

RIGHT RISK™

R I G H T R I S K N E W S

Smart Money: A Rancher's Guide To Reinvesting Profits In Good Times

If you run cows long enough, you have seen it. Calf prices get hot, checks get bigger and it feels like you can finally breathe. That is also when it gets easy to lock in decisions that hurt later, when the weather turns dry or the cattle cycle turns down. Here's a simple idea to consider: use good margins to make the ranch tougher, not just bigger.



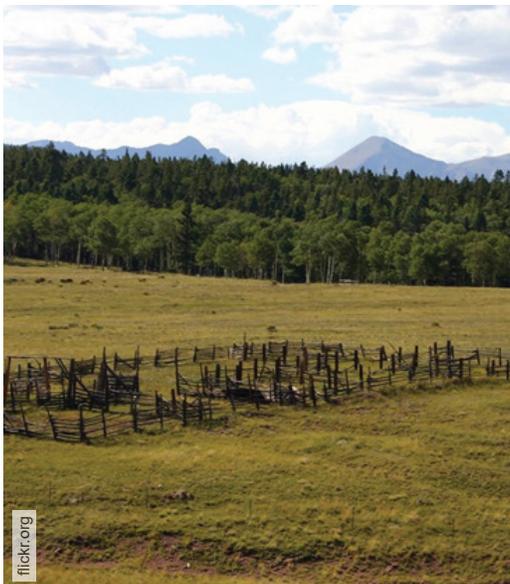
Good times are margins, not prices

High prices do not automatically mean high profit. Costs move too. Feed, fuel, labor, repairs, interest, and taxes can rise right along with cattle prices. Good times are defined by margins, not prices. The danger is committing to payments today based on \$4 calves that might be \$2 calves when the note is due. Here's a quick gut-check before you add a payment: Could we still make this payment if prices drop and costs stay high?

Cash is not the same as profit

Most of us watch the checkbook. Cash flow matters. But cash flow can fool you. One common trap is selling cows and calling it profit. The cash looks strong, but the herd got smaller. In this case, you didn't make money; you just liquidated the factory. So, when you look at the year, do not stop at cash income and cash expense. Also look at inventory change, consider what happened to cow numbers and feed on hand.

If you want a simple upgrade, ask your lender, accountant, or Extension educator how to complete a basic accrual adjustment. A few adjustments can show whether the business truly earned the money this year, or just sold down assets.



Good-year housekeeping comes first

When money shows up, it is tempting to jump straight to growth. More cows. More acres. More iron. You might want to consider a different order.

First, catch up on the stuff that keeps the ranch running:

- Deferred maintenance on fences, water, corrals, and equipment
- The emergency fund (many advisors start with three to six months of living expenses, then build from there)
- A drought reserve that is real, not just a hope
- Set a working capital goal. We suggest a conservative target: enough working capital to cover 12 months of operating expense.

Some sources express this as working capital divided by operating expense. A ratio of 0.50 means you can cover about half of a year's operating expense. A full-year cushion is closer to 1.0. That is not easy, but it buys options, and options are what you need in drought or in other

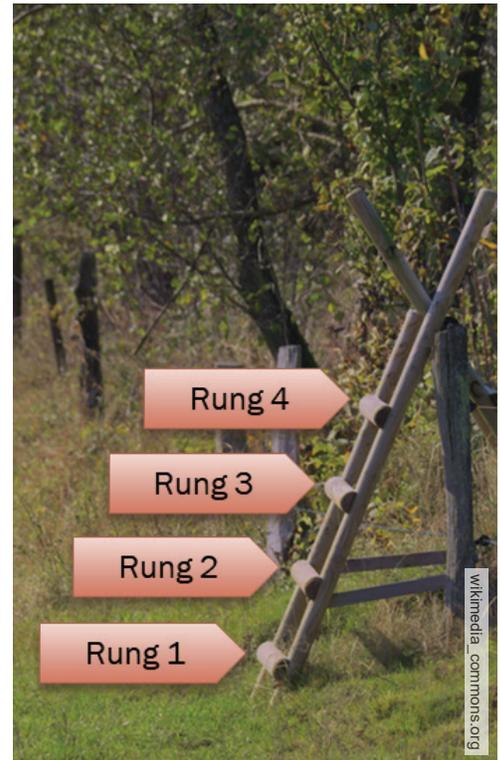
contingencies. Many lenders also use rules of thumb like working capital equal to about 25% of gross income.

