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The Two Best Decisions I Have Made

John Maddox

You might be surprised when I tell you the two best decisions made on our ranch, are much easier to come up with than the two worst decisions. Now, not even for a second, do I believe that I haven't made some big mistakes. A matter of fact some of them have been real dousies. And there have been so many big mistakes somehow prioritizing them in order to come up with two of the worst is not only difficult but they are painful to recollect! So lets start with the best decisions.

My first best decision is that I left the ranch. After I graduated from High School, except for some summer and holiday help, I was away from the ranch. While it was a joint decision of my folks and mine I was away from day to day ranch activity for over 20 years. After I graduated from college, I got a job with Elanco moved to Utah where I sold an herbicide to control sagebrush. After a couple of years I moved on Graduate School at the University of Chicago, where I received my MBA in Finance. Following graduation I started a job in New York City with the Investment Banking firm of Goldman Sachs where I was in the securities business, trading bonds. I spent 12 years of my life, living on the upper east side of Manhattan, traveling every morning to the corner of Wall and Broad streets. This was a terrific experience where I learned some of the basics of risk management, how the Federal Reserve worked, gained understanding underpinnings of the bond market and most importantly I gained a very important perspective and understanding of urban life. But the main lesson I learned from this experience is the constant ever ticking cost of capital. This ever-present inviolable law of finance is just as applicable to cows and ranches as it is to bonds and Investment Banking firms. Every day you own an asset it is costing you money, through the cost of that invested capital. It was beat into my head, every day that an asset, whether it is land, livestock or a security it is costing us the opportunity cost of having capital tied up and not generating a return to us from this deployed capital.

This brings up the second best decision was to come back to the ranch. You see my long held goal for all this time was to be able to put myself in a position where I could buy a ranch of my own. I can remember when I was about 13 the one thing I wanted to do above all else is buy a ranch separate and distinct from my parents ranch. While it was a great 12 years at Goldman Sachs and living in New York City, my passion is the cattle business. It was a real satisfaction that I was able to fulfill my long held goal. The reason these two "best" decisions were so easy to identify is that they have been so transformative in my life, outlook and perspective.

I must say that many of the decisions we have made on our ranch have been strongly influenced by my experiences at Goldman Sachs. Drawing on my experience at Goldman, I have tried to develop an entrepreneurial approach to ranching, developing relationships and ventures that are win/win situations for all parties. Just like Investment banking, relationships

in the ranching business are critical to build the business. Also, we have taken more of a portfolio approach to our cattle ownership, adjusting our allocation of cows or yearlings, depending on our market outlook. With different market scenarios n we try to adjust our mix of livestock. For instance, in 2005 we sold all of our cows for market, tax and drought reasons. This sale was successful and now we are repurchasing cows and heifer at mostly lower prices. Moreover, we try to stay flexible on marketing for instance we sold all of our yearlings off grass this summer rather than feed them, which historically we have done. Today we are developing a maternal composite cowherd. Our focus is on creating a low input, low maintenance herd through doing a great deal of in herd selection not for traditional economic traits but instead focusing on fitness and convenience traits. We utilize all of our own bulls in this composite system using only out of smaller framed, easier fleshing, good uddered, highly fertile, docile, polled cows with calving ease. We use yearling bulls exclusively. After we are done with these yearling bulls we castrate and feed these steer to slaughter. This low input maternal composite is very similar in type to the composite cowherd we dispersed in 2005. Recently we have shifted our calving season back starting in mid-April and in doing so we have created a 12 month grazing system for our cows without any hay or supplementation, barring excessive snow cover. Over the years we have adopted early weaning in response to drought and utilizing very cheap corn and feedlot gains to subsidize relatively higher priced grass. More recently we have moved away form early weaning and cattle feeding to more of a yearling operation in response to higher feed grain costs. I think all of these practices can be directly attributed to our focus on ways to capture with the cost of capital. In this way I view my role not a manger of cows but a manger of capital. We have tried to minimize our invested capital and mange our portfolio of livestock that we own, without particular sentiment to a set of cows or production system. I would argue all of these actives we have been in response to a focus on managing capital not cattle. Capital that is not in the form of stocks or bonds; it is in the form of real estate, equipment and livestock.

As for my worst decision I have incorporated them into one very big mistake. I did not remember the lessons that I learned on the bond-trading floor in New York. The one thing I have failed to keep in mind that while entrepreneurship and risk taking is a natural part of any business, whether you are trading bonds or buying steers, there is a larger more overriding lesson. Risk management must be closely coupled with risk taking. I failed to remember how every day you don't have an asset presold or hedged; it is equivalent to repurchasing that asset every day. I did not remember the unforgiving nature of markets. We must take advantage of the market and not allow the market to take advantage of us. As someone who experienced, first hand, the stock market crash of 1987, the bond market wreck of 1992 and the Long-term capital and Technology bubble meltdown of the late 90's, I still can't believe I have forgotten this lesson.

In closing I think it is a valuable for us in the ranching business to look outside our industry for experiences and perspective. In our traditional business, new ideas and perspective our important for our survival. And unfortunately these lessons probably can't be learned horseback; we must get out and experience a much different environment to develop a wider worldview and perspective.