

To take advantage of cattle prices, many producers may choose to purchase cattle, and then plan to later resell them for a profit. In order to purchase those cattle, a producer may decide his best option is to borrow money. If this is the case for you, we urge you to first carefully consider a few things before deciding just how much money you should borrow.

Before borrowing the money, you need to determine exactly what type of cattle, and how many you can add to your operation. This information will help you calculate approximately how much money you will need to purchase the animals. One mistake that cattlemen make when taking loans for cattle is that they borrow more money than the animal has proven to be worth historically. This common error has proven to be dangerous, creating holes below the waterline in operations, and leaving producers helpless and out of money.

For example, imagine that you plan to buy 20 head of 550lb medium and large #1 steers. Based on the current market trends, you predict that they will be worth \$1500 each, or \$30,000 total. You take out a loan for this amount and are able to pay 20% now, or \$6000, leaving \$24,000 to be owed. A short amount of time passes, and something happens, causing the market to drastically drop down to the average historical prices. Unfortunately, this means that your calves that were originally worth \$1500 each are now only worth \$800 each. How will you be able to pay back the \$24,000 owed?

No one knows for sure what the future holds in terms of cattle prices, but the best thing to do is to be prepared for a worst-case scenario like the one mentioned above. To help prevent this from happening to you, we encourage you to think again before borrowing more money than the cattle have brought historically. To help you with this, we have calculated the historical average and the current prices for two different types of cattle. Visit <http://www.extension.iastate.edu/agdm/livestock/pdf/b2-12.pdf> for a detailed chart showing historic cattle prices for various groups of cattle over the past several decades.

1000lb packer cows are currently averaging \$1292 each. In the past 5 years 1000lb packer cows averaged \$718.

550lb medium and large #1 steers are currently averaging \$1531 each. In the past 5 years these similar type steers averaged \$793.

Therefore, we believe if you plan to borrow money to purchase 550lb steers, it is best to only borrow \$800 (the historical average) for each calf purchased. Though the current market may show that they are worth almost twice as much, it is best to be prepared for the worst. This will help ensure that you would still be able to sustain your operation if something drastic were to happen to the market. This preparedness is wise, and further helps reduce the chances of creating holes below the waterline in your operation. When borrowing money, ask yourself "What is the upside in a best case scenario?", "What is the downside in a worst case scenario?" and "Can I truly live with the downside?"

Prices for feeder steers through Superior from Friday, October 10, 2014 are as follows: 475lb- \$305.5cwt, 550lb- \$271cwt, 650lb- \$247cwt, 750lb- \$240.5cwt. The price for November 2014 feeder steers on the Chicago Mercantile Exchange was \$239.1cwt on closing Friday, October 10, 2014.

Thanks,  
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