

Small Town Success

THE INTERVIEW

Trials and Trailers

He was told aluminum trailers couldn't work, that his daughter would never wake up, and that he'd never amount to anything. Rodney Rance built the company anyway, then sold it to Berkshire Hathaway.

BY LANDON SCHUMER
With Contributing Editor Matteo D'Antonio



The last trailer Rodney Rance built before he retired.

At 71, Rodney Rance says the last chapter of his life hasn't been written yet. The earlier ones are remarkable enough: a farm kid from North Dakota who was told he'd never amount to anything, a banker who said aluminum trailers would already exist if they could work, \$850,000 of debt before the first trailer rolled out, and years later, a stranger in his lobby at 5 o'clock with an offer from Berkshire Hathaway. I sat down with the man behind the aluminum trailer for nearly an hour and a half. What follows has been edited for length and clarity. The interview begins on page 2.

“If I'd completely failed, it wouldn't have been for lack of trying.”

RODNEY RANCE

A Note from the Editor

Welcome to the first issue of Small Town Success. My name is Landon Schumer. I'm a senior at New Mexico State University, and I'm learning how to manage an investment portfolio under Jim Spence, a former money manager. I am not yet a money manager, advisor, or licensed professional, but I hope to become one in time. Until then, I believe the best way to earn that right is to learn in the open: to publish my philosophy and make it free for anyone who's interested.

Each issue will include a piece on the fundamentals of investing, an interview with a local businessperson, some cartoons, and whatever else fits Small Town Success. Nothing here is investment advice. It's meant to teach, to entertain, and to show how I think.

I hope you'll find it fun, clear, and engaging as we return to the fundamentals written and practiced by Warren Buffett, Charlie Munger, Peter Lynch, and many more. If you enjoy it, email me at landonschumer@outlook.com or send me a message at (575) 520-3160 so I can get you the next issue.

Thank you for reading,
Landon Schumer

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The idea that wouldn’t rust

Rod, how did you get started? What problem were you trying to solve when you built the aluminum trailer?

I used to have a little red 4-by-8 trailer, and it came out of every winter rusty. Every year I’d sand it down and paint it again. I thought, why would anyone make a trailer that rusts? In Indiana we get 70 or 80 inches of rain a year, and in the winter they salt the roads, which is very corrosive. So I started playing with aluminum. It was lighter, and it wouldn’t rust.

About that time, SUVs and minivans were just being introduced. If you wanted to take a motorcycle to Daytona Bike Week, you needed a pickup to pull a steel trailer. I thought, what if I made a lighter, V-nosed aluminum trailer that a minivan or an SUV could pull? The wife has the van, the husband has the SUV, and he can take his buddies

snowmobiling or motorcycling without buying a truck. An aluminum trailer cost 30 or 35 percent more, but I figured people would pay it.

But when I talked to people, they said aluminum wouldn’t hold up. I told them, “They make airplanes out of aluminum. They make ships out of aluminum. We’ve just got to get the right configuration.” The first few trailers I built fell apart because I’d used the wrong kind of aluminum. It took a couple of years of failures, and help from a lot of people, to find one that wasn’t soft but wasn’t brittle, and to learn how to bake it. Then I worked with 3M and Lord Adhesive, because I didn’t want screws. Screws are metal, and aluminum doesn’t get along with other metals. So we glued the sides on and built a trailer without screws.

Because ours cost more, I wanted everything about them to look different. I invented a fuse panel like the ones on boats. We used clear lenses with colored LEDs while everybody else had red and yellow lenses. The floors were marine-grade plywood from Oregon, and the tires were Goodyear radials instead of bias-ply. Our customers had egos. They wanted the nicest bike and the nicest SUV, and when they pulled in, they wanted the trailer to make as much of a statement as the bike. So we played on their egos. It wasn’t just the trailer. It was the psychology of the buyer.

How did you survive while you were still trying to figure it out?

