



BEEFONOMICS CATTLE MARKET UPDATE

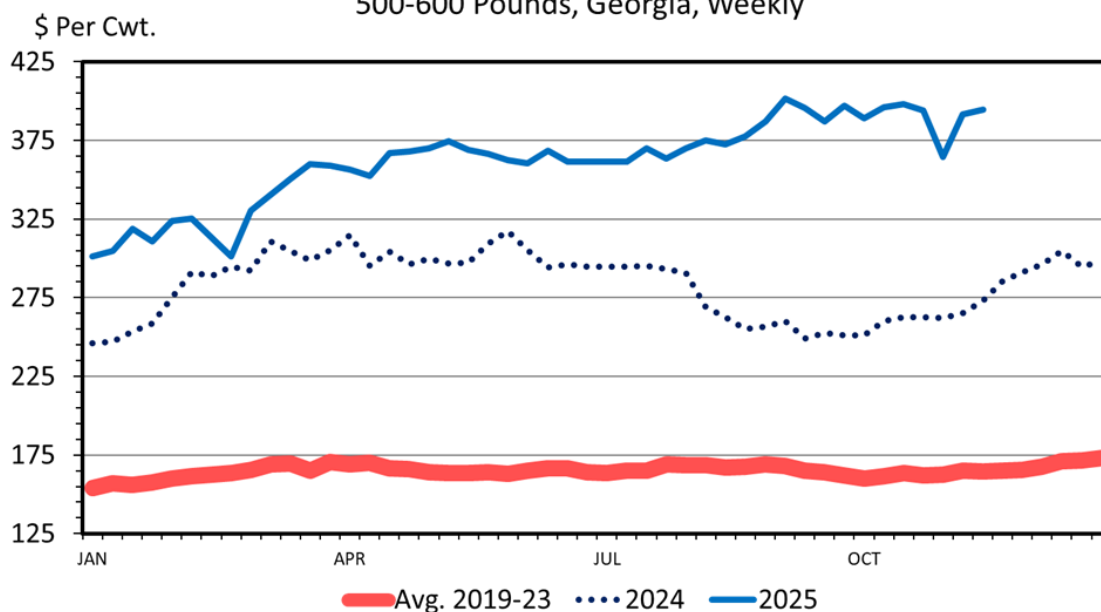
RISK MANAGEMENT

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MED. & LRG. #1 & 2 STEER CALF PRICES

500-600 Pounds, Georgia, Weekly



Data Source: USDA-AMS, Compiled by LMIC
Livestock Marketing Information Center

While many have discussed the significant cattle market moves over the last few weeks, let's consider the broader management implications at a much higher level. Producers have many things in their spheres of control and influence – breeding choices, fertilizer applications decisions, equipment and infrastructure maintenance plans, feed ration options, and so on. However, very few producers can significantly influence beef cattle markets or federal policies.

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So, what can a producer do in the face of significant uncertainty in markets or elsewhere? Manage their risks. Risk management is a holistic approach to identifying, assessing, and taking actions to impact the uncertainty an operation faces.

Risks can come from a number of different areas. Market risk, like the volatility we have seen recently, is just one of those areas. Other sources of risk include legal, personal, financial, and production uncertainty.

Assessing risks an operation faces includes determining the likelihood that a risky event may occur and the impact it can have. Different risks are often evaluated differently. A helpful tool to use at a high level is a risk matrix that places different types of risk on a matrix that compares the risks' impacts and likelihoods. This helps users prioritize very different types of risks and identify potential actions to mitigate risks.

Once the risk landscape is mapped, it is up to the producer to decide what action to take. In some cases, they may want to increase their risk. For example, perhaps they would like to sell beef directly to consumers. In other areas they may want to reduce their risk. This may entail using price risk management tools or changing practices to mitigate bad outcomes.

In closing, it is essential that a producer's risk management strategy is a discipline of thoughtful, purposeful, long-run management action. It is not done with the goal of maximizing profits. Again, risk management is not a practice of increasing returns every year. Risk management may entail a tradeoff of risk and reward. Producers that practice risk management evaluate the tradeoffs and work to implement the strategy they decide on for long-term success.



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