

Paniolo Marketing

Practice Session



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1

What is RISK?

- RISK: The probability of an event occurring that can negatively impact your:
 - *Current profit level*
 - *Financial situation (equity position)*
 - *Satisfaction and well-being*



2

Sources of Risk in Agriculture – Ag Risk 5

1. Marketing and Price Risk
2. Production Risk
3. Institutional Risk
4. Human Risk
5. Financial Risk



RMA

Right Risk

3

Strategies for Managing Risk

1. Avoid it
2. Reduce it
 - a) *Reduce the probability it will happen*
 - b) *Reduce the impact if it does happen*
3. Transfer it outside the business
 - a) *Insurance*
 - b) *Contracting*
4. Build your internal capacity to bear
 - a) *Increase reserves*
 - b) *Maintain flexibility*
5. Accept it

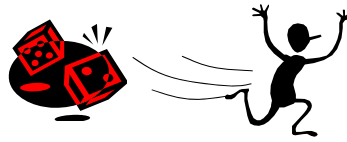
RMA

Right Risk

4

Types of Risk Preference

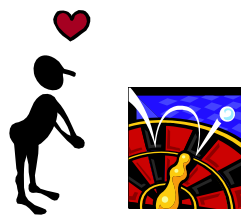
Risk Averse



Risk Neutral



Risk Loving



Finding Your Ability and Preference to Tolerate Risk

Risk Navigator

Risk Preference Calculator

Would you give up income to have less risk or take on more risk to make more money? If so, how much risk would you exchange for profit? Everyone has different attitudes about risk. Fortunately, researchers in different fields have developed different methods to portray individual risk attitudes. This tool has three methods. Experiment with one or all of them.

- Industry Tolerance:** Researchers have estimated how risk tolerant a "typical" business or industry is based on the business's income, sales or equity.
- Estimate My Preference:** Estimate your risk preference and tolerance score based on how much you would pay for various lotteries.
- Take a Quiz:** Take a quiz to determine how tolerant you are to risk compared to other producers.

Investment Risk Tolerance Quiz

In general, how would you best describe your risk attitude?

- A risk averse
 - Willing to trade other things for risk
 - Willing to trade other things for risk
 - Willing to trade other things for risk
 - Willing to trade other things for risk
- A risk neutral
 - Willing to trade other things for risk
 - Willing to trade other things for risk
 - Willing to trade other things for risk
 - Willing to trade other things for risk
- A risk loving
 - Willing to trade other things for risk
 - Willing to trade other things for risk
 - Willing to trade other things for risk
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10. If you had the choice, would you rather have a guaranteed \$100,000 or a 50% chance of winning \$200,000 and a 50% chance of winning \$0?

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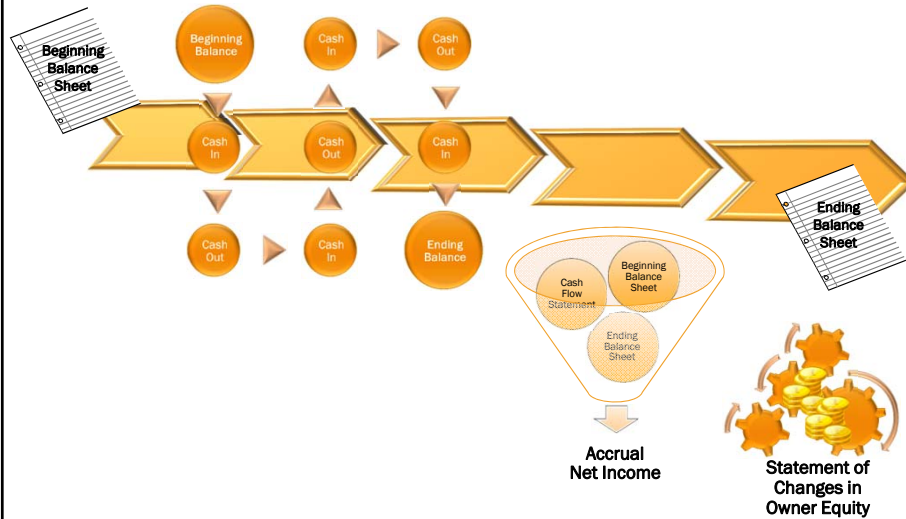
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19. If you had the choice, would you rather have a guaranteed \$100,000 or a 50% chance of winning \$200,000 and a 50% chance of winning \$0?

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Determining Your Financial Health: HOW?