I didn’t have any money. I was building aluminum truck caps, and fiberglass caps were pushing them out. So I went to the bank with my idea for aluminum trailers. The first

banker said, “If trailers could be built out of aluminum, somebody would have been building them by now.” I asked, “So you believe most everything that needs to be invented has been invented?” He said yes. This was the late ’80s, before computers and cell phones. He was very short-sighted.

I went to four banks. One said, “I don’t know that I believe in your idea, but you’ve kind of sold me on you.” They loaned me \$350,000. I ran out of money before I got the first trailer built, and that bank wouldn’t lend me any more. Another bank gave me \$500,000. So I was \$850,000 in debt on a product that had never been designed, and we didn’t know if it would sell. But I believed in it. People were spending a lot of money on motorcycles and snowmobiles, and SUVs were getting popular.

“So you believe most everything that needs to be invented has been invented?”

RODNEY RANCE

Eventually I got a couple of dealers to buy 100 trailers and put some money down, and that got me started. Even then, it took about two years after the first good trailer to get other people involved, because they were scared of aluminum. They said, “It won’t hold up. It’s not going to work.”

During those years, here’s how I kept going. I was in Elkhart, the RV capital of the world, and there were

about eight truck-cap competitors in town. The bank would tell me, “We’re going to foreclose on this guy.” I knew the truck-cap business, so I’d go to him and say, “The bank’s going to take everything. I’ll buy your inventory for 25 cents on the dollar.” He got something instead of nothing, and I sold the inventory at full price. I bought out six companies in a few months that way.

One of those companies, a tool-and-die shop, had \$2.5 million of inventory. The bank loaned me \$250,000 to buy it and gave me 60 days to pay it back. I had no idea what any of the equipment was, but I figured that if I was paying 10 cents on the dollar, somebody would buy it. I found a competitor who bought some of it, and I made him move it so I didn’t have to haul it. I made about a quarter of a million dollars on that

deal. Buying and selling other businesses was where my money came from until the trailers were built and sold.

I knew those deals wouldn’t last. The economy was tanking, and the bank had been sold to a bigger bank that wanted to clean up its books. But in the meantime, the deals gave me operating capital.

A million dollars in debt

What did that feel like?

I was scared. A guy from the bank would call me every Friday: “Mr. Rance, are you going to have money at the end of the month?” I had no family with money and nobody to bail me out. If it didn’t work, I was in trouble.

There were probably three nights a week I didn’t go home. My wife asked how much we owed, and I said, “Babe, don’t worry. If we owe them \$100,000, they’ll foreclose on us. If we owe them a million, they’ll work with us.” At one point I was well over a million dollars in debt, with minimal cash flow. I worked 100

hours a week, and I was doing the loading myself. I wasn’t paying other people to do it while I sat back.

What guided you through the hard decisions?

All along the way, I believed you have to be honest and tell people the truth, no matter what the obstacle is.

Sometimes it would have been easier in the short term to cheat somebody to get the money I needed, but I always felt it would come back to haunt me. If I’d completely failed, it wouldn’t have been for lack of trying. But at least I wasn’t a crook who succeeded.

That doesn't mean I was always patient. I got tired of that banker calling every Friday, and one day,

when I was stressed out, I told him, "If you keep calling me, I'm going to come up there and knock you on your

butt. When my bill comes due, you call me and I'll have the money." We

had words occasionally, but he knew I was a man of integrity.



Do you remember when you realized that you might actually really be on to something?

I took my first trailer to a snowmobile show. People were going, "What is this thing?" and the feedback was very favorable. "I could pull this with my van. I could haul two snowmobiles." That's when I thought, okay, I think this is going to sell. Dealers started buying snowmobile trailers, and then I started building motorcycle trailers for Daytona Bike Week, when everybody gets their bikes out of storage after the winter. Once people were calling me and I wasn't having to beg, I felt like this thing was going to happen.

THE FIRST SHOW
Rod with his daughter Alicia at the snowmobile show where he first believed the trailers would sell.

