

Learn to Love Volatility

With the proper mind-set, one risk-management expert suggests businesses can become “antifragile.”

by Kindra Gordon, field editor

Volatility in market prices can be viewed two ways: Either it's a risk that makes you a victim, or it's an opportunity that allows you to become a victor.

That's the mind-set of Nassim Nicholas Taleb, who is a professor of risk engineering at New York University's Polytechnic Institute. Taleb is credited with developing the “black swan” theory a decade ago as a means to refer to large events that are unexpected, but profoundly shape our world. World War I, 9/11 and the dot.com crash would be examples.

Building on his black swan research, Taleb's newest theory is that we must learn to benefit from variability, stress and disorder — and ultimately learn to love volatility. In a *Wall Street Journal* essay published in 2012, he wrote, “We should try to create institutions that won't fall apart when we encounter black swans — or that might even gain from these unexpected events.”

His premise is this: The ultimate path to business success means managing price risk and finding a way to embrace volatility. This means utilizing the tools to step up to the plate, harness the energy — and the opportunity — from a volatile market, and put it to good use.

Taleb outlines his concept in his book *Antifragile: Things That Gain From Disorder*. He points out that you want your business to be strong enough to survive the economic uncertainty, government regulations, financial and natural disasters that seem to come around quite regularly these days.

Stress can be beneficial

Taleb proposes that stress can often create just enough disturbance to produce a desired

result. For instance, an impending deadline on a project usually provides the right amount of stress to prompt you to complete the project.

As another example, to get the full benefit from an exercise workout you need to push yourself — exercise a little harder to create stress that will strengthen your muscles and cardiovascular system. If you

go to the gym and always lift 2-pound (lb.) weights for 10 minutes, eventually your body won't gain from that. However, what if you hire a fitness coach, learn to use new tools and push yourself to a higher level of fitness?

The underlying benefit, suggests Taleb, is that growth and improvement can come from stressful experiences.

That said, you need to “do the work,” or in other words, prepare your business, to achieve the desired result. With regard to managing the market, Taleb suggests you may

need to take training to become knowledgeable about using marketing tools, or align yourself with professionals who can assist your business in using risk management tools that are impactful.

Using the fitness analogy again, if you lift weights and you do it wrong or without proper training, you can hurt yourself. The same is true of marketing. If you do it without proper knowledge or using the wrong tools, you can hurt your business.

Volatility in the marketplace has proven it is here to stay. Should you sit back, wait and see what those events are and then react to them? Or, as Taleb suggests, successful businesses will plan and prepare strategies now to gain from those unexpected events,

and to help their business become antifragile.

“Things that are antifragile only grow and improve under adversity,” Taleb writes. He suggests looking for opportunity, rather than viewing ourselves as victims of the market.

Admittedly, it is impossible to hit the top of the market every time. Instead, most commodity managers advise that with consistent, disciplined planning and decision-making, producers can take out of the market as much return as possible within a reasonable risk parameter and position their operations for long-term success.

Farming and ranching is by nature a risky business. Many would agree that if you take all the risk out of it, you take out all the opportunity, as well. The key is using every available tool to become “antifragile” — and being able to emerge from price swings as a stronger business.



Editor's Note: Kindra Gordon is a freelancer and cattlemaster from Whitewood, S.D. *Antifragile: Things That Gain from Disorder* by Nassim Nicholas Taleb was published by Random House in November 2012.



Evaluate 40 chances

As you prioritize your “to do” list, you might also consider this perspective: What if you knew you had 40 chances to get something right, to fix a problem or to change the world? What would you do? Philanthropist and farmer Howard G. Buffett recalls hearing a farmer at a conference say that most farmers have 40 seasons to get farming right. According to Buffett, the average person also has about 40 productive years in her/his life.

That's the premise of his new book titled *40 Chances: Finding Hope in a Hungry World*, co-authored with his son Howard W. Buffett. The authors describe the lessons learned on Buffett's own farm and from their travels around the world. They talk about the solutions to world hunger that many of the most disenfranchised folks in the world are finding in their own communities.

The principles of *40 Chances* lay out critical questions for anyone looking to use their 40 most productive years efficiently:

- ▶ Am I acting with purpose and urgency in my life?
 - ▶ Am I taking smart risks?
 - ▶ Am I learning the right lessons from my mistakes?
 - ▶ Am I improving upon every chance I have?
 - ▶ Am I making the most of my chances in life?
- Those are questions you might ponder.