

MARKET BULL BUSINESS NEWS

Spring 2012

Reasons to Smile

Matt Perrier

Over the past year or two many a cow-calf producer conversation has moved from **frustration** or **resentment** of another industry segment's profitability to **anxiety** about how cattle they just sold will ever make money for the next owner in the chain. And most recently, the talk has even turned to the fear of consumers "trading down" to lower-priced proteins at retail and restaurants.

Everyone reading this article likely understands the basic economic forces at work driving prices higher. While most of the discussions in the country center on the supply side of the equation (less cows=less calves=higher prices), the beef industry should also recognize that strong **global demand** has pumped billions into our industry. Domestic demand for grinds has been exceptional in the wake of the economic downturn over the past four years. In an effort to buy a lower priced beef item, consumers have opted for gourmet hamburgers, making ground beef prices higher than steaks at times!

And as U.S. demand for these middle meats has slipped since 2008, the rest of the world has been happy to step in (aided by the weak dollar) and eat all of the high-quality U.S.D.A. grain fed steaks we can send them. These exports—also driven by hide/offal and variety meats (tongues, hearts, livers, kidneys, etc)—have added more than \$200/head of value to fed steers and heifers today.

So when a customer of ours recently mentioned the similarity between today's surge in cattle prices and those that triggered the "beef boycotts" in 1973, it made me a bit uneasy.

On the heels of these food protests, the beef industry decided we needed to not only increase our production, but also make our beef leaner (including the removal of intramuscular "taste" fat). By using a variety of methods ranging from feed supplements and over-aggressive implants to rapid breed swings resulting in a mongrelized cowherd, the 1980s and early 1990s were an era of declining beef demand—even given very inexpensive price points at retail.

By contrast, let us look at **today's situation**. Until the past decade, U.S. agriculture has battled "The Farm Problem" since mechanization entered agriculture near the turn of the 20th century. Basically, agriculture was plagued with the paradox of improved efficiency and productivity growth, but simultaneous economic depression. With basis in supply and demand, this "problem" simply indicated an overabundance of farms and production coupled with a lack of domestic and global demand. To make it worse, the federal government decided to "fix" this decades-old issue by telling producers what (and how much) they could produce, instead of letting the market stabilize things.

When was the last time you heard the term "Farm Problem?" Now, terms like "Urban Sprawl" or "Population Explosion" and "World Hunger" are the headlines. Global population is increasing exponentially, developing countries

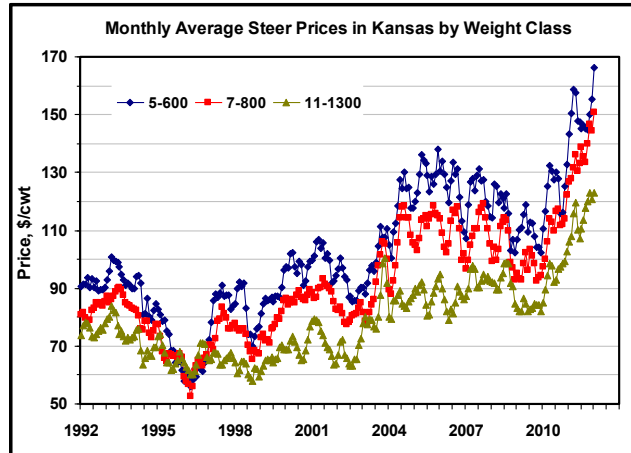
are improving their economies, and these folks are demanding higher-quality proteins.

Since 1996, domestic demand for beef has leveled its downward trend. In fact, the last six quarters have shown increased demand even with increasing beef prices (Tonsor, 2012).

In my opinion, the primary drivers of this demand are improved beef quality/consistency and new product development. Without disparaging the suggested advantages of a crossbreeding program, one fact has been proven to me over the past decade: **increased percentages of Angus-influenced carcasses have drastically improved the quality and consistency of the product we offer to consumers.**

While this is no time to lose focus of our consumers' preferences and concerns about food prices, we need not apologize for higher food prices either. Our costs of production have skyrocketed over the past several decades—especially the last five years. The quality and consistency of our products have improved, and must continue to do so.

But superior quality still merits a premium price!



Herd Bull:Weaned Calf Price Comparison

For years, we have used a simple method to determine our bull prices for spring private-treaty sales. The **base prices of our bulls** are roughly **equal to the value of five weaned calves at market price**. The chart below shows the average price of our fall auctions over the past 13 years compared to annual USDA average calf prices. This relationship has had a strong correlation as well.

