

SIDE 2014

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The purpose of any business is to generate a surplus. What you do with that surplus is a critical part of your wealth creating strategy – at the very least you need a well thought through plan for the profits that you are going to make.

There are three main things that you can do with your profits to create wealth:

1. Retire debt
2. Invest in greater dairy productivity
3. Invest off-farm

All three have their place and, over time, you will probably do each of them to some extent. We all have ages and stages where one or other of these is more compelling at any particular time.

Retiring debt and re-investing in dairy are known to you. It is often easiest (and certainly most comfortable) to do the familiar. In any event, retiring debt is often compulsory! For many, reinvesting in dairy is instinctive – it is likely to be very profitable, but beware playing double or quits.

Investing off-farm is often a step into the unknown but has some very real benefits:

1. Dairy is not the only industry that makes money – there are other very good opportunities (e.g. commercial property, healthcare).
2. There is diversification – and money offshore (at a time when the currency makes offshore investment attractive)
3. There is learning which will probably be important in the future – for most of us there will come a time (retirement) when we are dependant on an investment portfolio for our income

4. Off-farm investment may make you look at your dairy business differently and measure its performance as an investment.

There are some important things to be worked through for good off-farm investment:

1. Make a plan –and stick to it
2. Decide on investment management
3. Welcome volatility – it is the best thing for profit
4. Beware bubbles (and the mood of the mob)
5. Do not forget Warren Buffett's two rules of investment
6. Don't buy shares – buy businesses.

None of these is very difficult, but put them together and you can create wealth both on-farm and off-farm.