in mind, how do you know how to reduce your risk in farmland investing? How do you know which risks you do and do not have to take? How do you mitigate the risks you are taking to ensure your return on investment?

You can't plan for everything the investment world throws at you. And there are plenty of factors outside your control. But here are a few simple ways to reduce your risk in farmland investing:

## Be patient with the appreciation process

It can be easy to get short-sighted when it comes to investing. But you stand to gain a lot if you stay patient.

Farmland value has been steadily climbing up over the past decade plus. And with available farmland decreasing (but demand for food and commodities increasing thanks to a steadily growing worldwide population), that trend is predicted to continue. As demand increases and available farmland decreases, the value of the arable land remaining will go up. The longer your holding period for your farmland, the more that asset can appreciate.

Of course, there will be fluctuations in the market, as with any investment or industry. But those fluctuations tend to be short term. Stay patient, and you'll likely reap the benefits. (Field Yield, for example, recommends 10-year investment periods).

## Thoroughly vet your offerings (and purchases)

Let's say you've finished up a long holding period for some farmland you own. Its value has appreciated to a point where you feel comfortable in the profit you can get from the current market. So you decide to sell.

The selling phase is not the time to lose your patience, though. It can be tempting to just want to get the whole process over with, and take the first offer you receive. But make sure to thoroughly vet that offering before saying yes. Is the buyer legitimate? What kind of money will change hands up front and what will be paid out in installments? If you waited a little longer, could you get a better offer (and better return on your long-term investment)?

This principle goes for purchasing farmland too. Make sure you're not just signing a check for the first parcel of acres you come across. What kind of land is this? What will it grow? What's the chance for that land to be impacted by climate change or natural disasters in the future? Will you be able to find someone to farm the land in that county?

Investing through Field Yield takes the stress out of those questions, no matter what side of the coin you're on. We do all the up-front land vetting, so you can be confident knowing your hard-earned money is being invested into land that will give you the best chance at success.

## Lean toward cash rent / passive income, instead of relying only on dividends

Income from Crop Share Agreements, REIT investment, and/or custom farming, by definition, are risky. Your return on investment solely depends on the cash flow being generated by the specific crops or commodities your farmland is producing. And if those products fail (or don't meet expectations) in a given year, suddenly your income is impacted.

That's why one mitigation strategy is changing the way you earn your income. Relying on cash rent instead of CSA, custom farming, or REIT dividends is a more predictable, dependable method of earning your money. (In other words, you own the land, then charge rent to the farmers working that land). The rent amount the farmer pays is agreed upon before crops are harvested, and doesn't change, no matter how productive or unproductive a given season is for your crops. This kind of stability is huge if you're hoping to mitigate your risk in farmland investment.

## Purchase farm / crop insurance

If you do choose to go the dividend route, it's important to purchase crop insurance to reduce your risk. With a robust crop insurance policy, you can rest assured that you're covered, even if natural disaster strikes, or a similarly negative event impacts your harvest.

Even if you're not earning income solely from dividends, you should still purchase farm insurance. As the owner of the farmland, it's still vital to protect yourself in the case of fire, flood, tornado damage, or other disasters that could permanently impact the value of your land.

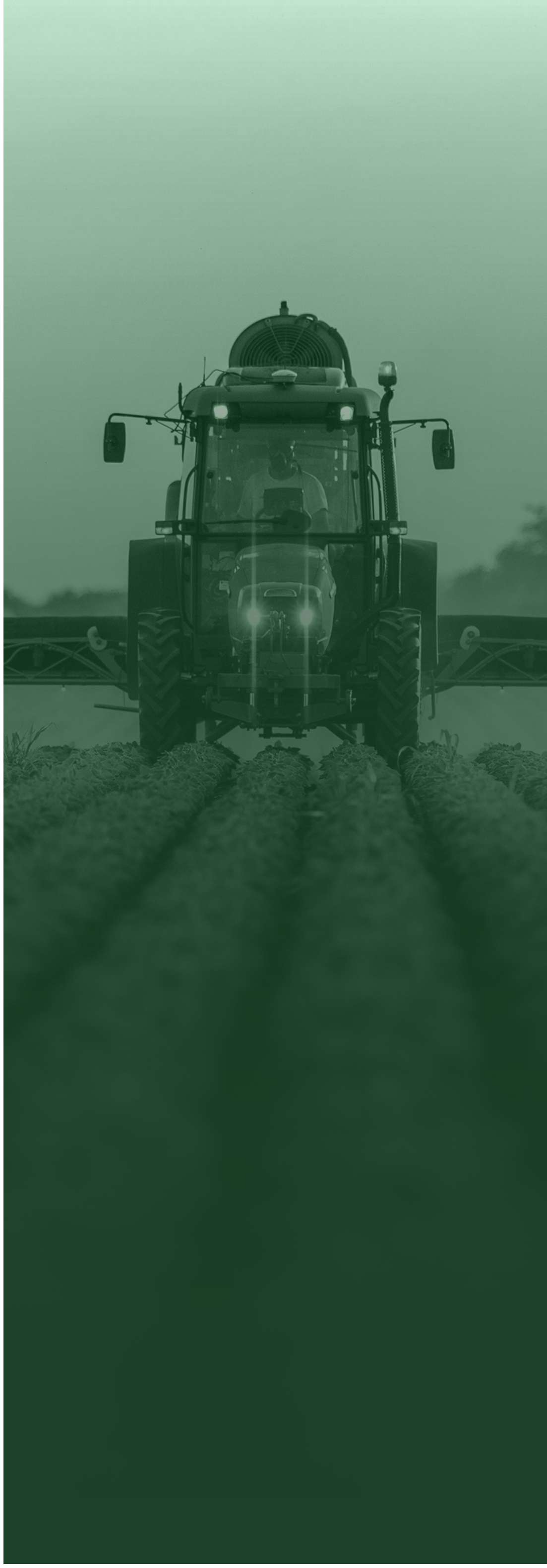
## Diversify, diversify, diversify

This is the tried and true principle in all investing, and it's no different within the agricultural investing sector. Don't put all your eggs in one basket.

You can diversify your farmland portfolio by producing multiple crops or commodities, investing in land in various geographic regions, and purchasing land that has ample water access and predictable ample rainfall.

Reducing your risk may also mean evaluating the risk factors associated with each individual crop. For example, is the crop you're wanting to produce particularly susceptible to drought? With droughts continuing to increase in severity and frequency, farming crops that are especially sensitive to dry weather carries higher risk.

Take a look at the market, too: for example, you might be tempted to grow something other than corn, soybeans, or wheat because you want to corner a different market. But the demand for those three crops is also enormous, and it could potentially be riskier to not farm those things, if your land is able to.



# Still have questions?
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