

Making Better Decisions About the Risks you Face

Jeff Tranel and Rod Sharp

Fort Berthold Community College

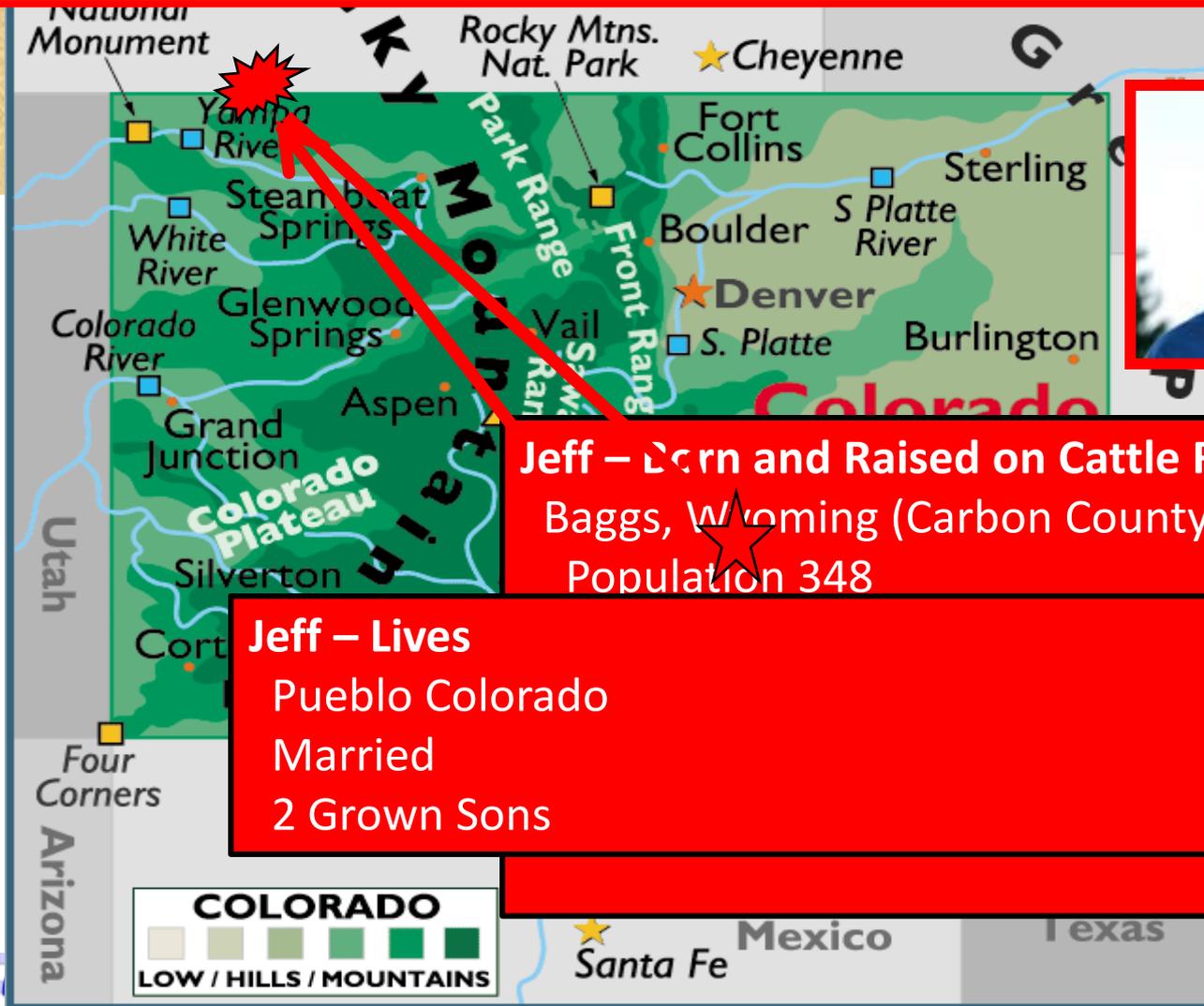
New Town, ND

2012 February 21-22



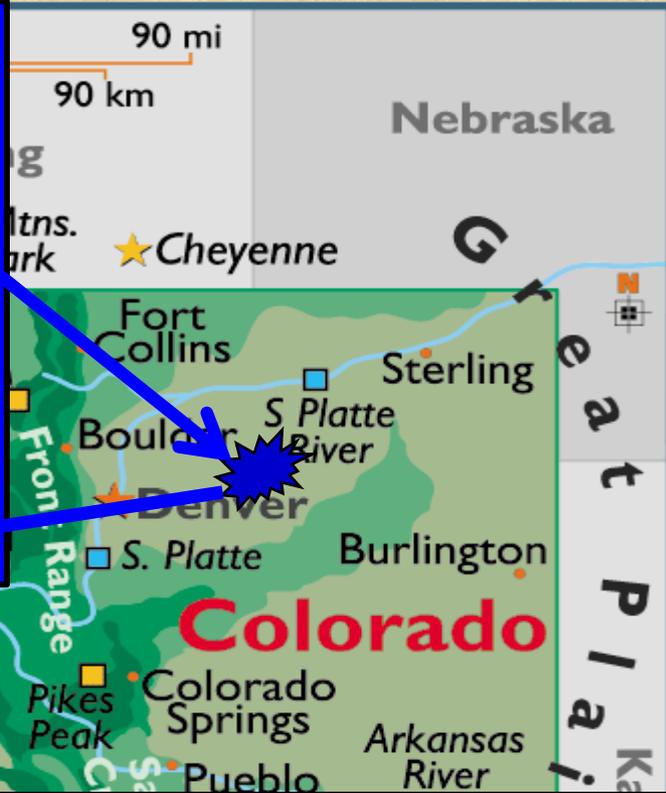
Jeff Tranel

Agriculture and Business Economist at CSU
27 years of experience



Rod – Born and Raised on Sheep & Cattle Ranch

Last Chance, Colorado
Sparsely Populated
