



## Sources of Risk and Personal Risk Preferences

**R**ich and Sally Samedi have been farming in Alaska for close to 20 years. During that time they have encountered a variety of different risks. Sometimes things have worked out well; sometimes not so well.

Rich and Sally are at point in their life that they feel a need to take a deeper look at their farming operation and the risk/reward potential that it holds for their family as a whole.

By and large, they have made a comfortable living over the years growing barley and hay in the Tanana Valley region southeast of Fairbanks. They also have a few cattle that have provided meat for the family and also valuable income in some years when the crops did not do so well. For several years, they have thought about expanding into

potato production but they have yet to take the plunge.

Their oldest son, Jimmy, is now a sophomore in high school and showing interest in continuing with the family farming tradition. Middle child Sami, now in middle school, loves the few animals they have on the farm and would like to see that part of the operation grow larger. Youngest son, Charlie, loves tractors but he also loves race cars and airplanes. Anything with an engine seems alright with him so they think it will be a while before they know which direction he wants to go with his life.

For now, Rich and Sally know there is an opportunity to grow their operation slightly to accommodate one or more of their children staying on or returning to the farm after finishing their education. They also know that

if they embark in this direction that their margin for error will become tighter. They would like to grow their operation responsibly; taking advantage of the opportunities that exist without taking on more risk than necessary.

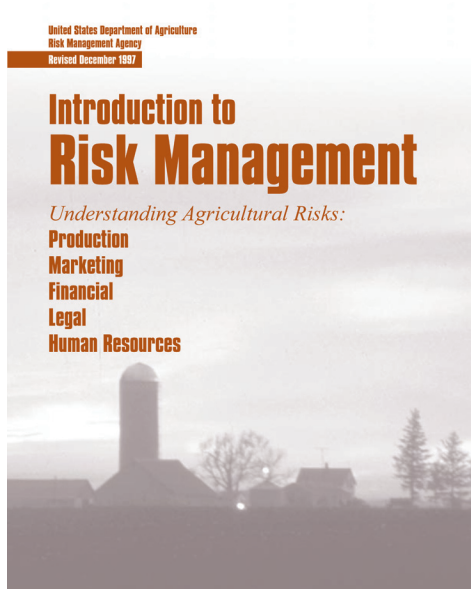
They have come to the conclusion that they need to spend some time assessing the risk they currently face or could face in the near future in their farming operation.

They also agree they need to discuss their willingness to take on more risk if they expand their operation to accommodate one or more of their children joining them someday in earning a living from the farm.

### Looking for Risk Sources

Sally is pretty savvy with using the family computer. She spends one Saturday morning doing a web search for sources of risk in agriculture and comes across a 1997 publication from the USDA Risk Management Agency (RMA) called "Introduction to Risk Management: Understanding agricultural risk: Production, Marketing, Financial, Legal, and Human Resources."

Reading through this 20-page document she learns there are five primary sources of risk in agriculture.



- Human resource risk involves uncertainty surrounding the people involved in the operation.
- Finally, legal risk involves the threat of legal action including changes in regulations that could affect their ability to operate and make a good living.

Sally's research also turns up a more recent book published by members of an agricultural education team called RightRisk ([www.RightRisk.org](http://www.RightRisk.org)). The book is called "Applied Risk Management in Agriculture" and includes an accompanying website ([www.RiskNavigator-SRM.com](http://www.RiskNavigator-SRM.com)).

The materials not only provide an in-depth discussion of the five sources of risk but also a ten-step strategic risk management process for thinking through and managing risk more effectively.

She also finds a website with educational materials specifically for workshops presented by the RightRisk team to Alaskan producers ([Alaska.eRightRisk.com](http://Alaska.eRightRisk.com)).

Later that day, Sally shared some of what she found with Rich and they resolved to spend a couple of hours the following week looking through the materials together and discussing their situation.

- Marketing risk and production risk involve uncertainty in prices and yields, respectively.

### The First Pass

Rich and Sally gathered around the family laptop on the kitchen table the following Tuesday evening and reviewed the materials together. They agreed that production risk was a major concern due to their very short growing season.

- Financial risk involves uncertainty in being able to meet your financial obligations.

They felt they were currently growing low production risk enterprises but that could change if they decided to expand into potato production.

Market risk was not a major concern at the moment because prices have been steady and strong for the last several years. However, high market prices have also led to a significant increase in land values which



they each have different levels of concern about the various sources of risk.

They were pleased to find an online Risk Preference tool on the Risk Navigator website that could help them determine their personal risk preferences and compare them to each other.

After taking a quiz included in the tool, they determined that Sally was much more averse to risk than Rich. This seemed to agree with some of the conversations they were having.

For example, Sally is deeply concerned about kids coming back to farm and the family dynamics that go with it. She wonders what will happen if they don't like it or someday their spouse doesn't like it and they decide to leave after a few years. It could leave an operation and debt too big for them to handle by themselves.

Rich, on the other hand, feels that things will work out one way or another.

is a financial concern if they decide to buy more land to expand their operation.

They feel they are in pretty good shape as far as any legal and human resource risks are concerned; but realize that estate planning and being fair to each of their children will be a major concern in the near future.

While discussing these things, Rich and Sally realized

### **The Future**

Rich and Sally agree that they need to continue to use the RightRisk materials and keep discussing openly with one another the opportunities in front of them over the next few years.

They agree that any expansion into potato production or other new enterprises needs to be done with caution and a try before you buy type of approach if at all





possible. They also agree that expanding their cattle production could be a good way to provide more opportunities for their children without taking on much more risk.

Overall, they are very pleased with the direction they are headed and are confident they can balance risk with opportunity to ensure a bright future.

**Additional Resources:**

RightRisk Online Courses

<http://RightRisk.org>

USDA Risk Management Agency (RMA)

<http://www.rma.usda.gov>

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