Don’t Be a Volatility Victim

The market’s ups and downs are here to stay. How can you turn it to your advantage?

by ***Kindra Gordon***

Whether you’ve been in the stock market, the cattle market — or both — these past few years, you know that the risk of profits and losses is real, and a change in the market can happen in a matter of minutes.

It’s also a situation that has become the new “normal.”

With regard to the economic climate, economist Brett Crosby forecasts this for cattle producers: “There’s going to be a lot more volatility going forward than there has been in the past.”

Crosby, of Wyoming-based consulting firm Custom Ag Solutions, says, “In eight of the last 10 years, we’ve seen cattle price fluctuations of over $20 at a level never seen before 2003.” He attributes the volatility to the uncertainty in the market such as grain supplies and prices, demand, weather, and even availability of co-products.

But, Crosby says volatility is not all bad. He notes it also offers opportunity and advises, “Use volatility to your advantage.”

To do so, Crosby emphasizes capitalizing on the high and low price swings and says, “In a volatile market the rule of thumb is when you have a profit, take it.”

Manage the risk

While Crosby does not know what the future market will bring, he says there is one forecast he can make: “If you aren’t managing your risk, you should start, because prices aren’t always going to be this high. Protect your profits.”

He points to several pricing tools available that can help producers manage risk such as forward contracting, Livestock Risk Protection (LRP) insurance and the futures market.

Of forward contracting, Crosby does offer this caution, saying, “In a volatile market my suggestion is you don’t forward contract all your cattle in one day. I suggest you do it on different days.”

“If you aren’t managing your risk you should start because prices aren’t always going to be this high. Protect your profits.”

— Brett Crosby

He adds, “It isn’t worth the chance to put all your eggs in one basket to get the highest price of the summer, because you could get the lowest. Be careful when you are contracting and do it over a period of time.”

Regarding the futures market and options, Crosby says, “I use it all the time because it offers a good way for me to protect my prices out farther than I can do with a forward contract. It gives me some ability to protect my prices out a long way.”

For those new to futures and options, Crosby says, “You have to have a broker, and you should rely on your broker. If you are going to be in the futures market, I recommend getting in slowly. You don’t want to dive in.”

For producers with smaller numbers of livestock, he suggests LRP insurance, which he calls similar to a put option. “If you are a smaller producer you can buy LRP on any number of animals,” Crosby says. (For more about LRP see the August 2012 *Hereford World* Page 32.)

When prices are good, Crosby suggests to producers it’s a good time to look around at tools to manage risk. He reiterates, “Prices won’t stay high forever.”

He also emphasizes the need to have a plan and stay with it. “When we get into a marketing situation where things turn bad we tend to make it worse and jump into things we don’t understand — such as adverse forward contracts.

“My advice in this volatile market is that if things start to go south, stick to your plan. It’s not a time to try something new,” Crosby concludes. **HW**