Bull Session 12-20-21

**Holly Stoltz:** [00:00:00] Well, thanks everybody for showing up tonight.. Tonight we're talking about some insurance programs and we have Charlie Johnson, who is the co-owner of the Eastco group.

And he is the co-owner with his sister, Jen, and they are the fifth generation. Ranchers out of Eastern Colorado, and they've been specializing in these ag programs for about 10 years. So Charlie's gonna discuss the pasture range and forage insurance, and then he'll also touch on the livestock risk protection programs.

So take it away, Charlie.

**Charlie Johnson:** Thanks, Holly. Thanks. Alex is the one that invited me and looking forward to it. And it sounds like you guys have a neat group in the, this is a neat tradition. This bull session deal. I wish someone in Colorado did something like this.

You know, just real quick and Holly basically did it for, for me, but yeah, I'm with Eastco group , my sister and I founded it w we have hired a a half dozen agents now and some back office staff, but we [00:01:00] sell PRF, our bread and butter. That's probably 80% of what we do.

And then the other 20 is. livestock programs, mostly LRP. I'm I live on that family ranch in kit, Carson, Colorado center of the state, but about 40 miles from Kansas, so far east. And I live on the ranch. That's what I do every day. And then I do this part-time and seasonally. My sister is full time lives in Denver and does it all the time.

, we bought this product before we sold this product, you know, I think the product came out in 2007, I think Colorado it didn't start till 2009 and you know, our, our dad signed up the first couple of years. And then Jen got into it. So, you know, w we come from this and both these products, you know, we believe in 'em we use them, we like so we're not selling something that we don't believe in.

So yeah, I'll start with PRF. And, you know, I I'm operating under the assumption that most of you are somewhat familiar with this product. I'm not going to get too down in the weeds into all the details of [00:02:00] it. Try to keep it a little bigger, picture, more of an overview. You know, I'm happy to talk details with anyone at any time, but for tonight's purpose, , I want to just kind of overview and then open up for discussion.

The official name is pasture range, land and forage insurance. You'll hear call it a lot of things. Rainfall, drought, pasture, grass you know, there is only one real product. So anytime you hear those terms, this is what it's talking about. The concept of it is quite simple. The execution is much more difficult, but the concept is.

, you pay premium and then you get money back when your precipitation is a lower than average. Now determine what average is and how much you get, and like say the details get really complicated, but the idea of fairly simple you could do it on any owned lease ground. As long as you have the intention to graze livestock or produce hay,

I like to go back and kind of talk about the history of PRF and where it came from. I think is important and understanding of the product as a Congress passed it was called the agricultural risk protection act [00:03:00] in 2000 and kind of the idea here was, Hey, the row crop farmers in the United States have had a strong safety net.

For a long time for decades. You know, if you're growing corn, cotton, wheat, barley, you know, any row crop, you've probably been participating in federal crop insurance for a long time. But at the same point in 2000, there, there wasn't much there for the livestock producers of the country. So they, they saw this need, they pass the act in 2000 government of course operates how the government operates and not a lot had happened till 2006.

In 2007, they released a pirate pro pilot program is mostly down in Texas. And then I think it went nationwide in 2009. And again, the idea was, you know, we want to help livestock guys as a country and the conclusion which I would, I would say is a pretty good conclusion was, Hey, no matter if you're ranching and the desert of Nevada, Or the swamp of Florida getting less than average precipitation is going to have a negative [00:04:00] impact on your bottom line.

So this is the one variable that no matter where you're ranching is pretty important to you. So, Hey, if we can protect that and provide a safety net there, then we should be providing a benefit. Which I think was a good conclusion. The details are complicated and I'll get into some of the cons of that here in a bit, but you know, the overall goal from the risk management agency, which is the part of USDA that operates this program, the goal was let's try to provide a safety net for the livestock producers in a similar way we do for the row crop guys.

It's like I said, it's created, ran by the risk management agency, a federal agency in Washington, DC and Kansas city. But it is sold and serviced by private insurance agencies like ourselves. So you can't walk into your NRCS or another government agency and purchase these products. You have to come to a private company.

The RMA though is who subsidizes it. And I'll get into those details later. That's the basics. And before I [00:05:00] bore everyone with this discussion, anytime anyone wants to jump into the question, please feel free to do so

this slide again, I don't want to get too caught up in the weeds, but you know, I I've touched on the intent was really good. And the general idea is pretty simple. Hey, if you get less than the average. You're going to get a payment now, measuring that is where it gets very difficult. And this is what this page is describing.

What they've done is they divide the country into a grid system, which is 0.2, five latitude by 0.2, five longitude. And where you are is probably more like 17 miles north, south 12 miles east west. And then they radiate out from that grid and go find the nearest, at least four weather stations. So pretty quickly you can see the flaw in that system is they might be going 60 miles to determine how much snow you guys got yesterday.

Well, of course, 60 miles away might have quite a bit of a different snowfall last night than you did on your [00:06:00] ranch. So you know, , , the negative of this program, I always harp on and that I never want someone to buy this product without understanding this is, it is. A extremely accurate program.

Thunderstorms are very spotty, especially in the west. You know, weather stations can get hit and it doesn't hit you. The government is not determining exactly what the precipitation level on your exact ranch was, is determining an area based precipitation. So I think that can be really frustrating to a lot of people, Hey, my rain gauge said I got half an inch and here's the government telling me I got three inches.

