



## Risk Assessed Marketing

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### Mad Cow and No LRP on 12/24/03<sup>1</sup>

After the "Mad Cow" story broke yesterday at about 5:00 pm, LRP was taken off the market at about 7:30 last night. There is no LRP offer today but it could have been rated. However, based on market conditions it would have clearly been adverse selection if LRP had been sold today. There was about a 3 hour window after the story broke when livestock producers could have bought LRP. It appears that some companies had a "run" on sales after the story broke and prior to 7:30 pm when the LRP offers were taken off the market.

One would not expect any new LRP offers until the futures start to trade again. That will likely not occur until next week, at the earliest. When LRP offers are made the coverage will be lower and one would expect the premiums to be higher.

One may want to check Jim Mintert, KSU's livestock marketing economist's WEB page on [AgManager.info](http://AgManager.info). Jim will be updating the sight and may have a better feel for the market impact. It is not uncommon for markets to over react with the initial bad news.

Not all insurance companies were offering the LRP and those companies that did offer LRP had premium limits on sales. Even if the LRP offer had remained on the RMA WEB, many livestock producers would still not have been able to buy coverage simply because the companies would have hit their limit.

Those livestock producers that purchased LRP coverage before the news broke are covered. Producers had to buy the Specific Coverage Endorsements (SCE) in order to have coverage. If the producer had an LRP policy but never bought any SCE's then they don't have any coverage against price declines.

The only alternative today is to sit tight and hope the news gets better or buy put options.

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