Crop Sales \$ 71,990,000
(Grains \$67,521,000)
Livestock Sales \$ 58,183,000
(Cattle and Calves \$51,493,000)



Rod – Lives
Grand Junction, Colorado
Married
2 Grown Children (Girl and Boy)

Rod Sharp
Agriculture & Business Management Economist at CSU
31 years of experience

What is Risk?

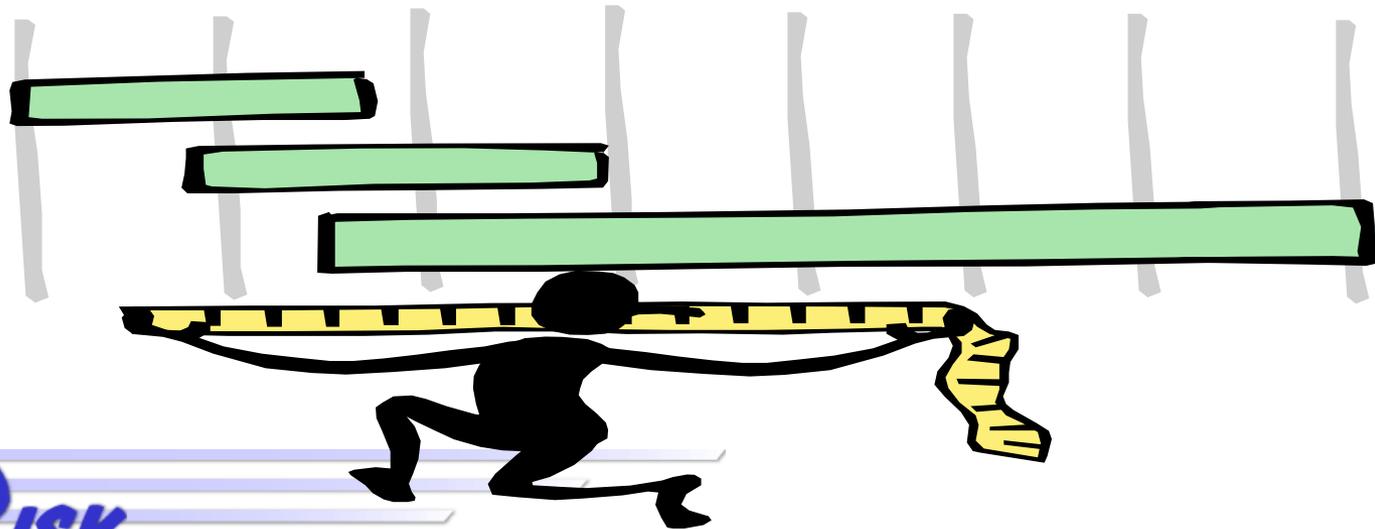
The probability of an event occurring that can impact your:

- ✓ Current profit level
- ✓ Financial situation (equity position)
- ✓ Satisfaction and well-being

Relationship of risk and profit

High risk = High potential profit

Low risk = Low potential profit



Sources of Risk

Production	...yield/quality variability
Marketing	...changes in price/external conditions
Financial	...variability in debt/equity capital and ability to meet cash demands
Legal/ Institutional	...responsibilities for contracts, statutory compliance, tort liability, and business structure
Human	...managing people and estate transfers



Production Risk



Sources

**Weather, pests,
disease, technology,
genetics, inputs
(availability, quality,
price), equipment,
labor ...**

Human Risk



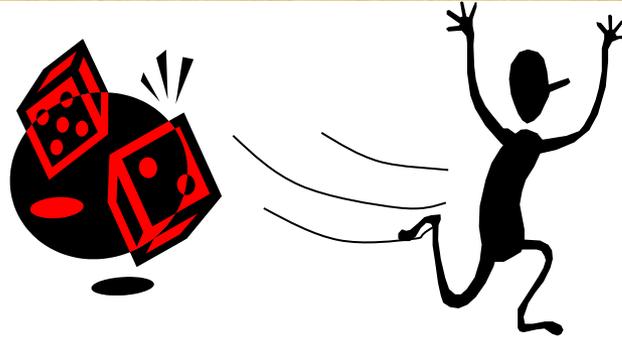
Sources

Health, Relationships,
Personal Crises, Etc

- Accidents
- Illness
- Death
- Divorce

Types of Risk Preference

Risk Averse

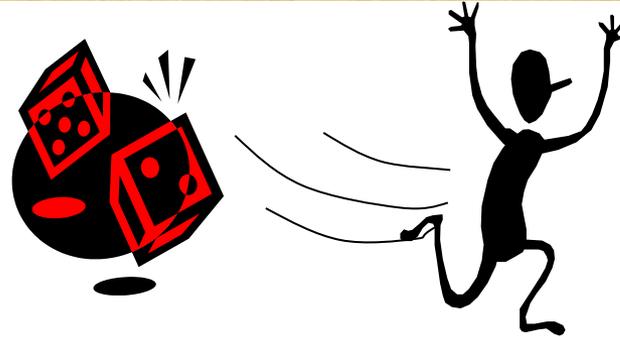


Risk Averse

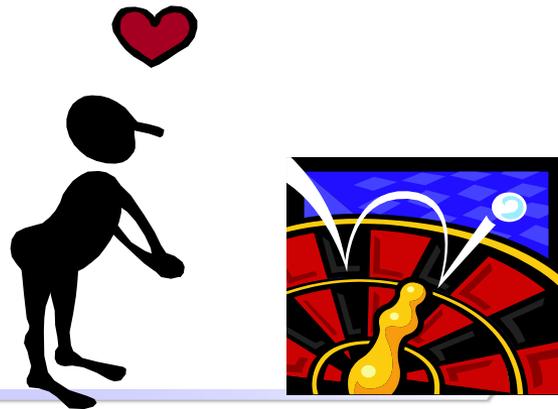
- *Cautious.*
- *Prefer less risky sources of income.*
- *Willing to sacrifice some income to reduce the probability of low income (losses).*