This is crazy. And that can happen. It is inaccurate. Of course the opposite can happen. You can get hit and the rain station can whoa. So, you know, over time, theoretically it'll even out. But I do like to harp on that it is not an overly accurate product,

 That is how they're gathering the numbers, how they're measuring it is they are not determining if you are dry on it and not on a year. They're determined if you're dry at two month [00:07:00] intervals at a time. So the product and, you know, this is a little bit unfortunate. The deadline to sign up for 2022 was December 1st.

So if you haven't signed up for 2022, you have missed the boat. You have to wait for next year. So you're covered for the calendar. But two month intervals of time. So the first one would be in January, February, the next one would be in February, March, March, April, and et cetera. You get to choose which animals you were covered in and how have you that you want to be covered in each interval.

So again, you don't have to be dry for the entire year. You just got to get dry at two month intervals at a time in order to trigger your payment. Unless you guys really want me to dive into that, I'm not going to dive into that tonight of the analysis that goes into how to pick that those intervals.

It's very complicated. You know, we, we are really heavy on our analytics. That's kind of what we pride ourselves on the, the government database shows all the numbers going back to 1948. So we can go in and see how certain intervals paid on your ranch and how other ones did and, and, and try to, you [00:08:00] know, mathematically optimize that.

Again, I'm, I'm happy to go into that, but you know, I think for tonight's purposes, maybe that's not as important.

So kind of sum it up this page, the negatives, you know, I've said the first one, I can't say it enough because you know, if you get into the program and you don't understand this, it can be a very frustrating experience. It is regional based. It is not ranch specific. There will be years that they say you, you weren't dry when you were, and it's going to happen.

If you played the game long enough, it will happen. But of course, you know, the opposite should happen as well. So it should even out over time, but it is not ranch specific and not overly accurate. The second one, isn't rather obvious one anyone that buys insurance. You can, and not only can you, but if you do the game long enough, you will lose money doing this.

There will be years where you pay in money and don't get as much money back and you have a negative return. The reason I put this on here, you know, the pro [00:09:00] product came out about 10 years ago. It's been pretty dang dry the last 10 years inmost of the west. So a lot of people have been doing this program, never have lost money.

They've made money every year. And I just like to harp, Hey, you're gonna lose money. So if you don't budget for it it's going to be a rude awakening. That one year you get a bunch of precip and you have to pay your premium again, an obvious negative. But it is worth stating.

So, the pros, why, why I believe in the product why we've had success in the product. And a lot of our customers have first it's, it's very, it's completely customizable. You can do as many acres or as few as you want to do, you can do a lot of different price levels. You know, I don't know if there's a lot of farmers at the meeting tonight, but if you insure an acre of corn in a county, up into your, all your acres of corn that that is not true on pasture, you can do as much or as little as you want.

I shouldn't say as much there's limits. You can only do a certain amount per acre. So there's a limit on how high you can go, but there's no limit on how low the indemnities. And when I [00:10:00] say indemnity that. It means payment payment to you. That's determined by algorithm in a computer, in an office building.

It's not determined by adjusters, which, you know, makes your life pretty easy. There's not someone driving out to your ranch, measuring puddles, or, you know, doing any of that. It's all based on computers. So, you know, there's very little paperwork from that standpoint. Now there's no income limits.

There's no AGI requirements for PRF. Anybody can participate, no matter your income. And no matter the size of the ranch, you can do all of it. You can still do the, the FSA disaster programs which a lot of people ask about and, and a pro I like from, you know from buying the product. Is it as confidential or no one knows that you are participating in the program.

No one knows how much you're participating in the program other than you and your agent. So it's, it's not like say the COVID money, you know, the cares act last year where anybody can Google your name or your entity [00:11:00] name and see exactly how much you got paid or any of the other disaster programs.

This one is not that way. That is not public information. It is completely confidential. The last one so you signed up by December 1st, your coverage starts on January 1st. You don't pay your bill actually until September 30th of the next year or so, and dry years by the time your Bill's due, maybe you owe less of it or none of it would, you know, kind of helps cashflow wise where you can pay it down the road rather than right now.

I ran these numbers last night. I think, you know, they're pretty interesting. This is just what PRF PRF is nationwide. So again, in 2007 was the first year there's 28 million acres insured in the United States for total premium 70 million subsidy of 41 million. And this says, this shows for a dollar, a customer put in, what did he get back, got back a dollar 51 cents that first year, the main thing why I think this is interesting is to see the rapid, rapid growth growth of this [00:12:00] program.

It is now 2021. There was, you know, almost a half a billion dollars of subsidy into PRF nationwide and, you know, 20, 22 numbers aren't out yet. I would imagine there's going to be a big increase again. So it, you know, It went from zero in 2006, two pretty big deal. And in 2021 you know, just for comparison sake, I looked at individual crops on the government website to see what their total subsidy is.

And there's only four crops. In 2021 that the subsidy was, was bigger than a pasture and that's corn soybeans, cotton. And wheat so we're now we're no whereclose to corn, that's getting a $3.1 billion subsidy. But you know, it is a big program and, and more so than it being big, it has rapid growth. And the reason why it's at rapid growth is basically summed up by this column.

It it's a winner. So this column saying if you put $1. [00:13:00] And you got dollar 51. So you made 51 cents at your per the average guy per dollar put in, you know, these dry years that we've had recently huge payments. So if it was a dollar, it would be a break even so you can tell real quickly there's not been a break even year nationwide, it's it is a money center for, for the rancher.

And then I looked specifically at Montana just, you know, thought that'd be interesting. I, I didn't run it before 2017 because in the early years in the big Western states, it was, it was a, basically a totally different program. It wasn't measured by the NOAA weather stations, measuring precipitation, it was actually measured with Google earth imagery.