A janitor who owned the place

Your company grew a lot. What did that look like?

The bigger I got, the more scared I got. I started in a 5,000-square-foot building, then 8,000, then 20,000, and then I bought an 80,000-square-foot building. Every time, I had to add equipment, buy inventory and hire people. Nobody knew how to weld aluminum, so I went to the career center and said, "You've got to teach these people." We went from

\$200,000 a year to \$2 million to \$4 million. The property tax on that last building was \$53,000 a year, and I thought, this is really over my head.

Then competitors showed up and started undercutting me. So I built an aluminum extrusion company, and if I couldn't sell a trailer, at least I could sell the aluminum to my competitors. Then we needed doors, so we started building doors and hardware and sold those to

competitors too. At least I was getting something from them.

I'll tell you one thing I did. In that 80,000-square-foot building I had an 8,000-square-foot office, and every morning I'd vacuum it and clean the men's and women's bathrooms. One day a new welder came in while I was in the bathroom, down cleaning the stool. He said, "Hey, punk, where's the boss?" My head manager walked up behind him and said, "You

know who you just called punk?" The welder said, "Probably the janitor." The manager said, "No, this is the owner." The welder said, "An owner wouldn't clean the bathrooms." I told him, "You don't ever get too high, because the higher you get, the harder the fall." You have to stay well-grounded.

“You don't ever get too high, because the higher you get, the harder the fall.”

RODNEY RANCE

I went to work in scruffy blue jeans. I let my general manager have the big office out front and I took the little one in the back. I always had a welding helmet and a pair of gloves, and if the guys had a problem, we'd go out and figure it out together. I never wanted them to buffalo me. I was one of the guys, never above them.

Did your mindset change as the company got successful?

When I started, my dealers were really tough on me. I called it cowboying. Once I had a good-sized facility and some wealth, I didn't have to take it anymore. If they tried to muscle me, especially some of the people out East who were pretty difficult to work with, I'd say, "I've got plenty of my own money. I don't

need your business." And they'd back up. But that took a while. I first had to build a good name and get out of debt. I didn't live high. I lived the way I did early on, and I put what the company made back into paying debt and upgrading equipment and buildings. I only took \$250 a week out of a company that was doing millions. I was the lowest-paid guy there, but I took bonuses when we

did well. I didn't want my standard of living so high that if things got tough, I'd be in trouble.

At its peak, how big was the business?

Across the trailers, the aluminum extrusion, the doors and the sheet metal, we were doing many millions in revenue. I didn't realize at the time that was a big deal.

Then Berkshire Hathaway came calling. Tell us about that.

It was right at 5 o'clock one evening. A tall guy with white hair and big white teeth walked up to my receptionist and said, "I'm Pete Liegl. I'm here to see Rod." She asked if I was expecting him. He said no. I didn't know who Pete Liegl was. We went back to my office, and he put a sheet of paper across the desk. He said, "I'm from Berkshire Hathaway, at Forest River. We've been watching your company for months. We bought some of your trailers and tried to reverse engineer them, and we can't quite get it right. So rather than keep spending money developing, we want to buy your company."

The paper laid out what they thought I was building, how much margin I was making, what I was

netting a year. It was dead on. He said, "You're ahead of your time, but you're on the verge of something fabulous, and we want to be a part of that." They wanted me on a five-year no-compete contract at \$200,000 a year. I said I had to think about it. The minute he left, I called my accountant and asked, "Who's telling them what my company's doing?" He said, "Rod, it's your lucky day. When Berkshire shows up, it's your lucky day."

I wasn't planning to sell. But I'd been grooming my daughter Candace to take over, but she had been badly hurt in a car accident (more on that later), and I knew she couldn't. I'd also talked to my other daughter, who was still in high school. She told me, "Dad, I see how hard you work. I couldn't deal with that." So I thought, who am I saving it for? I

went back to the table with my accountant and a couple of other business people I trusted. Across from us were two accountants and two lawyers, all in suits, and I was there with holes in my jeans, asking stupid questions. We negotiated for a few months.