Angus bull sales across the country this spring have mostly ranged \$4500 to \$6000, while most 550# calves are grossing nearly \$1000/head. Again, using a factor of 5, these two markets have proven this "rule of thumb" in pricing bulls.

Good or bad--markets have an impressive ability to sort out supply and demand fluctuations and arrive at a fair price.

Dalebanks bull sale avg vs. USDA weaned calf price (avg)

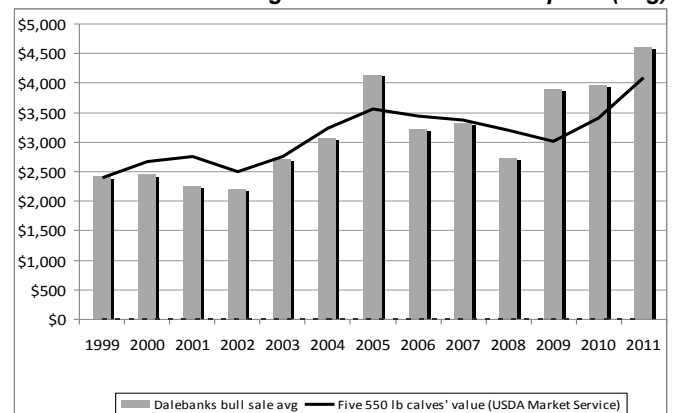


Chart compiled by Michele (Perrier) Callejo

The Cattle Market – How High Can It Go?

Reprinted with permission - Burt Rutherford beefmagazine.com

The factors that put rocket fuel underneath the cattle market in 2011 will continue into 2012, and that means prices for all classes of cattle still have some upside, according to Kevin Good, CattleFax analyst.

Speaking at the annual CattleFax Outlook session at (February's) Cattle Industry Convention in Nashville, TN, Good reaffirmed what many in the audience already thought – the outlook for 2012 cattle prices is extremely bullish.

How bullish? "We're going to suggest calf prices this year increase another 15%," he says. In fact, CattleFax is calling for better prices for all classes of cattle. Looking at the fed cattle market, Good is calling for an annual average in 2012 around \$122/cwt.

But with that price forecast is a lot of risk, he cautions. "If you go back and look at a long-term average, we typically have a 21% move in the market from the absolute low on a weekly basis to an absolute high. Put that on a \$122 market, and that would suggest you've got risk at some point back around \$110 and potential to the mid \$130s."

Doing the math, he says that means a \$300/head spread on a fed steer. That's more exposure in terms of risk than cattle feeders have ever seen, meaning risk management and agile marketing will be essential going forward.

For yearlings, Good is calling for an annual average this year around \$150/cwt. for a 750-lb. steer. "That's about 15% above a year ago," he explains. For calves, he's predicting prices in the \$175 range for an annual average. "Put \$150 on yearlings as an annual average, that means we could have prices in the mid-\$130s to prices as high as the mid \$160s," he says. Looking at the back end of the futures board, he says the market is already beginning to price some of those fundamentals into the mix.

Looking at bred cow values, he says there's room for upside movement there as well. While bred cow values are hard to pin down, he looks for a 25% increase this year, bringing average bred cow values somewhere around \$1,500 or higher.

But that's an annual average. "We recognize the top end will approach \$2,000." Using the old rule of thumb that a bred cow should sell for twice the value of her calf, \$1.75 for a five-weight calf rings up around a \$1,000 bill of sale. "That gets you to \$2,000 on the top end pretty easy," he says.

Risk for cattle feeders and stockers will increase this year, he predicts. "The bottom line for the cow-calf producer is he's in the driver's seat this year and probably for a number of years to come. Look for extremely strong calf values to continue, more than offsetting increased input costs, recognizing that those in the drought area with high hay values will continue to have a challenge if Mother Nature doesn't cooperate."



Industry Pioneer, Motivator Passes

Dr. Don Good, master motivator to his family, students, staff, colleagues, and many in the livestock industry died at home in Manhattan, KS, on the afternoon of February 14, 2012.

Don was recognized nationally and internationally for his accomplishments as a teacher, livestock judge, administrator and strong supporter of research.

Dr. Good served on the faculty of Kansas State University for 40 years. His first position was to coach the livestock judging team, manage the purebred beef herds, and teach/advise students. He was named department head of Animal Husbandry at Kansas State University in 1966 and served in that capacity until his retirement in 1987.

A colleague commented that Don's interest in people has been the trademark of his career. **"He has a charisma, a personality that always puts people at ease whether it's a 4-H kid showing his first animal or a well-traveled livestock breeder."**

Don was widely known as a livestock judge and was a strong advocate for measurable carcass traits to back up meat animal judging decisions.