So it was totally different. So I didn't think that was that comparable you know, pretty big product. In Montana. There's three, three crops that are heavily more heavily subsidized and pastures is number four. So I mean, pretty high. It is interesting 2019, you know, maybe you guys know better than me. It looks like 2019 was a wet year in Montana.

The average policy in [00:14:00] Montana lost money in 2019, lost 30 cents on the dollar. Of course did very well. Last year, 2021. Data's not complete for a few more months, but it's going to be very positive. Which I don't think you need me or the government to tell you that Montana has been in a drought in 2021.

And, but that will show itself in these numbers. It's been very positive returns for the ranchers in 2021. And that's all I got for PRF. So before I dive into LRP, I'd like any comments or questions or any discussion?

**Bill Milton:** We just, just jump in here. Yeah. Charles. Yeah. My name is bill Milton. Yeah. We were in central, Montana. And we first got into the program and 2019 not overly impressed. But even in this year, you know, Discussions, you know, maybe I'll shop around other agents. I mean, the guy we're working with, it's like a good guy, but, and they use all the algorithms, but they tend to they tend to [00:15:00] kind of ensure those two month periods based on almost, you know, going back historically and looking at historic returns on those periods and not necessarily on those really key months that we depend on moisture.

So April, may and June, you know you know, we didn't invest a lot of dollars and acres in those periods yet. Those are the ones that have the most impact. So I think one of the confusing things about this program is in one hand, it's kind of a, an investment portfolio. Like if you've demonstrated that we'll return money, if you definitely are working with a good agent that historically you'll probably.

You know, I'll get more money back and you put in, but ironically though, you could have a year like this and not make as much money as you think, or certainly not get the money. You would hope you'd get to overcome your expenses of having such a dry year, because you will have invested in [00:16:00] months that aren't that are more historically high returners versus the ones that aren't and April, may, and June wouldn't historically be high returns because that's usually the most predictable high moisture time we get in Montana.

Yet this year I would have wouldn't have been great to just invest in a pile of money in those, in those at least a couple of those months. And like this coming year, we w we will invest more than average in at least one of those periods. So we were kind of a little bit frustrated this year. You know, we ended up probably getting more money from NAF than we did from you know the drought insurance program.

So anyway, it's just a heads up to everyone that, you know, have a, have a really smart agent and, and realize that it's it isn't really necessarily a black and white drought program, you know, it's but it is a program that I think based on your numbers as a profit center for your ranch,

**Charlie Johnson:** really good points, bill.[00:17:00]

You know, we're big numbers guy, too. You know, I have a master's in finance and, you know, I can geek out on looking at the analysis and doing the algorithums and all that stuff. And you know, it's easy when I say is, you know, I'm sitting at my desk in Colorado. It's easy for me to tell you, oh, these are the best most insurance.

And those are the worst months. But you know that that's just not that that's not valuable information. It is valuable information to know, Hey, historically, these ones are better than those ones are worse. But, you know, I do think you do have to balance that with, Hey, what's the, what's a real world ramifications on my ranch and yeah, I might tell you that January, February is best the best center.

We'll put all, you know, put a bunch of acres in there and you're just thinking to yourself, you know, I don't lose a lot of sleep over January, February. And then here I am telling you, oh, you know, may June. You don't want to insure there, and maybe that is where you'll lose your sleep. So, you know, there's only so much a guy at a computer crunching numbers can do.

And, you know, I think it is [00:18:00] important to balance that with, you know, what is it, my real-world hedge w when is precipitation most important to me? And, you know, to me, the right answer is a balance. Let's, try to have an interval and a grid selection that works historically, but also provide some real protection to me you know, on the ground, not just a theoretical.

So I, yeah, I think those are really good points.

**Logan Mannix:** , it might be worth it for me to kind of speak to our experience. So I do think that any producer going into this has to try and decide whether they want to treat it more like an insurance project an insurance. Or more like an investment or a combination of both.

And I do think the agent, and there's a lot of little plug for Charles and Jen. I do think I don't have anybody else. I don't have experience with anybody else. So I'm not talking down to any other agents, but I think they have been fantastic to work with. I think they're very advanced in, in how they analyze this and they, I think they do a [00:19:00] really nice job.

So that's helped. We've kind of made the decision that we're treating it a little bit more like an investment. We think that we are a little bit of background to our ranches, that we do have a, a dam above us. So even in drought years, we do have a little bit of buffer that way. We're also in the kind of financial shape that we think we could ride out.

A tough year or two, if that's what was necessary. And so instead we wanted to go for more return. And so we've insured fairly heavily in the fall, late summer, early fall months, because that's what Charles and Jen come back to us and say is going to pay the most, which feels a little funny. And it makes you wonder if the program is working the way it should necessarily.

But we're like bill. We grow most of our forage in may and June. And so by putting our insurance heavy in the fall and summer months, if we in a year like this, if we had really dry spring and didn't grow forage, we would not be well [00:20:00] protected. And in fact, this is the we've been in the program. I think this is our fourth year.

I think it was the first year we're going to lose money this year. Which is really weird because it's the least rain we've got in the four years. We've been in the program, but this year we got two inches of rain in August, which we don't normally get. And our valley happened to be one of the relatively wetter places in the state during the drought during the spring.

So we're not losing all of our principal, but we probably aren't going to quite make it back. However, over the four years that we've been involved, that has been a very positive return overall, far above anything we could do with money anywhere else better than their 70% return average, for sure.