They told me, "We don't just buy companies. We buy people." I wouldn't agree to five years, so we settled on three. I also had two non-negotiables. First, my daughter came to work with me every day, in a walker or a wheelchair, and I wanted her free to go anywhere in the building. They said no, because of the liability. Second, I wouldn't sell them my building. They had to rent it for 10 years. They said, "Warren Buffett doesn't have landlords." I said, "You came to me. I didn't come to you." Then I stood up and started

walking out. They said, "Wait a minute. You're willing to walk away from these millions?" I said, "My daughter comes in every day and goes anywhere she wants, and you rent my building. Otherwise it's not a deal." In the end they agreed to both, and my daughter got to roll around the building just like everybody else.

Was it a hard adjustment, going from owner to employee?

Yes. I'd been self-employed for over 20 years, and I couldn't make decisions anymore. I answered to a division guy who ran 10 divisions, and he was pretty difficult. One time I told him, "You're paying me \$200,000 a year, and you're micromanaging me. You could have some guy over here for 50 grand doing what I'm doing, because you're not letting me make any decisions anyway."

What it cost

Was the business the hardest part?

I tell young people now: if you're making a good living and can reach your goals for your family, don't go into business. It's extremely difficult, and if you do become successful it's more difficult, because you have to keep everything in balance. Your faith and your family has to be first. Everything starts demanding your time, and the mental exhaustion can be excruciating. Once you've accumulated some money, you're worrying about not losing it, who might steal it, where to invest it, how big a house is too big, how many toys are too many. I felt you had to give back, but who do you help? People would hit me up all the time.

At the time, my wife's family became very jealous. They wanted loans, money and jobs, and when I wouldn't give them, it caused a real rift. One of the biggest stresses of accumulating wealth was the personal pressure that came with the success.

Eventually my wife told me she wanted a divorce, because she didn't get married to raise two kids on her own. So I quit working seven days a week. We bought a condo on Lake Michigan, and Friday at 5:00 became family time. I could work around the clock all week, but Friday at 5 the car was packed and we went to the lake with the kids. Nobody could call me from the office until Sunday at midnight. From Christmas to New Year's, I shut every company down. I found that even if I took a day or two off, I was still thinking about business. It took a couple of days to unwind and just be Dad. The kids liked it when Dad was Dad and not the company owner, and my wife liked it a whole lot more.

You can make all the money in the world, but if your home is in constant chaos, you're not successful.

As you mentioned earlier, you lived through a miracle with your daughter Candace. What happened?

I got a call one morning from Memorial Hospital: "Are you the father of Candace Rance? She's been in an accident." I took a couple more phone calls. I didn't think it was that important. When I got there, the chaplain met me at the door, and I realized it was much worse than I thought. He said she probably wouldn't make it through the night. She was 23.

She made it through the night, but her brain started swelling and they had to cut open her skull. A week in, the doctors said the good news was she would survive, and the bad news was she'd never come out of the coma. Their recommendation was to unplug the life support and let her go. I said, "I can't do that. I can't kill my daughter." I wanted to try to wake her up.

We called all over the country, but nobody would take her. These

programs are performance-based, and they don't want a patient with a 99 percent failure rate. When the insurance company stopped paying, the hospital told me to put her in a nursing home. I said that was like giving up. In the end, the Brain Injury Association of Indiana took her in Indianapolis, on my word that I'd move her to a nursing home if she wasn't improving within a month. After five weeks, they told me I had to move her. I said, "I'll move her," but first I wanted to go home and talk to my pastor.

At home, we talked about setting up a hospital room in our house with a nurse. That was a Wednesday. On Thursday I went back to the hospital with my daughter Alicia. When I walked into the room, Candace raised her hand and said, "Hi, Dad." I said, "Call the nurse. Call everybody. She's alive." It had been nine weeks since she first fell into the coma.

