

Most people, regardless of age, gender, or profession, fall into one of two categories as either a risk taker, or a risk avoider. Some may argue with this theory, but one simple fact remains; we are often faced with risk and must decide how to manage that risk to get the desired result. This is especially true of men and women in the cattle business. We are faced with risky situations on almost a daily basis, and must know how to effectively manage that risk so that our cattle businesses will succeed. In the coming weeks we will present various decisions that producers make that result in high risk scenarios, and steps that can be taken to get the most out of the risky situations your cattle operation might be involved in.

In Jim Collins' book "How the Mighty Fall", he presents Bill Gore's concept of what is described as the "waterline principle". It reads:

"Bill Gore, founder of W.L. Gore & Associates, articulated a helpful concept for decision making and risk taking, what he called the 'waterline' principle. Think of being on a ship, and imagine that any decision gone bad will blow a hole in the side of the ship. If you blow a hole above the waterline (where the ship won't take on water and possibly sink), you can patch the hole, learn from the experience, and sail on. But if you blow a hole below the waterline, you can find yourself facing gushers of water pouring in, pulling you toward the ocean floor. And if it's a big enough hole, you might go down really fast, just like some of the financial-company catastrophes in 2008. To be clear, great enterprises *do* make big bets, but they avoid big bets that could blow holes below the waterline. When making risky bets and decisions in the face of ambiguous or conflicting data, ask three questions:

1. What's the upside, if events turn out well?
2. What's the downside, if events go very badly?
3. Can you live with the downside? Truly?

What decisions are you facing that have the potential to sink your operation? How are you managing the risks that you encounter? Have you asked yourself the three key questions above? In the next few weeks we will discuss decisions producers make that are "hole below the waterline" decisions. During the coming weeks as we write these articles, it would be interesting to hear from you about things that have happened in the past that would qualify as a "hole below the the waterline" decision. In the meantime, please let us know if you have any questions, or if we can help in any way.

Thanks,

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