So I would say, yeah, it has definitely been a profit center for us. And I think that we could choose to spread our investments out a little bit. If we had to, where if we were more spread out this year, I think we would have broken even, even if we wouldn't have made a ton of money, but because we decided to treat it like an investment and [00:21:00] invest a little heavier in the late. Summer and early fall months, we'll probably lose money this year, but I think, you know, the numbers say over time, we ought to make more. And then the last thing I would say is that we did make the decision this year to weight our picks a little bit more towards the 10 year and 20 year average than the 70 year average, because at least in our opinion, we do think that climate change means that maybe the 70 year pattern is not as accurate as the 10 and 20 year patterns.

So we've weighted it a little heavier towards the more recent years. But anyway it's definitely been profitable, but like Charles said, it has not matched our grass production.

**Charlie Johnson:** I think, well first, thanks for the kind words Logan. Appreciate it. You know, I think there's two kind of things you hit on there that are pretty important.

Know one, it is there isn't a right answer for everyone. You know, it really depends on your situation. And, you know, I, that was interesting where you said, you know, you're getting water from the reservoir above you. [00:22:00] So, you know, maybe drought's not as impactful on you as it is on another operation. So you can look at it more as an investment.

You know, that doesn't mean that's right for everybody. And it really comes down to what's your risk tolerance. You know, do you want to look at this more as a real life hedge? Or do you want to look at it more as investment and you know, there's no right answer to that, that that's pretty personal stuff.

And then, you know, I think the second thing you hit on and, you know, bill hit on this in a different way is, PRF is not. A game that you want to get in and test out and then hop out and get back in, you know, because yeah, Murphy's law, right. You're going to, you're going to get in, in 2019 and get your ass handed to you.

Then you're like, oh, I don't like that program. I'm outta here. And then the next year, you know, maybe you had a tripled your money and then you get back in and it's a negative, you know, it's a lot, like from that standpoint, it is a lot like investments. Where, you know, we know the math works. We, we know that this program is designed.

For the rancher. [00:23:00] You know, we know that in the long-term barring some crazy, you know, wild weather pattern changes where all sudden Montana's at the tropics barring that the program's designed for you to, when it's designed, you know, for you to get paid over time on average. But in order to get that math to work for you, you got to stay in the game and have a long-term vision.

You know, just like your stocks. You don't want to buy apple today and sell it tomorrow and then buy another one. You know, that that inherently increases the risk a lot. So, you know, I think a long-term view of PRF is definitely the smart way to look at it.

**Alex Blake:** I'll just add to that quickly. And I'll, I'll echo Logan's comments on Charlie and Jen we've worked with both of them and been really happy with the service we've gotten from them.

We also started in 2019 and I think this interesting, this conversation about the approach insurance versus investment, I think we just, we had some different viewpoints family members here, some that saw it more just as the [00:24:00] insurance. So that one bad year, I can't remember. Maybe we started in 2018 and I can't remember may broken even then got hammered 2019.

So that was the thought then was we're just not going to continue because this feels like it's a bad deal for us. But I think if we had had that approach of looking at it more as a, as an investment longterm, then it would have been a whole lot easier selling all the family members on sticking with it.

So now, now we're back into it, but we've missed probably two pretty good years. That definitely would have helped us. I think that approach is interesting thinking about it from those two different perspectives and getting everybody on board and the business or the family.

**Dale Veseth:** . I guess I'd like to throw in that I'm, I'm one of these guys that has done everything wrong. This is Dale Veseth I'm. I was a little frustrated this year. , we use the April, may, June, July intervals, basically, because those are the months that if we don't get moisture, we're in tough shape.

And I've been in it for [00:25:00] years. I it's paid one interval and We just opted not to do it. And I see the, the numbers, it looks like I ha there's somebody that could help me out there because it looks like you should be able to make money with this program. But I can't.

**Charlie Johnson:** And I will say Dale, that it does vary, you know, these are averages, this is Montana average, and this is national average that we've been looking at, you know, so our family ranches mostly in Eastern Colorado, but also have been to the mountains and we have a ranch in the sand graded Cristo mountain range of Colorado.

We do not insure And, you know, that's coming from me that, you know, we, we want to insure everything. W we love it. We think it's a great deal. Those grids just don't work. They you know, there's a weather station, you know, I don't want to get into all the gnarly details, but for reasons it's not a very good return there.

You know, that's very, very [00:26:00] rare. I shouldn't say that's common, you know, I've seen a few of these and I actually have seen some in Montana that are pretty tough grids. So, you know, my point is, there's no way to know, you know, I'm not gonna sit here and tell you, yeah, your, your ranch should make a killing on this.

You know, I don't know until I looked at it because there, there is a possibility that it's just not in a, in a good area.

**Dale Veseth:** . And had, I guess I had some feedback we were sitting at about 50% of our, average. I have weather records on the ranch. 1960. And so I got the phone on, around past my agent.

I kind of went up the chain and one of the problems I thought with our grid is they don't look at my records because I don't record every day. I'm a monthly recorder. So most of these has to be municipalities. And so our closest municipality is at 4,500 feet and we're sitting at 2,600 feet at my [00:27:00] house.

And so that would be my west quadrant. I think my south quadrant was probably Lewistown and they're also sitting at over 4,000.

And so that's what I was speculating. I might've been messing us up, but I, I don't.

**Charlie Johnson:** Yeah, like say there are, well, I'll just paint one scenario, why it can happen. Usually we, when we see really poor grids, it isn't mountains and all the converse where we've seen the best grades are in the mountains.

And you know, I think the reason is there's kind of microclimates in some of these mountain areas and, you know, maybe your microclimates and what's happened is they're comparing the precip. They measured this year with every year since 1948. Well, they went in there in 2014 and built a new weather station and that weather station didn't exist the previous 60 years, but they're comparing it to those years.