Types of Risk Preference

Risk Averse



Risk Loving

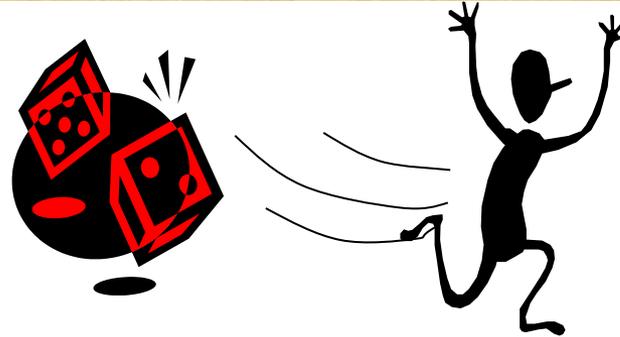


Risk Takers

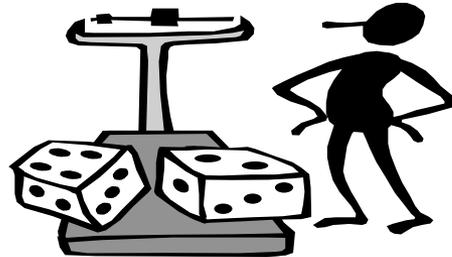
- *More adventuresome*
- *Prefer more risky business alternatives*
- *Willing to accept some probability of lower income (losses) for the opportunity of higher income*

