



The Cattlehedging Times

NEWSLETTER

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Introduction

"Extra Extra Read all About It"

Calling all Cattle Feeders and Risk Takers: You Want to Read This!!!

For the past few months I have been writing on the topic of greed and its relation to taking risk. Although this topic has provided some feedback I thought I would throw in something new, something that correlates with the current **volatility** in the futures markets now.

Volatility according to Wikipedia is described as the actual current volatility of a financial instrument for a specified period (i.e. 30 days). It is the volatility of a financial instrument based on historical prices over the specified period of time with the last observation the most recent price. The phrase is most often used to distinguish between actual current volatility and one of the following; actual historical, actual future, historical implied, current implied, and future implied. So what has been going on recently? Why have the Live and Feeder Cattle Futures markets showed an increase in volatility over the past 40 days? Larry with CattleHedging.com describes such recent volatility as "the Live Cattle Futures market is playing tug-a-war between the expectation for 10% tighter fed cattle supplies in the 2nd quarter, which was building in premium to cash prices (weak basis condition), and still large front-end supplies (COF 5 mos+) during the first half of the 1st quarter of 2013, reflected in current fed cattle prices. ***The volatility in both Live Cattle and Feeder Cattle Futures has been within the BASIS, which also offers OPPORTUNITY.***

The challenge with higher fed cattle prices is coming from demand! Will the consumer, retail margins and packer margins support fed cattle prices between \$134.00 cwt (Feb LC High) and \$137.00 cwt (April LC High) as forecasted and perceived from premium live cattle futures prices coming into the New Year? Have the Live Cattle and Feeder Cattle Futures markets already discounted cash upside potential? Will fed cattle and feeder cattle prices actually respond toward the futures expectations or will the cattle futures have to drop in line with cash prices? The recent volatility (\$8.00 - \$9.00 drop [7%-6%] in Live Cattle Futures since the New Year) is a result of the later."

How does this relate to risk? Prior to answering this, I believe it is important to first discuss the perspective of risk. What is your risk perspective? Once you define your risk perspective, how then does that correlate to/if you take risk or not? What are your **TRIGGERS**? When we really look at it, everyone takes some bit of risk and each person's perspective of risk is and will be different and to varying degrees. For example, getting on a plane after 911, some people believe is a huge risk and has yet to get on a plan, where others set their perspective of risk much different; such as risk in feeding cattle. When I think about risk perspective in my line of work it includes my faith.

Overall, I believe my perspective of risk is rather simple. Does the potential gain or opportunity outweigh the risk? Can I survive this loss and still be in the game to try it again? I will take some risk once I have evaluated my options, looked at the consequences, and prayed about it. *Educated risk is what I prefer.* Do you consider each pen of cattle as an educated risk? Have you outlined *TRIGGERS* for both PROFIT (opportunity) and LOSS (risk tolerance)?

Recently my husband and I after some negotiation have decided to expand our business to another state. What a risk! How will it turn out? At what cost? If it fails can we move on and try somewhere else again? What kind of financial gain is expected if any or possible loss or risk of money (EQUITY)? Aren't these all questions we ask when we accept and take on risk? In this particular case my husband has stated after hours of negotiation with myself (again who is not a fan of big risk, and this is "big" risk to me); I have decided to help him in this venture by managing it. How can I do that, do I ask for help when we are about to take such a risk? Do I acknowledge that I am now a risk taker? Do you ask yourself these same questions or is it already ingrained into your lifestyle?

When I interviewed Larry about his perspective of risk as well as his *TRIGGERS* he stated "All successful business men and women have to take some kind of RISK. Without risk there is usually not much opportunity. The key to success is to be able to stay in the game when there are large draw downs in **EQUITY!** How much draw down in EQUITY can you absorb and be able to take advantage of the next **OPPORTUNITY?** This will be YOUR RISK TOLERANCE! *TRIGGERS* outlined in a HEDGE POLICY defines your DISCIPLINES! At CattleHedging.com we teach and support 3 *TRIGGERS* we call Strategies! These 3 Strategies define both RISK and OPPORTUNITY and outline the *TRIGGERS* for a response that keeps you disciplined."

Cattle Feeders Anonymous (CFA), really means taking ownership that you in fact acknowledge you take big risk

(draw down in EQUITY) and you need help to manage it (RISK TOLERANCE). If you have not taken ownership or thought about your perspective of risk and defined *TRIGGERS* that direct you from opportunity to risk, I encourage you to do so.

I am curious how many of you can state: "My name is... and I take big risk...and I know that I need help to manage it"? Please email or send me your comments. Not only am I curious how many there are of you that would state this, the psychologist in me wonders if you are mostly men or women, because we all know that women are the ones that ask for directions when they need help! Have a great month...!

Lori Hicks Fox, MA

We want to hear from you. Email me your comments, questions, thoughts and ideas. It is you, who we are doing this for; and it is you we want to hear from. Lori Hicks-Fox, MA lori@cattlehedging.com

About Lori-Hicks Fox

Lori-Hicks Fox, MA Date: December 2011

I have spent the last five years completing my Masters at Argosy University in Phoenix in the area of Psychology. I have worked as a Family Support Specialist and as a Child and Family Therapist in which I have learned patience, kindness, and the effects of our present time; which includes: poverty, addiction, loneliness, and success. I have a wonderful family and my two boys ages three and two keep me very busy. I am very happy to be a part of CattleHedging.com and working on a project that will hopefully provide you with a new and different outlook on profiling behavior and its relation to identifying and managing risk.

“Mistakes are the portals of discovery” – James Joyce.