It could, it can really. Make the numbers out of whack one way or the other, you know, maybe [00:28:00] they put the new weather station in a hole that gets no precipitation. So those guys are getting huge payments because it, you know, it's comparing it to back in the day where that weather station didn't exist.

Maybe in your scenario, the opposite has happened. And they put a weather station, you know, on top of the mountain, that's getting dumped on or, you know, wherever in some microclimate. So yeah, I'd say it's not common, you know, probably 90% of the grids, probably more than that. Probably 95% of the grids that I've ever looked at.

You know, we do this in 20 states and I think probably 95% of the grids are pretty close to the bell curve, but, but there are, there are ones that are at the ends of the bell curve,

**Dale Veseth:** , in defense of the grids. I talked to a neighbor that he just broke his intervals up between.

Between all the intervals and he got a pretty good payment out of it and where I was sitting I've been using just our big rain months because we get half our precip during those basically [00:29:00] during those three months. And so that's where I was treating it like an insurance product. And so I know on the ground that just from the other conversations here that I'd probably be more successful if I looked at a little different intervals system,

**Logan Mannix:** think it's important.

We're always thinking about the fact that it pays on variability more than it pays on a dry year. And two of the years, we got our biggest payments. We had some of the wetter Springs that we've ever had. And when we look at our grid where we're more variable late, even though early as our grass growing months.

And so that's why we are quote unquote investing in those later months because of that variability and also reading the Montana climate report. When I read that, I think it's hard to take too much from it because it's a state average again, but again, the call is for [00:30:00] over the next 20, 30 years. Did possibly wetter Springs even, but likely drier summers and falls is what I read when I read in there.

And I think that's another reason we've done that. And again, I get that Charles would know way more than me in terms of microclimates and that, that could be completely different for more microclimates. But I guess that was another piece of consideration in our mind. Is that on the whole. That's what they're projecting on averages more and more variability especially late.

So anyway, that's how we've looked at it

**Charlie Johnson:** that's absolutely right. Variability of precip is what makes certain intervals perform much better historically than others. Variability is the key predictor

and kind of think through that logically, you know, I know where I live the best and here we get very little precipitation from November through January. You know, those three, three months we get very little, but one out of [00:31:00] five years we'll get that foot and a half blizzard. So that 18 inches drives our average up to the other four out of five years.

We get basically nothing's we're well, below that average you know, versus maybe March, April is a much more steady precip. So it would be that variability is the key.

**Dale Veseth:** Well, I'll be talking to him because I was in for four years, I was so disgusted this year that we dropped.it so I I've done just exactly what you said was, was bad, but that's, that's where we are

**Charlie Johnson:** and I'm happy to talk anytime.

Well, anything else on the PRF or I can slip into the LRP side.

Well, I'll move on. Not that we can always come back to PRF, but for now we wanted LRP. So LRP stands for livestock risk protection. Came from the same legislation that PRF came from took even longer has been [00:32:00] around for a while, but not really as the beast. It is now. Right at the beginning of COVID actually they really upped the subsidy.

It used to only be at 13% subsidy and and now it's you know, up to 35%. So it is a better product now. Mostly for that reason save agency, rans it still private guys for anybody that has. hedged before or understands the commodity markets. It is very similar to put option with a couple of key differences and I'll get into those.

But for very simple terms, it is a government subsidized put option, which actually listened to Holly sent out those last three discussions. And I, I listened to that sounds like you guys were talking a little bit about put options. So

again, you know, just like PRF. Yeah. Maybe the concept's simple. It is very, very there's a lot of details. You know, there's only, you can only do a certain amount of head per year there's limits on that the type of cattle you were protecting, changes the pricing. There's just like [00:33:00] PRF, there's different coverage levels you can do.

And then unlike PRF, it has different ending dates. You know, you can insure for two months from now, or as little as three months from now, or as much as a year. So, you know, it's very customizable. There's a lot of details. I'm going to glaze over those for today's purposes.

So I'm just going to jump into what is, the negatives of LRP. This one, people talk about a lot. And I think I know whoever was given that talk, the other day mentioned this and it's definitely true. All our what's called a European option. So unlike American options you know, if you buy a regular put Through your broker.

You can get in and out of that, however, you please, whenever you please LRP, once you were in it, you were in it and you were locked into it until expiration so that, you know, especially guys that are really comfortable or used to put options that takes a long time to get used to that's a different deal that you can't get out of it.

until it expires another negative, there are maximums on heads. So unlike PRF or a guy that has a million acres [00:34:00] can do it all LRP you do run into limits the daily quotes. So, you know, it is. In a way derived from the CME. So depending on what the market is trading that day in Chicago you know, if I zip back here, they, they say that there's all these different, ending dates that you can do 13 weeks, 17, all the way to 52 weeks.

But the thing is those might, those might be offered tomorrow morning. They might not be you just, you don't know it's based on the volume that's being traded in Chicago. So it is inconsistent and kind of unreliable. You can't be, you can't come up with your, your risk protection plan for the year and be like, say, oh, okay.

On April 15th, I'm going to protect my yearlings for September 15th delivery you know, at a dollar 40. ' cause maybe you can do that on April 15th. Maybe you can't. You, don't know what the exact offerings are going to be that day. You can get close to what you want, but you can't be can't guarantee this can be exact that's not [00:35:00] unlike the market, but it's a little, even more inconsistent than going and getting your puts on the market.

Just like doing traditional, you know, futures or options there is basis risk. You know, the numbers are based on the national index is not on, not on your local market. So you know, it does not do anything to protect you against basis risk. The pros again, it's subsidized there's no income limits, you know, no AGI requirements premiums are tax deductible.