Memorial contributions are suggested to the Livestock and Meat Industry Council for the Don Good Student Enrichment Fund or to the First United Methodist Church.

"The bitterness of poor quality lives long after the sweetness of a cheap price is forgotten"."

-Displayed by Dr. Don Good at Good Farms

We were fortunate to call Dr. Good a friend, mentor and customer. His memorial service was truly a celebration of his life, as family and industry leaders shared memories of what a great man Don Good was.

In a time when there seems to be a shortage of "heroes" for our young people, Dr. Good served as a true inspiration to anyone involved in animal agriculture or education.

*Craig and Amy continue to operate the appropriately-named Angus herd, **Good Farms**. The entire Good family's contribution to the beef industry has been—and will continue to be—nothing short of remarkable.*

KAA to Hold Commercial Female Sales

The Kansas Angus Association is expanding the reach of their commercial female sales. Please contact Matt if you are interested in consigning to any of these events. Or go to kansasangus.org for more information.

March 24, 2012 Junction City Livestock Sales
April 18, 2012 Ft. Scott Livestock Market
Nov 21, 2012 LaCrosse Livestock
Dec 1, 2012 Pratt Livestock

Dalebanks Private Treaty Bulls Available

65 yearling and 18-month-old bulls

Do-It-All genetics bred for a balance of the profit-driving traits of MATERNAL EFFICIENCY, CALVING EASE, GROWTH AND END-PRODUCT MERIT.

Contact Matt today for a list of these balanced-trait bulls.

2012 Dalebanks Angus Auction Calendar

2nd Proven Brands of Kansas Elite Female Sale
108th Anniversary Dalebanks Angus Bull Sale

Oct. 6, 2012

Stucky Ranch, Kingman, KS

Nov. 17, 2012

Eureka, KS

Genetically Hedging the Calf Crop

Balancing genetic traits can open up market opportunities. Reprinted with permission – Mark Parker *Progressive Cattleman*

When your investment portfolio is a cowherd, risk management can be a big-time challenge. According to Eureka, Kan., Angus breeder Matt Perrier, spreading risk by spreading calf crop marketability can give commercial beef producers an important market hedge.

“Balanced-trait genetics are an overlooked risk management tool that cow-calf producers have at their disposal,” he observes. “If we genetically focus on multi-endpoints and produce calves that appeal to more than one market, we can greatly improve our marketing flexibility.” For operations selling calves right off the cows, it may seem to make sense to focus bull selection criteria exclusively on weaning weight. But what happens if the market is poised to reward retained ownership or there’s a lucrative demand for top-notch replacement heifers?

MARKET FLEXIBILITY.

The beef industry’s volatile economic landscape makes it highly important for producers to position themselves for market opportunities, Perrier says, and balanced-trait selection is a way for producers to diversify that calf crop portfolio.

Single-trait selection is simple and narrowly effective but the result is the bovine version of a one-trick pony — calves that don’t appeal to multiple market segments. “If all you care about is big calves at weaning, it’s not hard to accomplish but you may do it at the expense of other important traits,” he explains. “It’s more difficult to develop and identify bulls excelling in multiple traits simultaneously. Today, though, top breeders are producing bulls that blend growth and calving ease with maternal and end-product traits in a consistent, balanced-trait package. With some homework, cow-calf producers can literally ‘have their cake and eat it, too.’”

For Perrier, the sire selection process begins on the American Angus Association web site where he plugs in acceptable EPD ranges for about 16 different traits. He then sorts through the potential AI sires with some “cattle common sense.”

“Then I’ll call people who have used a particular sire and ask questions that the EPDs don’t answer,” he says. “If I can, I’ll go see some of their cattle and, ultimately, the sires we choose will be matched with proven cows. The goal is to produce balanced-trait bulls for our commercial customers. And it is an attainable goal. Bulls that can help cattlemen manage market risk are available in large numbers in several different breeds.

“Of course, when you find them, they’re going to be more expensive because those bulls are in demand. It’s no different than today’s hybrid corn that offers drought tolerance, disease and insect resistance. Like that corn, multi-trait bulls have more to offer.”

Perrier points out that reproductive traits are lowly heritable and producers must rely on management techniques such as controlled breeding seasons and culling to enhance reproductive efficiency. Highly accurate EPDs for those traits will eventually come, he predicts, but cattlemen have an effective genetic toolbox right now to make other positive herd changes. Multi-trait indexes offer a fairly simple way for commercial breeders to identify balanced-trait bulls, he adds.

