

Managing Risk in an Era of Higher Price Volatility

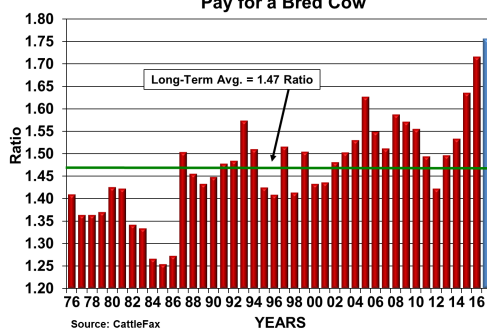
- Where do I start?
- What should I follow?
- What tools should I consider using?

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Managing Your Inventory

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Number of 550 lb Steer Calves Needed to Pay for a Bred Cow



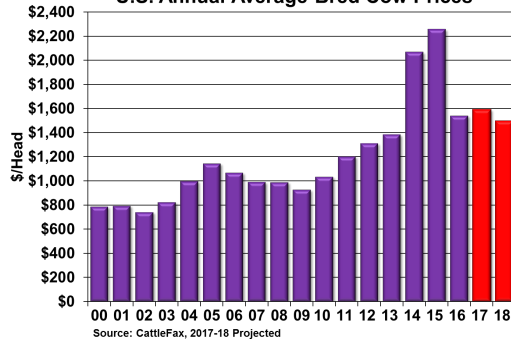
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How Much is a Bred Cow Worth?

550-lb. Calf Price	Bred Cow at 1.4x	Bred Cow at 1.5x	Bred Cow at 1.6x
\$100	\$770	\$825	\$880
\$110	\$847	\$908	\$968
\$120	\$924	\$990	\$1,056
\$130	\$1,001	\$1,073	\$1,144
\$140	\$1,078	\$1,155	\$1,232
\$150	\$1,155	\$1,238	\$1,320
\$160	\$1,232	\$1,320	\$1,408
\$170	\$1,309	\$1,403	\$1,496
\$180	\$1,386	\$1,485	\$1,584
\$190	\$1,463	\$1,568	\$1,672
\$200	\$1,540	\$1,650	\$1,760

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U.S. Annual Average Bred Cow Prices



