



Forisk Stumpage Forecast

Our Philosophy

Forecasting is about identifying and understanding relationships in historical data to infer future conditions and take positions on results moving forward. From one perspective, this is a fool's errand, attempting to divine future results, such as prices, supply, and demand. However, decisions associated with allocating capital and resources for investments and future operations demand some assessment for determining the optimal maneuvers given what's knowable. As such, a systematic approach to summarizing and evaluating available data for supporting these decisions can help mitigate risk and optimize opportunities for maximizing returns.

Forecasting has achieved a somewhat mystical status. This is undeserved. High dependence on a third party forecast is simply an exercise in transferring responsibility and accountability. Elevating the role of a forecast supports this self-supporting mythology and discounts the primary importance of prudent analysis, focused objectives, and rigorous implementation. However, an open forecasting effort, where the key decision makers use the analysis as an opportunity to test assumptions, explore scenarios, and develop risk management plans, can further strengthen a disciplined investment or operating team. The fact is that business entities of all types continually operate in uncertain environments, yet decisions must be made and opportunities pursued.

We celebrate the experienced operator and investor who understand their ability to harness quantitative analysis with common sense, intuition, and insight. We firmly believe in quantitative forecasting as a tool that supports on-the-ground knowledge of markets, assets, and operations. We also believe that effective forecasting benefits from judgment and qualitative understanding. A forecast tells a story, a view of how the market functions. A forecast with no basis in understanding cannot support decisions moving forward. And a view of the market divorced from insights derived from robust data and analysis must be viewed as willfully ignorant.

How far the pendulum can swing! To one side, the quantitative PhD steeped in theory, pools of data and sharp-edged models fails to consider the real and practical decisions to be made. On the other side, the long-tenured operator dismisses the insight and advantages available from applying quantitative analysis. The effective forecast is a tool, a light saber to cut down confusion, but one that yields its greatest boost in careful, experienced, and bold hands.

We apply forecasts in a range of long and short-term assessments of business and market conditions. Long-term forecasts support major capital allocation and strategic planning efforts. They help leaders and executives dictate the direction of an operation or organization. Short-term forecasts support tactical, operational efforts. They support the management decisions associated with timing, direction, and magnitude. The models we build can have a top-down macro view or a bottom-up micro approach. Which approach we choose has as much to do with the decision to be made as with the data available, and our understanding of the forces at work.

In theory, building a forecast is straightforward. First, collect data. Second, organize and reduce the data. Third, build the model. Fourth, forecast and test results with judgment. Fifth, revisit and refine. Properly collecting and understanding the strengths and limitations of the data are, in our view, as



important as any aspect. Without testable, useful, reliable data, quantitative analysis would suffer and, once exposed, wither in a sea of scornful questions.

At the end of the day, we forecast to mitigate unwelcome risk and identify slivers of advantage associated with operating and investment decisions. To serve well, a forecast must be deployed by those with judgment and the power to make decisions. Our role in this exercise is to build the best forecast we can, and support it with lucid, practiced coaching on the strengths, weaknesses, and insights available from its application.