“Either you keep the company running without me, or we close it.”

RODNEY RANCE

She spent about six more months in the hospital, and it took two years in all to get her walking, eating, speaking and functioning again. When we moved her to Indianapolis,

I told my management team, “Either you keep the company running without me, or we close it. My daughter’s life is in the balance.” I’d also told both hospitals that someday

I’d bring her back and she’d walk through their doors. And she did. She got out of her wheelchair and walked through the doors in Elkhart, and again in Indianapolis. I told

them, “You gave up on her. Both of you.”

It was another one of those things. When life knocks you down, you don’t lay down. You get up.

What he’d tell the next generation

What advice do you have for a young person just starting out?

If you do decide to go into business, it’s different now than it was in 1988 when I started. Financing is harder to get, but there are opportunities all over. You’ve got to believe in yourself and in what you’re doing, because if you don’t, you’ll eventually quit believing in it once turbulence comes and you get knocked down enough. So you have to stick to it.

But you’ve also got to be open-minded enough to know you don’t have all the right answers. I couldn’t get counsel on how to build an aluminum trailer, because nobody had done it before. But I could get counsel on how to set up dealers. Accumulate all the wisdom you can

from people, then assimilate it and decide what’s best for you and your business. The buck stops with you. Don’t blame your advisors. Take their guidance, make the decision, and be responsible for your own actions.

Is there a mistake you’d tell someone to avoid?

I made a lot of little mistakes, but one of the worst was letting my heart and emotions make decisions for me. As a businessman I was pretty good. But in my personal life I’d see somebody in a situation, feel sorry for them, think I could bail them out, and get involved emotionally. Ninety-nine times out of a hundred, when your emotions override your better judgment, you’re going to fail. If

somebody comes to you with a song-and-dance, poor-me story, you’ve got to be able to walk away.

I’ve lost a lot of money trying to help people based on emotions. Most of them had simply made poor decisions, and they weren’t accountable for them. They blamed somebody else. You are where you are because you made good decisions, and that doesn’t mean you owe anything to somebody who made bad ones. It’s hard to help somebody who won’t hold themselves accountable.

Is there anything we didn’t cover?

Faith in the Lord, and letting the Spirit guide me when I didn’t know what to do, was big. Every morning before work I’d say, “God, I’m way over my head. I’m a poor, naive farm

kid, but I believe in this, and I need your help.” I told a newspaper once that I had two secrets. One is you can’t give up. You never know how close you are to the finish line, but if you give up, you don’t finish. I’m a slow processor, but I have a God who gives me wisdom. I’m just too dumb to quit.

The other part is to get up every day. If you’ve had 10 failures, you get up. You don’t know how strong you can be until adversity hits you. When you get knocked down, are you going to go home and call Dad, or blame your wife? Or are you going to suck it up and say, “I’m accountable for my actions, I messed up,” and have a plan B if plan A isn’t working?

“You’re the author of your story. How are you going to write your story?”

RODNEY RANCE

I had no backup plan. When I borrowed \$250,000 and said I’d pay it off in 60 days, it was all on me. My father told me when I was a kid that I was worthless, a waste of air, and that I’d never amount to anything

because I was ADD. He beat me to try to make me “normal.” You either let that crush you or you let it empower you to say, “No, I can do it.” And a failure isn’t always a failure as long as you’re learning.

There’s a line I give people who are in the middle of a hard stretch: “You’re the author of your story. How are you going to write your story? Is it going to be successful, or is it going to be excuses?”

Life’s not fair, and it’s going to knock you down. It’s up to you if you are going to get back up or not. ■

FUNDAMENTALS

Waiting for the Fat Pitch

By Landon Schumer

Ted Williams was the last baseball player to hit .400 in a season. He batted .406 in 1941, and no one has done it since. In *The Science of Hitting*, Williams explained that he divided the strike zone into seventy-seven cells, each about the size of a baseball. He would swing only at

pitches in his best cells, even if it meant taking a strike, because chasing the worst ones would badly hurt his chances.