It's it's on a per head basis rather than a truckload, which that's really nice from the customization side. You know, you don't have to have exactly 50,000 pounds or whatnot. You can do it on the actual amount of head you expect to deliver. Futures contracts are only available in certain months. This is theoretically available in all months.

You don't have to sell the cattle at the end date. You have to retain their own. For most of the time, but you do not have to sell them there. You, if you decide, if you thought you were going to sell your calves in the fall and then decided for whatever reasons you're going to hold them over, you sure can do that.

Then there are, you know, it depends on your [00:36:00] lender in their comfort or their knowledge of LRP, but there are instances where LRPs, you know, some lenders love LRP. They like it. They like that it's a European option because then, you know, it kind of saves you from yourself and trying to you know, bet the market you're locked in.

They know that you're not going to take off coverage. You have to keep on the coverage. And then they can get an assignment of indemnity on it. Which is another thing they like. And that's all I got, you know, talking from this from a big picture, you know, I think PRF, Close to PRF is a very good deal.

You know, any ranch we get, unless they're in that one grid, that's on the end of the bell curve. You know, we believe in PRF, we think basically everybody should be using PRF and it's a really, really good product. And it's designed for us. It's gonna win over time, you know, LRP, you know, I'm not gonna give it that endorsement.

You know, I think it has pros has cons I think it has to be part of a bigger [00:37:00] risk management plan. You know, you, can't where I've seen the most success with this, you know, we've hired on some guys that are commodity brokers and they do the LRP. And I think that's really key to have them all, , be in both markets because there are times where LRP is, is considerably better than a put and there's times that puts better than an LRP.

And then there's times of doing a futures contract is going to make more sense. And there's times doing a forward contracts and make more sense, you know, I think it's gotta be a piece of a bigger plan. You know, I think some guys try to use all our LRPs their entire risk management plan when it comes to marketing.

And, you know, I, I don't endorse that. You know, I think it's gotta be a piece of a bigger puzzle. So I'll open it up and that's what I got about LRP

**Logan Mannix:** Charles. I'm pretty new to these programs. Last year we hedged with options a few groups of stockers more to learn the process than anything. Can you explain to me, you know, you said that sometimes [00:38:00] LRP might be not as attractive as a put, even though it's subsidized by say 20 to 35%.

Can you explain, like what kind of scenario is that true in?

**Charlie Johnson:** One interesting thing about LRP is so it's expected ending price. So let's say you're putting on coverage today for a calf delivered in November. What it is basing, what the expected value of that calf in November is, is based off of the CME. So it's going to be very similar to going out and get a November put option, but now fast forward to November and it's expiration day.

Well, the CME is going to settle. You know, it is not based on the CME and is based on the cash index, which at times, and especially here, you know, in recent history, Cash basis, you know, the difference between the cash market and the futures market can be fairly significant. And that can work both pro and con.

So that would be a scenario. [00:39:00] If you, for some reason, you know, we're worried that cash was going to be weak in the fall, then LRP would be a better buy or sorry if it's going to be strong. So let's fast forward to November. Let's say the expected was a buck 70. Let's call it today. And let's say the cash market on November 3rd, when your, when your LRP expires, let's say the cash markets that is really strong and it's at a buck 80, you know, the futures markets of bucks, a buck 70, , that differences can make a big difference.

You know, I use bad numbers let's for this purposes of saying the expected ending value is $2 and you get there. And the cash markets is a buck 80 and the, the futures markets is a buck 70. Well, the, the, the buck 70, that's gonna make you 30 cents rather than, than the LRP made you 20 cents. And that can work both ways, like say maybe the cash is weak and it's at a buck 60, and now you made 40 cents on the cash rather than you would've made 30 cents on the futures.

And that's pretty complicated because [00:40:00] it's one is very hard to predict what can happen to the cash basis. But that is a scenario. And, you know, again,

**Logan Mannix:** so can I I'm, I'd probably need to ask a better question. Or maybe I just missed the answer, but, so that's true for both LRP and a put option, though, right?

That you could, your cash market, that basis risk that your cash market is. Either better or worse than say the CME is true in both programs.

**Charlie Johnson:** I'm not talking about you're, you're talking about your like local basis. I'm talking more about there's basis between the national cash index and the national futures index and can be a pretty significant difference either way.

**Logan Mannix:** So I don't know what the national cash index

**Charlie Johnson:** So what this is based off of is, is a national cash index. So they, they collect, you know actual sales from feed yards around or from sale barns around the country. And they come up with what is the, the cash index this [00:41:00] day. And that number is released every, every morning.

There's both a live cattle and a feeder cattle number. Yeah, it gets complicated. I'm happy to talk about it, but yeah, there is a national cash basis and that can go either way. And then, you know, a much more simple reason why LRP can be worse or better than PRF the government you know, pretty complicated way they're calculated LRP and it is very variable.

So, you know, I go back here, you know, I said the subsidy can be 20 to 35%, so let's just say you're doing the 35% one. Well we, we track this every day. What the difference between comparable put option and comparable LRP is you would think, ah, it's subsidized 35. It should always be 35% cheaper.

It's wild range. Some days it's really a lot cheaper than LRP. And then other days it, sometimes it could be more expensive than LRP. And all the factors go into that are really complicated and I don't even understand or come [00:42:00] close to understanding our, our LRP guys have a pretty good understanding of it.

But yeah, again, theoretically, think that it's always 30% cheaper than the put and it's just not true. It really varies. So that'd be the simple reason why sometimes a put is better than an LRP.

