



DIVERSIFICATION: A RISK MANAGEMENT STRATEGY

NO MORE BUSINESS AS USUAL

Russell Consulting Group has identified four major leverage points where the most successful farmers concentrate their time and energy: marketing, machinery cost per acre, labor cost per acre and agronomic management. We assist farmers with the first three and align with top firms in that business for the fourth.

Dan Frieberg, Premier Crop, West Des Moines, IA, is one of those, and he indicates the table is set for unprecedented rapid change in corn and soybean production.

He has identified six drivers coming together at the same time to create the agronomic perfect storm:

1. Record-high commodity prices that incent pushing yields.
2. Yield potential of new corn and soybean genetics increase what's possible or even probable.
3. Higher priced seed drives variable-rate planting economics.
4. Record-high nutrient prices make variable-rate nutrient applications even more economical and necessary to maximize grower profitability.
5. Huge investment in precision equipment by growers.
6. While potential rewards are greater, risks have kept pace.

Moe Russell is president of Russell Consulting Group, Panora, IA. Russell provides risk management advice to clients in 34 states and Canada. For more risk management tips, check his Web site (www.russellconsultinggroup.net) or call toll-free 877-333-6135.

With record profits, many of you have cash available to invest. First, increased earnings should build working capital and bulletproof your balance sheet. A good rule of thumb is to have working capital (current assets less current liabilities) equal to half your annual revenue.

Let's use an example that illustrates the benefits of diversified off-farm investments.

Assume you invest \$100,000, and you invested it in a business venture that earned you 7% return for 10 years. You would essentially double your money (see chart). That follows the Rule of 72 (take 72 and divide it by the return and the result is the number of years it takes you to double your money).

However, let's take the same \$100,000 and divide it by five different investments.

Assume the first \$20,000 is invested in a business that earns you 20% return/year for 10 years.

Invest another \$20,000 in a business that earns 15%/year. The third

\$20,000 could go in a venture that returns 7%, the same as the previous model.

Let's assume the fourth \$20,000 is invested in a venture that earns nothing for 10 years, and the fifth \$20,000 is invested in a business where you actually lose your original \$20,000. You will still have over one-third more money at the end of 10 years.

There are several lessons here. First, diversification pays and it is more important during periods of rapid change (see sidebar). Second, don't beat yourself up if you have had a couple of losers over the years. Having a couple of winners will get you further ahead.

Another place to invest is retirement accounts. Invest enough there so when the time comes, 80% of retirement needs are met by those funds. I have observed that in generational transfers, if the retiring generation continues to draw living needs out of the farming operation, it cannibalizes the earnings potential of the incoming generation. **CSO**

D I V E R S I F I C A T I O N

\$100,000 INVESTED @ 7% FOR 10 YEARS = \$196,968

\$20,000 @ 20% FOR 10 YEARS	= \$123,834
\$20,000 @ 15% FOR 10 YEARS	= \$80,914
\$20,000 @ 7% FOR 10 YEARS	= \$39,343
\$20,000 @ 0% FOR 10 YEARS	= \$20,000
\$20,000 LOSE IT ALL	= \$0

TOTAL \$264,715

• 34% MORE THAN \$196,968