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Abstract: Composite price indices can be used for such important applications as assessing relative investment performance, undertaking portfolio allocation, timing purchases and dispositions, and the development of risk-management tools. After describing a composite hardwood sawtimber index, we will address three objectives: (1) to assess the relative performance of hardwood sawtimber prices versus both softwood sawtimber prices and general inflation indicators; (2) to measure the closeness of tracking of a composite hardwood sawtimber index versus composite hardwood green lumber and softwood sawtimber indices; and (3) to analyze the impact of the form of weighting factor (of one species versus another) used in the construction of the hardwood sawtimber price index on both relative performance and tracking. Timber Mart-South publishes quarterly average price data for two southern hardwood sawtimber categories: oak and miscellaneous hardwoods. In this paper, we will describe a composite hardwood sawtimber index which uses comparable-price data collected by forestry consulting firms for five major hardwood species categories: black cherry, hard maple, red oak, white oak, and yellow-poplar. Relative performance and closeness of tracking will be compared to the south-wide Timber Mart-South pine, oak, and miscellaneous hardwood indicators as well as the Hardwood Review Green (Lumber) Index and general measures of inflation. Potential explanations for deviations will be offered. The form of weighting factor used can have a material impact on a composite price index. This issue has been thoroughly explored in conjunction with various stock market indices. We will explore the relative impact on both relative performance and closeness of tracking from using five alternative species-weighting methodologies: (1) an equally weighted method, (2) a species-price-weighted method, (3) a timber-inventory weighted method, (4) a lumber-production weighted method, and (5) a timber-inventory, market-value weighted method.

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