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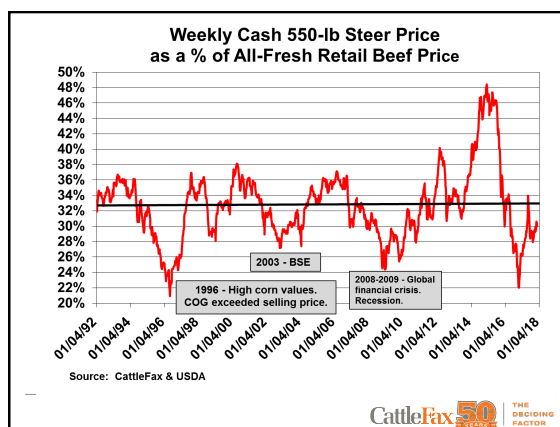
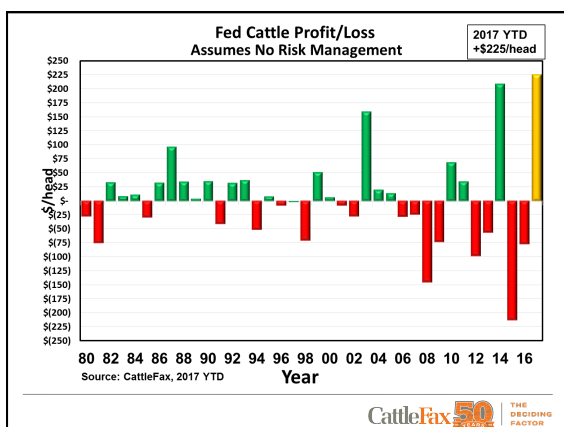
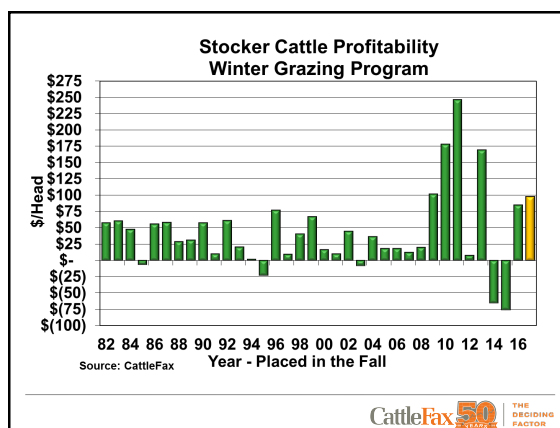
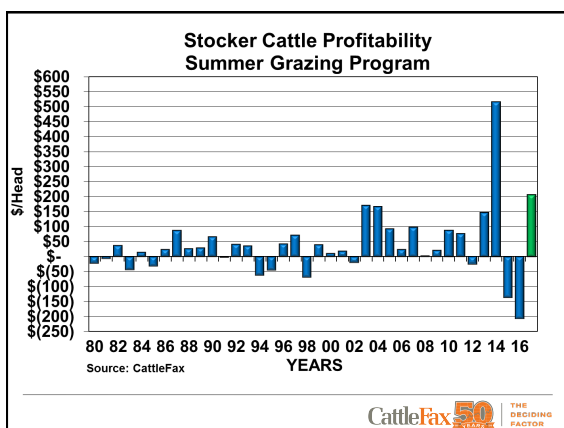
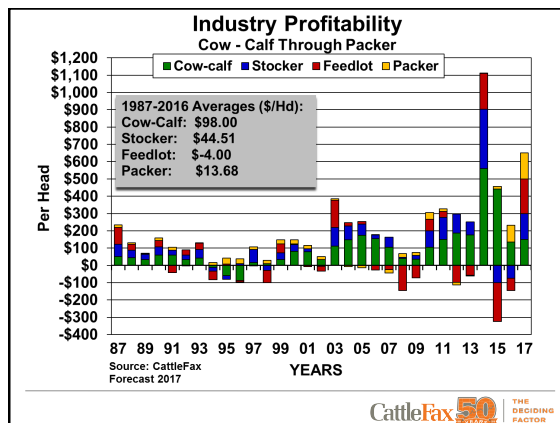
Three Cardinal Rules for Cow-Calf & Stocker Operators

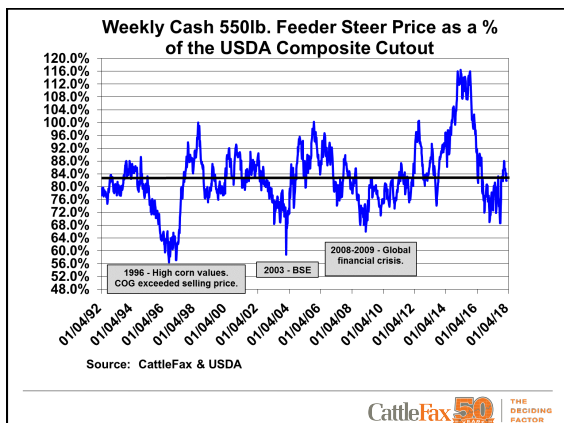
Answer these questions:

1. Are the segments after me profitable?
E.g. stocker, feedyard, packer, retailer
2. Are cattle (and competing proteins) numbers expanding or contracting?
3. Are deferred futures at a premium or discount?