DESIGNER CATTLE

For seedstock producers, however, the process is more complex as they strive to genetically design cattle combining low to moderate birth weights, moderate to high growth, and moderate mature size as well as end product traits.

“We want cattle with a rapid growth rate under low input conditions up to a year to 15 months of age. Then we want that growth to stop so we don’t end up with high maintenance females. We have enough data to accomplish

that — to bend the growth curve and select for several traits simultaneously,” Perrier says.

University of Missouri Extension Livestock Specialist Eldon Cole has observed an increasing reliance on EPDs for bull selection. “Visual appraisal alone is a habit that’s been hard to break for many breeders,” he says, “but I believe the trend toward EPDs has sped up in recent years. I attribute a lot of that to using EPDs for calving ease. That has been so successful that many cattlemen have decided that, if it works for calving ease, they’re ready to buy-in on other traits. It’s taken a long time to get over using visual appraisal alone but it’s become very clear that the numbers do a far better job of predicting what type of offspring a bull will sire.”

Cole, who has been involved with the Southwest Missouri All-Breed Performance Tested Bull Sale for many years, suggests that beef producers begin by evaluating their own cowherds and then select bulls with a genetic package that addresses the operation’s goals.

MORE THAN NUMBERS

The Kansas Angus breeder and the Missouri Extension specialist agree that selecting bulls is more than a numbers game. Both also suggest that bull buyers look beyond the EPDs to examine how the seedstock producer handles his or her own program.

“Use the science to come up with your short list,” Perrier recommends, “but do some detective work and find out how the breeder’s cowherd is handled and if those cattle have been developed in a manner that’s compatible with your management and environment.”

The business of beef offers both reward and risk good measure these days. For Matt Perrier and other cattlemen, managing the risk may very well be the prerequisite to reaping the reward.

Trait-balanced bulls offer a genetic hedge by siring calves that fit multiple markets. Dalebanks Angus has blended tradition with innovation for five generations.

—Mark Parker

New Arrivals

As usual, this February marked the beginning of our 2012 calf crop. But even more importantly, it brought in a new member of the Perrier grandchildren.

Russ & Michele (Perrier) Callejo of Boulder City, NV, announce the birth of their first child, Luke Thomas Callejo, born Wednesday, February 8, 2012 in Henderson, NV. Luke weighed 5# 8 oz. and measured 18 inches in length.

Maternal grandparents are Tom and Carolyn Perrier of Eureka. Paternal grandparents are Roger and Celeste Callejo of Las Vegas, NV.



Luke Thomas Callejo

1023 Excels In \$B and \$W Combo

Dalebanks herdsire E&B 1680 Precision 1023, owned with Benoit Angus and ABS Global, currently ranks as the third highest proven sire for combined \$Beef and \$Weaning values in the Main Sire Evaluation of the American Angus Association.

As evidenced by his yearling progeny's exceptional end-product merit, birth-yearling spread and moderate mature size, these cattle balance many profitability traits in one outstanding phenotypic package!



Wanted: Commercial Females

Wanted:

- 150 Late spring-calving young cows - NE Oklahoma
- 250 Spring yearling heifers to breed May-June 2012 - SE KS

For Sale:

- 125 8-9 year old bred cows - Central OK
- 30 Open yearling replacement heifers - Northcentral KS

Please contact Matt for more information.

And call anytime you are buying or selling Dalebanks-influenced genetics! We will certainly try to help.

65 Private-Treaty Bulls Available This Spring

Sires include In Focus, Game Day, Lead On, Complete, Final Answer and other balanced-trait sires. Plenty of calving-ease bulls for heifers, plus high-performance genetics for cows.

Bulls available for selection after March 12 on a first-come, first-served basis. Contact Matt today to receive information on this high-quality set of bulls as soon as it is available. They will be freeze branded, vaccinated and fertility tested in mid-March and ready for pick-up by April 1. *Call or email to receive more information and make your selections*

Dalebanks Females for Sale Private Treaty

Select groups of open spring heifers and bred fall females will be available throughout the spring. Call Matt for info.

Proven Brands of Kansas Elite Female Sale: **October 6, 2012**

Look for another "Top Cut" group of registered females in this breed-leading event. Hosted by Stucky Ranch, Kingman, KS

Annual Bull Sale: **Saturday, November 17, 2012**

Selling approximately 130 yearling and coming 2-year-old bulls

Tom & Carolyn tperrier@dalebanks.com
620-583-6956

The Perriers
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FORWARD & ADDRESS SERVICE REQUESTED