Another key point to think about is matching the funding horizon to the asset life. Short-term cash for short-term needs, and long-term capital for long-term assets.

The Priority Ladder

Think about the spending order like a ladder.

- Rung 1: Survival and reserves - Working capital, drought reserve, and anything that keeps the ranch from being forced into bad choices
- Rung 2: Reduce risk and build resilience - Water, grazing flexibility, and improvements that make drought easier to manage
- Rung 3: Growth - Only after the ranch has a buffer for uncertainty
- Rung 4: Lifestyle - Lifestyle is last, as a conscious slice. Not never, just not first. It is best thought of as a conscious slice, not an open-ended category.



The Smith ranch example: five ways to use \$150,000

To make this practical, let's use a representative example ranch. The Smiths are a family cow-calf operation running a moderate-sized herd, with a mix of owned and leased grazing. They had a good calf market year and ended up with \$150,000 in extra cash. The catch is that their reserves are thin, so one wrong choice could leave them short on working capital when drought or lower prices hit. This example is not about perfect numbers; it is about choosing investments that improve drought survival and reduce financial risk.

The Smiths can spend the money five different ways. The lesson is to look at drought impact, not just dollars.

Assumptions from the example:

- Water project nets \$55,000 per year after upkeep, and has high positive drought impact
- Paying down \$150,000 of variable-rate debt at 9% saves \$13,500 per year, and lowers risk
- Leasing additional acres could net about \$35,000 per year, but drought impact depends on flexibility and terms
- Buying 60 cows at \$2,500 each might net about \$15,000 per year, but drought impact is negative because it adds mouths to feed
- Holding cash at 4% earns about \$6,000 per year, but keeps options open

Simple comparison table (5 years, no discounting)

Option	Up-front dollars	Annual cash effect	5-year total	Payback (Y/N)	Drought impact
Water project (pipeline, tanks)	\$150,000	\$55,000	\$275,000	Y	High positive
Debt reduction (variable-rate)	\$150,000	\$13,500	\$67,500	N	Positive
Lease acres (5-year prepay + fencing)	\$150,000	\$35,000	\$175,000	Y	Mixed
Buy cows (60 bred hfrs)	\$150,000	\$15,000	\$75,000	N	Negative
Hold cash (earn interest)	\$150,000	\$6,000	\$30,000	N/A	

Notice what this does. Buying cows is not always wrong. But if reserves are thin, more cows can make drought harder. A water project, debt reduction, or even holding cash can do more for survival.

Before the Smiths sign a check, they need to ask one question: Will this help us survive the next drought?

Red flags in good years

Watch for these:

- Permanent costs built on temporary prices

- Borrowing more just because land values rose
- A plan that only works if weather stays perfect
- Taxes are a tie-breaker, not the driver

Every December, somebody says, “I have to buy a new truck to save taxes.” The presenter’s point is simple: the tax savings is only a slice. Most of the cash still leaves your ranch.

So treat taxes as a tie-breaker. If the purchase fits the Priority Ladder, then tax planning can help you time it. If you buy something you do not need just to reduce taxes, you are still poorer.

Pre-decide your good-year plan

Do not decide what to do with the check when it is in your hand. Decide now, while you are thinking clearly.

A one-page exercise:

- List your top good-year uses of money, in Priority Ladder order
- Mark each one as positive, neutral, or negative for drought impact
- Add one trigger rule, like: only buy cows if working capital covers 12 months and the drought reserve is full

Take-home message:

Good times are a gift. Use them to build a ranch that can handle the next dry spell and the next price drop.