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Family Living, Revenues, Expenses

Balance Sheet		Assets		Liabilities		Income Statement - Accrual Adj.	
	Beginning	Ending	Beginning	Ending			Income
Cash on Hand	25,000	57,831	Accounts Payable (Exp)	0	0	Cash Income (Net of cull livstk sales)	\$609,453
Crops Held for Feed (Exp)	0	0	Accrued Interest (Exp)	12,540	11,909	Non-Cash Income Adjustments	0
Crops Held for Sale (Inc)	200,000	200,000	Current Principal	11,909	12,559	Non-Cash Income (Raised Brds Livstk)	0
Market Livestock (Inc)	0	0	Other Current Liability (Exp)	10,000	10,000	Capital Gain/Loss on Breeding Livstk (Net)	0
Other Current Assets (Inc)	15,000	15,000	Short Term Notes (Exp)	0	0	Gross Revenue	\$609,453
Invest Growing Crops (Exp)	0	0	Def. Tax on Current Assets	0	0	Cash Expense (Excluding Interest)	444,913
Buys & Priced Exp. (Exp)	10,000	10,000	Operating Loan Carryover	0	0	Non-Cash Feed Inventory Adjustment	0
Total Current Assets	250,000	282,831	Total Current Liab.	34,449	34,449	Other Non-Cash Non-Interest Expense	0
Non-Current Assets			Non-Current Liabilities			Depreciation (Land, Bldgs, Equip.)	34,500
Mach. & Equipment	325,000	292,500	Pin. on T.D. & C.L.	255,399	242,840	Total Operating Expense	479,413
Breeding Livestock	0	0	Def. Tax on Long Term Assets	0	0	Cash Int. Exp. - T.D. & C.L.	12,540
Real Estate (Land, Bldgs, Impr)	1,040,000	1,039,000	Total Business Liab.	289,847	277,299	Cash Int. Exp. - Operating	7,261
Total Business Assets	1,815,000	1,813,331	Business Net Worth	1,325,153	1,336,043	Non-Cash Interest Expense	(651)
			Change in Equity From Beginning to End of Year		10,890	Total Expense	\$498,563
						Net Business Income From Operations	110,890
						Net Business Income	110,890
						Income-SS-Def. Tax-Cash & Non-Cash	0
						Net Income	\$110,890
							Accrual
						Statement of Owner Equity	
						Beginning Net Worth (Cost/Mkt)	1,325,153
						Net Income	+ 110,890
						Non-Business Cash Inflows	+ 0
						Owner Withdrawals (Cash)	- 100,000
						Asset Valuation Changes/Cont./Distrib.	+/- 0
						Calculated Ending Net Worth	= 1,336,043
						Reported Ending Net Worth (Cost/Mkt)	1,325,153
						Discrepancy	(651)

Cash Flow Statement		Inflows		Outflows	
Crop Sales & Net Insurance Payments	579,800	Cash Expenses	No Interest >	444,913	
Mkt & Cull Livestock Sales	0	Other Cash Business Outflows/Expense	0	0	
Livstk. Secondary Product Sales	0	Cash Int. Exp. - T.D. & C.L.*	12,540		
Government Payments	29,945	Cash Int. Exp. - Operating	7,261		
Other Cash Business Inflows/Income	0	Loan Prin. Payments - T.D. & C.L.	11,909		
Operating Loan Proceeds	50%	Breeding Livestock Asset Purchases	0		
Loan Proceeds Capital Assets	207,457	Mach. & Equip. & Real Estate Purchase	0		
Non-Business Inflows/Revenue	0	Owner Withdrawals	100,000		
Other Nonfarm Inflows	0	Cash Taxes Paid (Income & SS)	0		
Other Nonfarm Inflows	0	Other Cash Outflows (Not Expenses)	0		
Total Cash Inflows	\$818,910	Subtotal	\$578,622		
		Operating Loan Prin. Payments	\$207,457		
		Total Cash Outflows	\$784,079		
		Annual Net Cash Flow (never < zero)	\$7,831		

