

Buy undervalued, sell overvalued — and let cattle market tell you when to act

By **JESSE BUSSARD**

GOOD marketing at the front and back of cattle deals may be the No. 1 factor contributing to profitability in the stocker-backgrounder sector.

“Cattle marketing is not just about selling,” says Doug Ferguson of Beatrice, Neb. “It is also buying, and making the right kinds of buys will help your operation more than anything else.”

Ferguson chooses to use sell-buy livestock marketing in his stocker-backgrounder operation. It weighs the sale price of your cattle against the buy-back price in the same market. Ferguson says it eliminates the risk exposure in each marketing transaction he makes.

He got his start with about 20 head, buying lightweight calves at the local sale barn and feeding them out. Over the years, he has grown his operation into a successful, profitable full-time business where he backgrounds stockers on both grain and grass. Learning sell-buy marketing played a vital role in the success of Ferguson’s business.

The cornerstone principles of this sell-buy marketing are buying the undervalued livestock, selling the overvalued and letting the market tell you when to do it.



FAST TRADE: One of the first secrets to sell-buy marketing is to buy back calves in the same market in which you sold them and count the difference in price as profit.

“We sell an animal and replace it with an animal of lesser value, taking our profit on the buy end,” says Ferguson. “The ability to replace cattle at a profit dictates what we sell.”

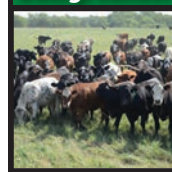
Quick transaction

A sell-buy marketing transaction will be quick, Ferguson says, and usually takes place in the same day or week. By selling and buying back in the same market, it is possible to greatly reduce or eliminate

your risk exposure to time. Or to put it more simply, as longtime teacher of sell-buy marketing concepts Bud Williams used to say, “You make money on the buy, not the sell.”

It’s important to note this marketing should not be confused with buy-sell marketing, which involves trying to time the market and purchasing cattle at a low price, then holding onto them for a period of time. This method increases risk given the fact that the market

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may go higher or lower, while the buyer hopes to achieve some kind of margin on the sell.

Marketing, Ferguson believes, is one of the least understood aspects of the cattle business. "This may require a paradigm shift for most people," he says. "I learned how to market cattle on a real-time cash-flow reckoning, which allows me to be self-hedged in the cash market."

He learned about sell-buy cattle marketing from some people he was buying cattle for back around 2004. They suggested he read a blog written by Ann Barnhardt. At that time, Barnhardt was in the process of taking over the teaching of the Bud Williams marketing schools. Ferguson eventually attended one of these schools, learning how to market cattle on a real-time cash-flow reckoning, using sell-buy marketing principles.

Watch and learn

The key to sell-buy marketing, according to Ferguson, is learning to watch and understand price relationships. "Sell the overvalued cattle and replace the undervalued cattle."

"I'll give you an example of what I did last week," he says. "The market was signaling that it really wanted six-weight cattle, so I gathered mine off grass, even though I still have a ton of grass right now." (It was mid-August.)

The way Ferguson explains it, sell-buy marketing can only work if you are willing



TIMING: Nebraska beef producer Doug Ferguson says sell-buy livestock marketing weighs the sale price of his cattle against the buy-back price in the same market, basically eliminating risk exposure in each marketing transaction he makes.

PHOTO: LIVESTOCK MARKETING ASSOCIATION

to sell and buy back cattle. "The market was signaling that it didn't really want cattle that weren't weaned, so I bought the unweaned cattle," he says.

"I can add value to these calves by weaning, putting them in a better package, like a load lot, and putting some weight on them."

In all of this, Ferguson says it is important to remember you are serving your customer. For him, this will be the feedlot

or another stocker operator. "I am selling them what they [customers] want to buy," he says. "Very, very few cattle producers do this; instead, they tend to sell and buy back what they want, never thinking of their customer."

Ferguson's skill and success with sell-buy livestock marketing is proof that just because a marketing method is old doesn't mean it still can't be a game-changing option for stocker-back-rounder.

Ferguson says sell-buy marketing not only reduces his risk, but also offers him flexibility.

Bussard writes from Bozeman, Mont.

Cost of gain still matters

TO do sell-buy marketing correctly, you must know your real cost of gain, says Nebraska beef producer Doug Ferguson.

This will include every single cost associated with raising the animals you sell. With this figure, you can then figure out what return on investment you will need. Ferguson emphasizes this figure should be a figure you feel you can live off of and is realistic.

From this, you will now have a Break Profit-Cost of Gain, or BPCOG, not to be confused with a breakeven.

"People who use breakevens will go broke," Ferguson says. "You must include a profit."

Once the BPCOG is determined, Ferguson makes a sale barn card, which he calls a "barn card." On this card he calculates the return on the gain required for each weight class of cattle he is interested in that day. This will be his guide for what he is willing to pay for replacement cattle when he goes shopping.

By doing this Ferguson says, "I can make a profit every time I buy back, as long as I stay inside those numbers."

He knows any cattle that sell above those numbers would lose him money. However, if the cattle sell below those numbers, Ferguson knows the cattle could provide extra profit above what he has figured into his BPCOG.

Check these sources for more details

Bud Williams' Livestock Marketing DVD. Learn Bud Williams' method of livestock marketing in this three-hour DVD set on sell-buy marketing. Williams explains which class or weight of animals are overpriced and which are underpriced. The three DVDs sell for \$200. See www.stockmanship.com.

Cornerstone Cattle Marketing. This is Ann Barnhardt's cattle marketing education and consulting firm. Barnhardt occasionally teaches schools on sell-buy livestock marketing and also sells a four-DVD teaching set, 13 hours in length, on her website at www.cornerstonecattlemarketing.com.

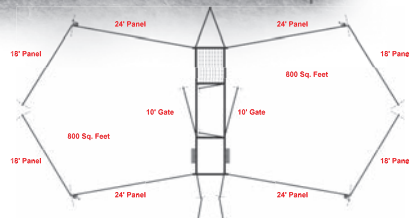
Integrated Ranch Management Symposium, Wyoming. This symposium is held annually in May in Laramie, and is hosted by the University of Wyoming's Range Club. A sell-buy marketing school has been part of this symposium for the past few years. More information on the last event is at www.rangelands.org/IRMS.

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