You know, I do think that European versus American option deal is important too. You know, if you really want that stability, flexibility, then you know, LRPs is not going to be for you. And I think there's instances when that flexibility is more important than instances when it's not yeah.

Anybody else on LRP?

**Logan Mannix:** charles do you find, I don't know how much experience you have with this, but so instead of comparing it to put options comparing it to getting my terminology wrong again

Rather than options, I'm thinking of futures yeah. And comparing it to futures. How do you think about comparing, which is the best tool between those two?

**Charlie Johnson:** Yeah. I, you know, again, I get back to, you know, that's why I'm always pretty [00:43:00] hesitant on LRP cause. I think it's just really got to be a part of that bigger picture.

You know, we use both, we use futures. I shouldn't say we use both. We use all three. We use LRP. Some, we use put some, we use future some they're just few LRP and puts a very similar futures is, is different in that futures you're locking in a price. Right? So what a put you're doing is, is you're locking in a floor and the, for a little bit of money, but you can still participate in the upside, a future, much more comparable to a forward contract where, Hey, I'm selling you these cattle for a buck 70 in November.

There's no upside, there's no downside. It's just what it is, what it is.

**Logan Mannix:** The downside is missing out on future high prices and the upside is missing out on future low prices.

**Charlie Johnson:** Right? Right, exactly. And we can get even much more complicated this there's, you know, there's synthetic put options, there's all sorts of different tools.

And yeah, , there's no silver bullet and there's no one instance that's just, you know, makes sense for everybody. It very much [00:44:00] depends on your situation and the timing of the market, then everything else.

**Logan Mannix:** Obviously you don't know this you don't know what the market's going to do, but I'm just trying to make sure I understand this all theoretically.

So theoretically, if if you were to, you know, if the market in the future had a lot of upside you'd be better off with say LRP insurance or those pro products, because you would get all that upside. You just have a set fee that you paid to protect them instead of locking in a price. However, on average, LRPs probably quite a bit.

Expensive than futures right then to lock in the price. Don't you pay more per head on average to sort of lock in the floor

to buy that right.

**Charlie Johnson:** To put it in very simple terms. If you know, November's going to be higher than it is today you wouldn't do any of those things to do nothing, right?

Yeah. The second best thing is to have a very, they call it out of money, a very low level, either put [00:45:00] or LRP that costs you, you know, it's just insurance. It's if there's a black Swan event between now and November and the world falls apart it protects you against that. But you know, 19 out of 20 times, you're just out your premium.

So that'd be the second best thing to do in a bull market. The flip side. November is going to be bad. The best thing to do is either forward contract or future whatever's available to you, but that'd be the best thing to do. The worst thing to do would be to do nothing and LRP input would be in the middle if that simplifies it.

And yeah, the cheapest thing to do in history, that's a tough answer. I mean,

You know, what I would say is selling and buying at the right time is probably the best risk protection. Right. You know, if, if July's a seasonal high to sell calves, selling calves, every July is what's going to be the best long time. Long-term, you know, that's more important than your, your hedging plan, in my opinion.

So selling, selling [00:46:00] right, and buying right are probably your two best risk protection. And that that's not something that a guy that sells risk management products should say. But I think, you know, from a bigger plan, that to me is the most important part.

**Logan Mannix:** So kind of one other comparison between sort of the might get my acronyms wrong, but the, the pasture range land insurance is the PRF. Right. And the LRP, it seems to me. So I'm asking rather than telling this, but it seems like when I look at the PRF program, it's a net winner over time.

The math says, right, that you put money in, you're going to get more money out of it over time. If I'm looking at LRP, even if it's cheaper than say put options like you said, the most profitable thing, theoretically is probably like, so if you could stomach all the ups and all the downs without any insurance and ride it out, you would wind up better off without LRP because there's some.

More options actually, [00:47:00] because in each of those scenarios, there's either some kind of either you always pay a set fee with the LRP and you're, the market probably goes up on the whole over time for the other one. But so in other words, if you could theoretically stomach, the cashflow that came with all the ups and downs and you never did LRP, you'd probably money ahead.

However, it's protecting you from those black Swan events where you couldn't afford to say, pay your loan back or something like that. Am I thinking about that? Right?

**Charlie Johnson:** Yeah, I would, I would agree with most of what you said. Yeah. You know, it, it is more of an actual insurance product. PRF I noticed was being recorded and I probably shouldn't say this it's not an insurance product.

Right. I mean, that's not really what it is. It's, you know, maybe more of a hedge, a put option is insurance and yeah. On average, statistically, you're better off if you don't buy, you know, fire insurance on your house, right. You're just going to save that $20 a month for the rest of your life, if you go, can weather the up and the down.

And you know, it's [00:48:00] very hard to predict though, what's the cattle market, you know, I sure like to believe that we're up for the cattle cycles in a good spot and we have good years ahead of us. I mean, one very hard to predict. So who knows? Hey. Yeah, but I agree if, if you can handle the downs, but there might be some pretty big downs and having, you know, if your house burns down probably wish you had the insurance.

**Harv Van Waggoner:** Can I ask you a question? You bet. What about in the LRP? I guess what's going through my mind right now is they have the unborn calf section that you can buy into. Could you maybe dive into that for just a half a second?

**Charlie Johnson:** And I yeah, sure. So it used to be that you couldn't protect, you couldn't buy LRP for an animal that wasn't alive. You know, versus on the, on a put option, you don't even have to own a cow. You can just buy a put option, speculatively, RMA, or LRP through RMA. You do have to have the underlying. Live animal.