Mouse Over for Help

Owner Withdrawals: \$100,000

Nonfarm Inflows #1: \$0

Nonfarm Inflows #2: 0

Percent Crop Revenue: 100%

Percent Livestock Revenue: 100%

Percent Operating Expenses Borrowed: 50%

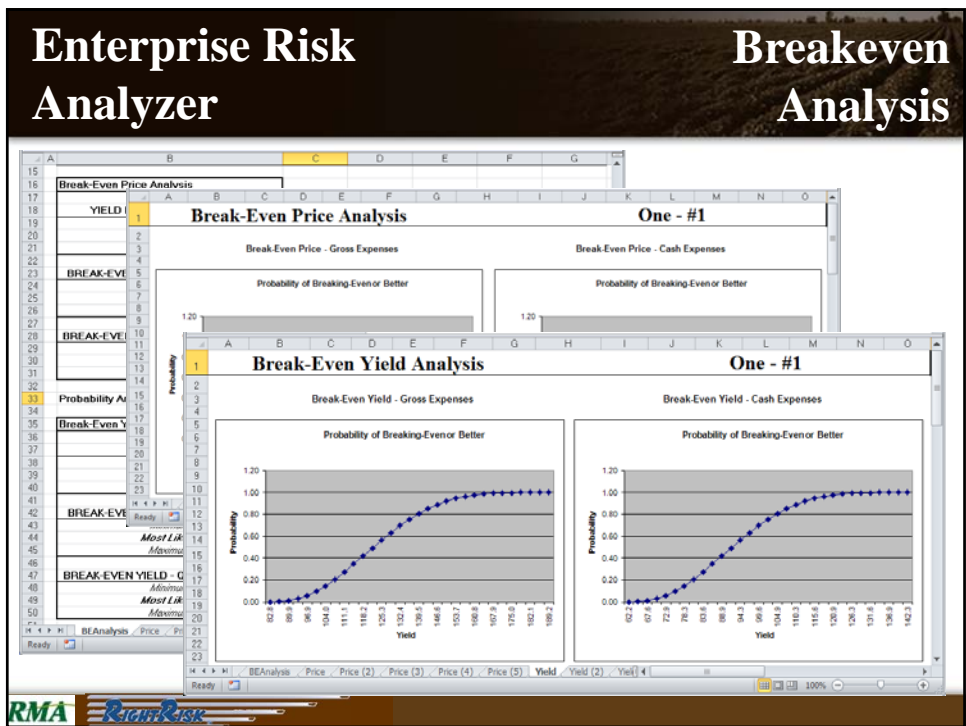
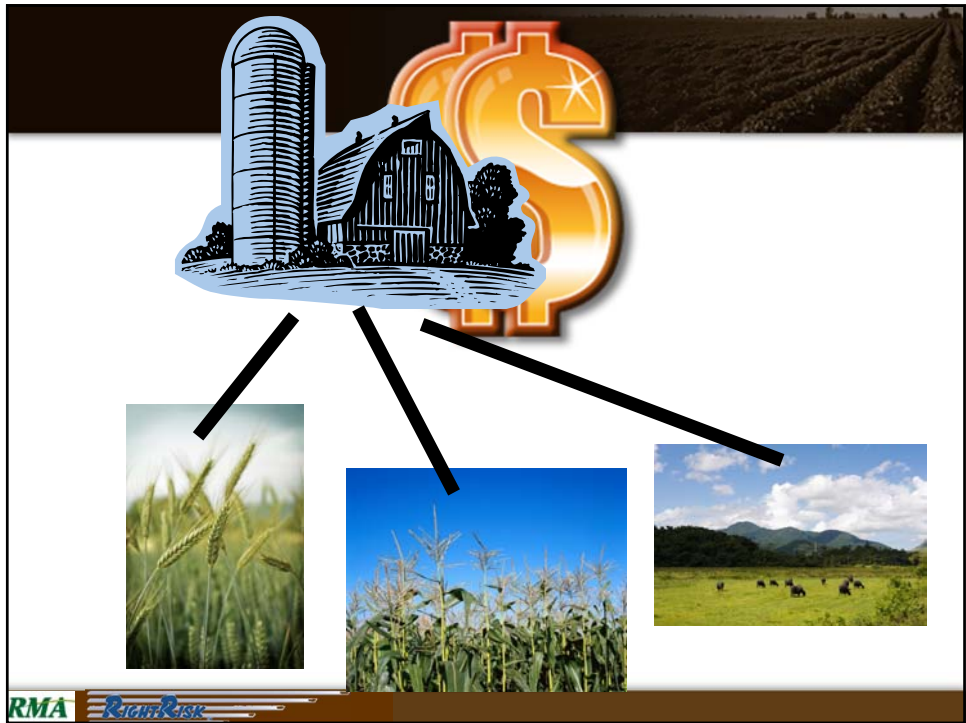
Percent Crop Cost of Production: 100%

Percent Livestock Cost of Production: 100%

Percent Government Payments: 100%

Reset Print Cash Income Toggle Off/On Deferred Taxes Off/On Income Tax Off/On





Practice Session

- Risk Preference Calculator
- RDFinancial
- Enterprise Risk Analyzer
- General Risk Management Questions
- More. . .