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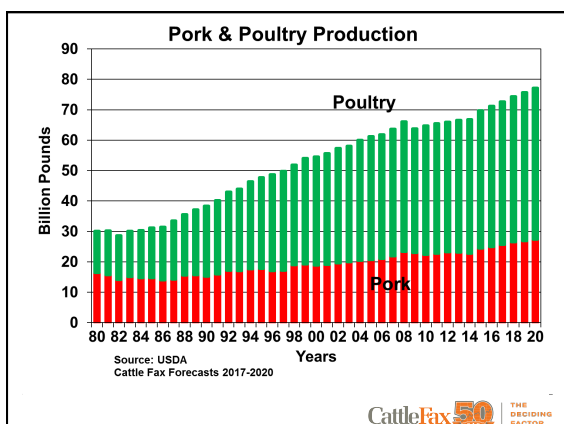
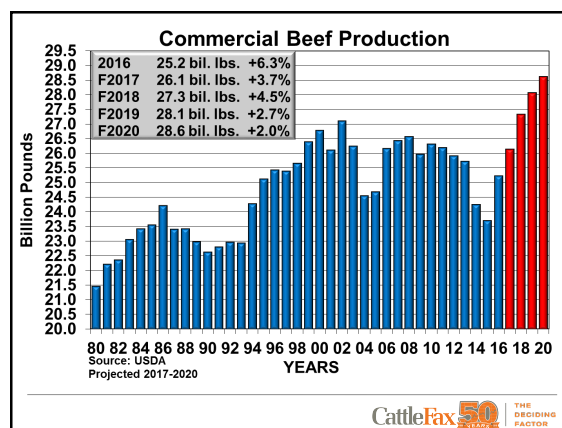
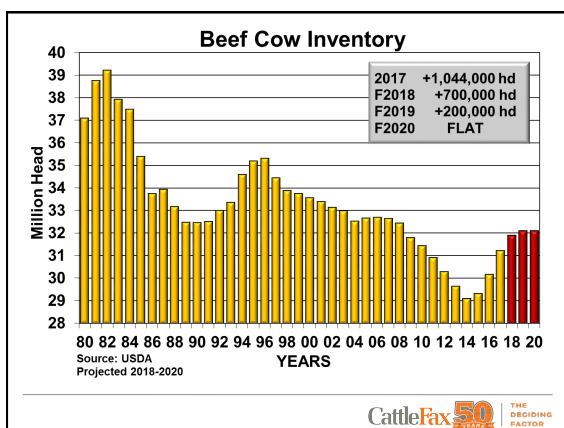
1. Are the segments after me profitable?





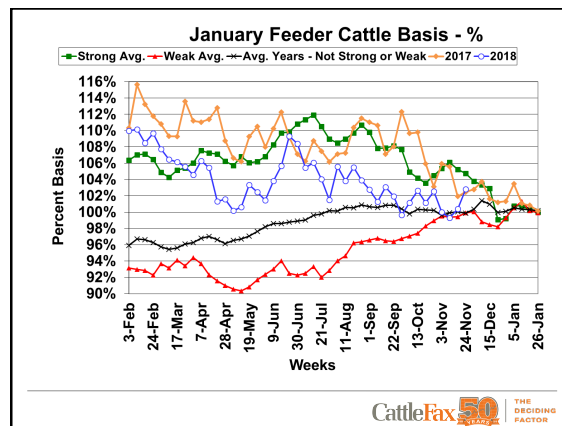
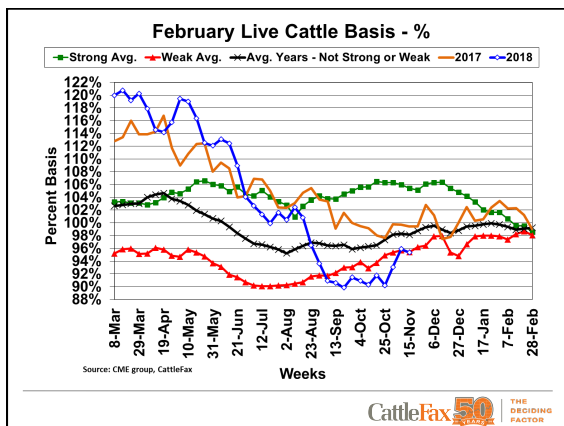
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2. Are cattle and competing proteins numbers expanding or contracting?



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3. Are deferred futures at a premium or discount?