Types of Risk Preference

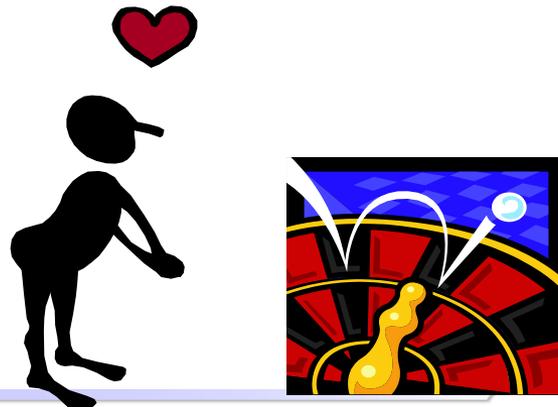
Risk Averse



Risk Neutral



Risk Loving

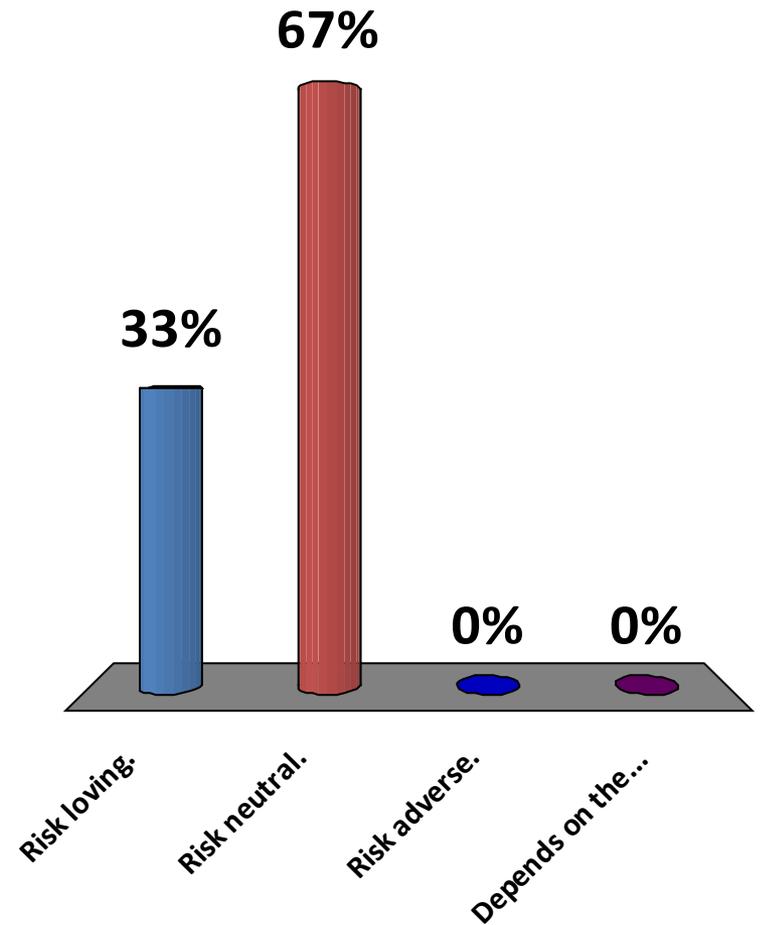


Risk Neutral

- *Between “risk averse” and “risk loving”.*
- *Choose the decision with the highest expected return.*

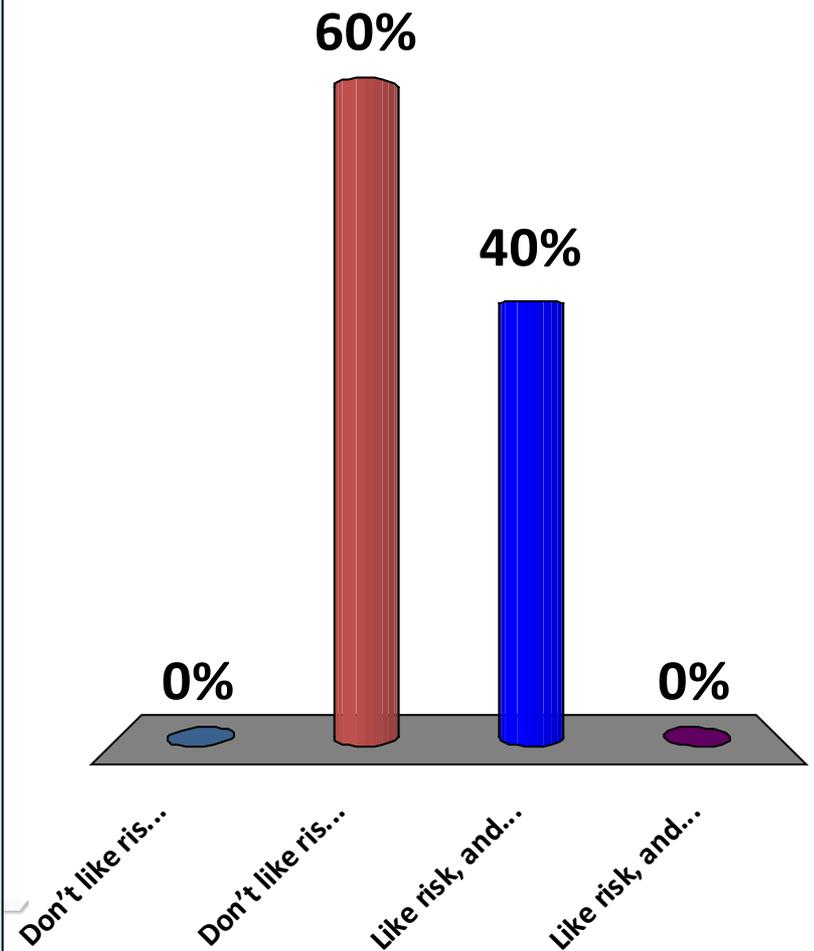
I believe I am...

1. Risk loving.
2. Risk neutral.
3. Risk adverse.
4. Depends on the day.



I...

1. Don't like risk, but I accept it.
2. Don't like risk, so I take steps to protect myself and my business.
3. Like risk, and take steps to protect myself and my business.
4. Like risk, and take no steps to protect my business.