But I think it was a good [00:49:00] exception that they made. And I remember asking this early on, like, you know, yeah. I don't have any calves right now, but I, I know I'm going to have calves come five months from now. So why can't I protect, protect, you know, that future revenue source. And it wasn't that way for a long time.

And now it is that, and I do apologize. We hired brokers that are way, way better at the livestock products than us. I used to be really up to speed on the LRP. Now I'm more of a high level and I don't, you know, in terms of how soon can you protect that unborn calf, you know, does that to be a month away or three months away?

I honestly can't answer that. I would have to send you to our LRP specialists to answer the detailed questions, but I do know now that you do have the option to protect unborn calves, which I think is very smart.

**Chris Mehus:** Hey, Charles really quick. Do you, how do you get paid? Do if someone hires you, do you get paid upfront or there's an advisory role, or do you get paid through the. premuim,

**Charlie Johnson:** we get paid through the [00:50:00] premiums. It's actually subsidized as well. So, you know, PRF when it's saying it's 51% subsidy, it's actually more than that because so yeah, RMA pays 51% of your premium.

They also pay the administrative forget the term, but, but yeah, they pay our commission and our commission is a percent basis. So the bigger the policy, the more we get paid and it's just purely on what we sell. And yeah, we're purely middleman. W you know, we're not underwriting this large insurance companies are underwriting it.

So, you know, we, not that we want everyone to be in a terrible drought, that's not good either, but we, we are are, is aligned with the customers instead of that. We want you to get paid because that increases your chances of buying it again. So that's why, you know, we want to select your intervals in the best possible way.

Cause that's gonna be the best possible way for us as well.

**Chris Mehus:** And the other question I wanted to ask really quick is, you know, we'll have some folks tuning in later to watch the recording. And obviously we don't have enough time to [00:51:00] really cover a lot of what it would be nice to cover it, especially from an introductory standpoint.

So do you have some, some resources, both written and maybe a video blogs or podcasts or things that we can reference after this that you could provide?

**Charlie Johnson:** Yeah. You know, I think what I I'll just, and I could also send a. Some pamphlets, but you know, probably the best thing is to just go to our website and a one, our contact info.

There is there, but two, we also have the basic information sheet on pasture insurance livestock insurance. I'll show you that your affluent right here. So yeah, eastcogroup.com is where I'd point. You there's a quick information sheet on both products

that what you're looking at does that work?

**Roger Indreland:** The question along the seasonality of more of the cash market. If you, if you've got, is there a historical perspective where you could look at in our area? You know, we've got [00:52:00] we'd have the billings markets, which historically has a fall run. And if they're reporting an ask for the cash market, there's going to be a seasonal, seasonal dip, probably in the cash market.

Is there any historical charts or anything that we can look at to, to, because you could, you know, if you did that and just routinely did that you might be able to get a little bit more to the positive side of that. Even, even in an up trending market, because I kind of view this as a little more difficult to make work in an up trending market versus a downtrending market in general.

I guess curious about that seasonality.

Yeah, no

**Charlie Johnson:** our, our guys, yeah. They look big time at the seasonality. And you know, if it's a counter seasonal year then it's kinda the opposite. It's, you know, it's confusing. And but yeah, we do, we do a lot of that. Looking at the seasonal charts, you know, be that a fat cattle are usually high in March and April or, or feeders are low at Thanksgiving or, you know, whatever kind of, you know, there's kind of some sayings [00:53:00] that people go by, but we get very detailed into the seasonal charts.

And I would say that, yeah, well, our, I'd say the main tool we're looking at is the comparison between LRP and the point and what is cheaper or more expensive that day. But I'd say the second tool we're looking at is seasonal charts and yeah. Put, try to put on coverage, you know, at a high and try to have your, you try to have your expiration.

at a seasonal low or close to a seasonal low, and yeah, that's what we're looking at all the time. And I could say and I think it's on here, but if you guys want to learn more about all our peer talk about LRP and he's actually my cousin, my cousin, but also our broker in our LRP specialist is Brady buck. And yeah, he could dive deep into all the seasonals and answering your unborn cattle questions and any of that type of stuff.

And if anybody wants to talk to me directly, just Charles at Eastco group if you just email me at that and I I's on, I think we could all see each other's emails from Holly sent out the link to I'm on that as well.[00:54:00]

**Alex Blake:** Throw that one, just one very quick thing back to PRF. Can you just talk about lease, lease property, how that works? That's certainly been part of our program of that fairly simple, but I guess if anyone was wondering if they can sign up lease acres what the process is there.

**Charlie Johnson:** Yup. So the quick answer is yes, you can insure leased acres.

You know, all government leases are, are quite easy to insure, you know, be it BLM, forest state, all those private leases. A little more complicated, but very doable. You have to have control of the property for the calendar year. They can still limit when you graze. It just has to be that you have control of the property.

And a good point on PRF is you do have to. And I shouldn't even say that black and white, but it is designed for the person that owns a livestock. So you know, if you're, if you're leasing, someone's ranch and you're running all the cattle, you know, in, in the vast majority of instances, it's you, that, you know, has the right to the PRF insurance, not the landowner.

There, there's been a lot of gray area in the [00:55:00] past doing some lawsuits and whatnot on that topic. And they've kind of made it more black and white now. But the simple answer is it's the person that owns a cattle in most instances is who has the right to the insurance. But yeah, to answer Alex question that lease land is definitely on the table.

**Holly Stoltz:** Okay. Anybody else have any other questions?

I guess, thank you very much, Charles, for coming on and helping us understand these programs.

**Charlie Johnson:** Well, yeah, thanks for having me. Yeah. I think you guys have a neat program here and it seems like a good tradition.