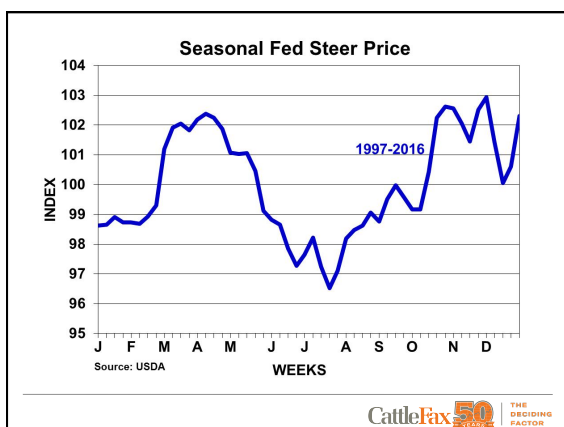
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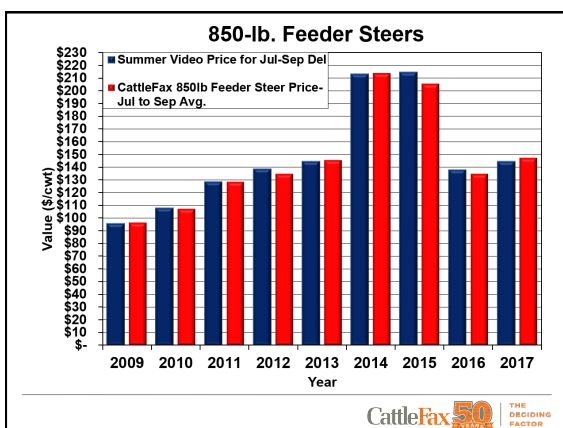
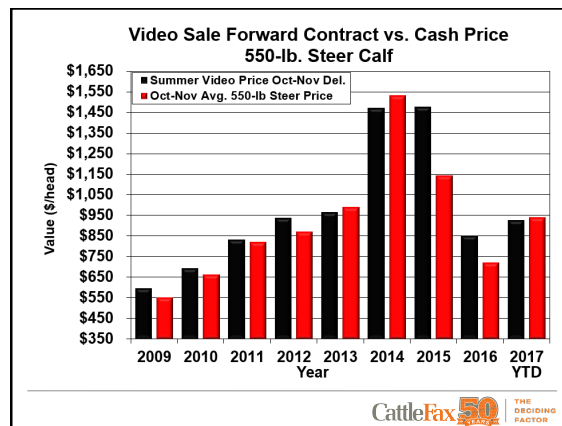
Marketing Calves

- Seasonality:** The biology of cattle and forage lead to large seasonal supplies of calves
- Marketing Mechanisms:** Forward contracts allow producers to price ahead of delivery
- Pro's / Cons: direct contract, video sales

Why not hedge using feeder futures?

Know your breakeven!!!

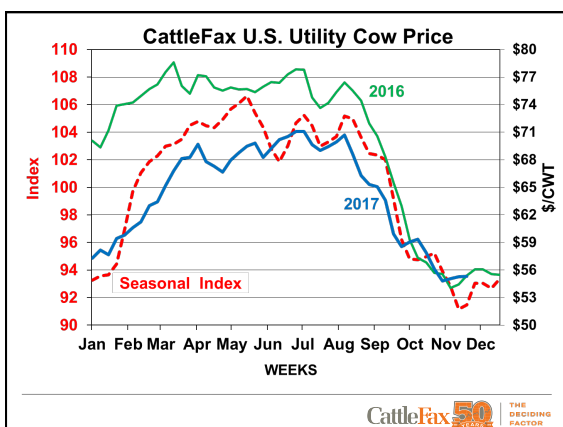




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Hold for Summer Grazing Manage Inventory

- Balance ranch to keep 100% stocked (easier to increase/decrease yearlings than cowherd; 80/20, 60/40 etc)
- Summer grazing gains are very competitive - especially when corn is expensive
- Can I winter calves cheaply? Keep calves from getting too big
- Does it make sense to price my calves early and sell, THEN buy cheaper fall calves for grazing?



Slaughter Cow Extended Ownership

Cull Cow @ 1,050 lbs.

Dry Lot Winter (Nov.-Feb., 95 Days)

Sell Utility Grade Cow @ 1,200 lbs.

Advantage 25 of 32 years
5-Yr. Avg. = \$60/hd.

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Risk Management Options

- Seasonals – Easiest form of RM – 80%
- Forward Contract / Video
- Retain Ownership
- Basis Contract
- Hedge
- Options – Puts/Calls
- LRP

Considerations When Truly Managing Risk

- Don't be a speculator
- Don't like or accept risk – Respect it
- Manage your inventory – Best form of risk management
- *Emotion* and *Pride* can destroy your operation
- Don't be great at what you do and have the market take you out!

THE DECIDING FACTOR

Jan Feb

Thank You

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