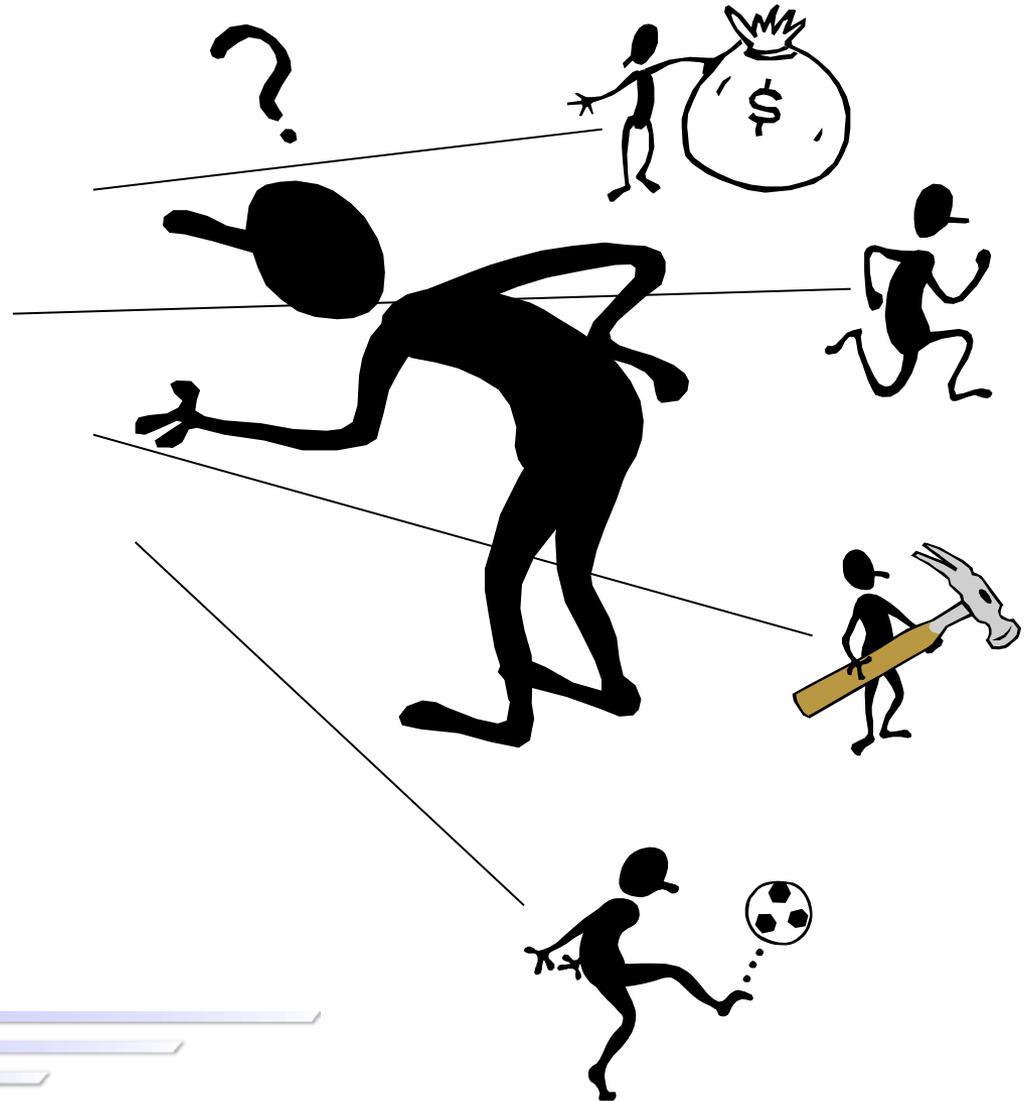


Risk Management?

**The use of
time, financial, and other resources
to effectively manage risks
so that goals can be achieved**

Identify Management Alternatives

- Assume the risk
- Avoid the risk
- Reduce the risk
- Transfer the risk



Agenda

- ❖ Leaving A Lasting Legacy
(Human Risk)
- ❖ Feasibility of Alternative Enterprises
(Production/Financial/Marketing Risk)
- ❖ Understanding Risks and Your Risk Preferences
(general risk)
- ❖ Better Decisions through Better Financial Management
(Financial risk)
- ❖ Coaching

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