

My Friend The Rancher

The other day one of our clients called to visit about the market. “Ray” has been a long time cattle rancher, and a very successful one at that.

Obviously, given the recent behavior of the financial markets, he had called to discuss more than bulls, heifers and steers. Ray’s concern was that the financial markets appear to be quite volatile and every time he turns on the TV there is more bad news. From here the conversation went like this:

Ray: “What is going on—none of this makes sense. I turn on the news and everyday it seems that the world is crashing down around us.”

Dave: “You’ve got to understand that if you are a broker, or brokerage house, you make money on increased trading volumes. The brokers don’t care if you are buying or selling. They just want you to be excited enough to do one or the other; preferably both. The brokers are never going to calmly explain anything to you. Despite the logic of remaining calm, this does not make brokers any money.”

“Secondly, no one said that the markets are ever logical over short periods of time.”

Ray: “I hear you saying that, but what do you mean?”

Dave: “Every year you do things to improve the value of your herd. You make sure the herd is properly vaccinated, well fed, land and fences maintained, etc. Correct?”

Ray: “Of course”.

Dave: “And you feel these things are going to consistently improve the value of your herd over the long run, don’t you?”

Ray: “Yes”.

Dave: “Okay then, what is the approximate value of your herd?”

Ray: “About \$100,000—and I’ve had to work hard to get it to that point”.

Dave: So knowing how hard you worked on improving your herd what are going to say if I tell you that Oprah Winfrey, (or any other TV personality), is telling everyone to never to eat beef again—and because of this I am only going to pay you \$50,000 for your entire herd of cattle? Would you do it?”

Ray: “Hell no. Those cows are worth \$100,000 and in the future they will be worth even more.”

Dave: “Thank you. You just made my point.”

Ray: “So you’re saying I shouldn’t give away my herd for fifty cents on the dollar just to make the auction ring happy or just because Oprah is telling everyone to boycott beef?”

Dave: “Exactly. Your financial assets are no different. When I look at your portfolio I am very confident that those companies are doing everything they can, and should, to be worth more in the long run. Just because there are people on the TV, internet or some other place, telling you that we have the financial equivalent of Mad Cow Disease does not mean you should take your entire portfolio out to shoot it and burn it.”

Ray: “I am not sure you have a future as a rancher, but I appreciate the explanation.”