This week, do one thing:

Estimate how many months of operating expense your working capital can cover, then decide what gets funded first.

RightRisk can help

If you want help building these skills, look into the RightRisk self-paced courses and the RightRisk Analytics toolbox. Past RightRisk News examples also show practical ways producers use simple financial tools to make better decisions.

BUILDING YOUR PLAN: THE GOOD-YEAR GAME PLAN

- ✘ Write it Down: If it’s not written, it’s a dream
- ✘ Set Targets: "We will hold \$50k in cash, then pay \$50k debt, then invest."
- ✘ Involve the Team: Spouses, partners, lenders



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NEWS RELEASE - JANUARY 19 | RIGHTRISK

Federal Reserve Beige Book Summary on the Ag Sector

OVERALL ECONOMIC activity increased at a slight to modest pace in eight of the twelve Federal Reserve Districts, with three Districts reporting no change and one reporting a modest decline. Most banks reported slight to modest growth in consumer spending this cycle, largely attributed to the holiday shopping season. Manufacturing activity varied with five Districts reporting growth and six reporting contraction. Nonfinancial services demand was generally seen as steady to increasing somewhat. Banking conditions were generally reported as stable or improving, with some increased demand coming from credit cards, home equity loans, and commercial lending. Residential real estate sales, construction, and lending activity softened in the majority of Districts that report on the sector. Agriculture conditions were largely unchanged with only Atlanta reporting a modest decline due to weaker demand for exported commodities. Energy demand and production was flat to down slightly. Outlooks for future activity were mildly optimistic with most expecting slight to modest growth in coming months ...

For more see: RightRisk.org/News



HIGHLIGHTED PUBLICATIONS: AG HELP WANTED UPDATES

What is the Fair Labor Standards Act in Agriculture and How Does it Apply to Me?

The Fair Labor Standards Act (FLSA) establishes minimum wage, overtime pay, recordkeeping, and youth employment standards affecting employees in the private sector and in federal, state, and local governments. Nonexempt workers covered under the Act are entitled to a minimum wage. Overtime pay must be paid at a rate not less than one and one-half times the regular rate of pay after 40 hours of work in a single workweek. Wages required by the FLSA are due on the regular payday for the pay period covered. Deductions made from wages for such items as cash or merchandise shortages, employer-required uniforms, and tools of the trade, are not legal to the extent that they reduce the wages of employees below the minimum rate required by the FLSA or reduce the amount of overtime pay due under the FLSA. The FLSA contains some exemptions from these basic standards. Ag Help Wanted Updates can help you better understand these details.



To access the publication see: AgHelpWanted.org/Updates.

	January 1 Social Media Post <i>Risk Management Profiles RightRisk</i>		January 14 Social Media Post <i>Benefits</i>
	January 2 Social Media Post <i>RURALTAX.org</i>		January 15 Social Media Post <i>Evaluating Lease Arrangements</i>
	January 5 Social Media Post <i>Getting Started in Ag: Staying Profitable with Alternative Feeds and Feeding Methods</i>		January 19 Social Media Post <i>Getting Started in Ag: Alternative Forage Cropping Options in Wyoming</i>
	January 6 Social Media Post <i>Sole Proprietorship</i>		January 20 Social Media Post <i>General Partnership</i>
	January 7 Social Media Post <i>Rewards from Work</i>		January 21 Social Media Post <i>Assessing Applicants</i>
	January 8 Social Media Post <i>Risk Scenario Planning with RightRisk Analytics</i>		January 22 Social Media Post <i>What Are Risk Controls?</i>
	January 12 Social Media Post <i>Getting Started In Ag: Marketing Options</i>		January 26 Social Media Post <i>Getting Started in Ag: Evaluate Your Financial Position with RD Financial</i>
	January 13 Social Media Post <i>Management Succession: How Do We Get There From Here? RightRisk</i>		January 27 Social Media Post <i>Enterprise Feasibility</i>
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