Li Lu, founder of Himalaya Capital, uses this story to describe investing. In *Poor Charlie’s Almanack*, he writes that once in a

while an investor will find a “fat pitch” that is “slow, straight, and right in the middle of your sweet spot. Then you swing hard.” Most of the time, prices are simply thrown at you, and you don’t have to do anything but watch. He adds that the opposite mistake is just as costly:

finding a fat pitch and being unable to swing with the full weight of your capital. (*Poor Charlie’s Almanack*, 3rd ed., 2009, p. 61)

In plain terms, a fat pitch is an opportunity you understand so well, at a price so favorable, that the decision feels almost obvious.

This is one of the simplest ideas in investing. Warren Buffett, Charlie Munger, Philip Fisher and Li Lu all follow versions of it, and yet few investors truly practice it. Why?

Munger’s guiding principles for making an investment were preparation, patience, discipline and objectivity (*Almanack*, p. 59). Each has to hold without giving in to emotion, even for a moment. The idea isn’t hard to understand. The emotional discipline is hard to carry out.

There are two main reasons. First, every transaction has two sides, and sometimes the person across from you is smarter, better funded or more experienced. The fear of being wrong is a strong pull when the stakes are high. Second, you rarely know right away whether a decision was good. In the short term, everyone else’s stocks may be rising while the

fundamentals you believed in feel irrelevant. At some point that will happen, and defending a decision during that stretch is very hard.

Both of these problems have the same answer: knowing your circle of competence. For an investor, that is the set of businesses you can understand and explain in plain language, and for most people the circle is small. Inside it, the person across from you matters less, because you aren’t relying on their opinion to know what a business is worth. And when your stocks lag for a while, you have more to hold on to than hope: you understand the fundamentals yourself.

Staying inside that circle also protects against the opposite mistake: finding a fat pitch and being unable to swing at it with the full weight of your capital. Sticking strictly to what you understand reduces the urge to

chase speculation or opportunities that are merely good enough, and those are what tie up capital and attention. Putting the full weight of your capital behind a fat pitch means having kept it available, and having done enough preparation to trust your own judgment when you commit it. Waiting is what makes the big swing possible.

An investor who waits for fat pitches and can act quickly on Munger’s principles has a better chance at strong long-term results. But the swing is only as good as the work behind it. A fat pitch isn’t luck. It’s what preparation looks like from the outside, which is why Munger listed it first. Know a business so well that when the pitch finally comes, you can swing without hesitation.

There is a reason this is the first fundamental I cover in this

publication. As a student of portfolio management, I believe finding an investment philosophy is among the most important things any investor can do. It is the foundation for every decision that follows, and it will shape how I manage capital one day. Without one, I am like the foolish man who built his house on the sand: when the rain fell and the floods came, the house fell (Matthew 7:24-27, ESV). The fat pitch is the philosophy I am choosing to build on, because it has been practiced by some of the best investors of all time, and few have the discipline to follow it.

This article is for educational purposes only and is not investment advice.

MONEY BASICS

Temperament

Temperament is how you behave under pressure: when prices fall, when everyone around you seems to be getting rich, or when you feel the urge to act just to be doing something. Warren Buffett has said that once you have ordinary intelligence, what matters most is the temperament to control the urges that get other people into trouble. It’s the quality behind Munger’s patience, discipline and objectivity, and it’s what lets an investor wait for the right opportunity.

Educational only, not investment advice.

NOVEMBER

This Month in History

Nov. 1, 1512: Michelangelo’s Sistine Chapel ceiling is shown to the public for the first time.

Nov. 19, 1863: Abraham Lincoln delivers the Gettysburg Address in just over two minutes.

Nov. 17, 1869: The Suez Canal opens, linking the Mediterranean and Red Seas.

Nov. 9, 1989: The Berlin Wall falls.

PRACTICAL ADVICE

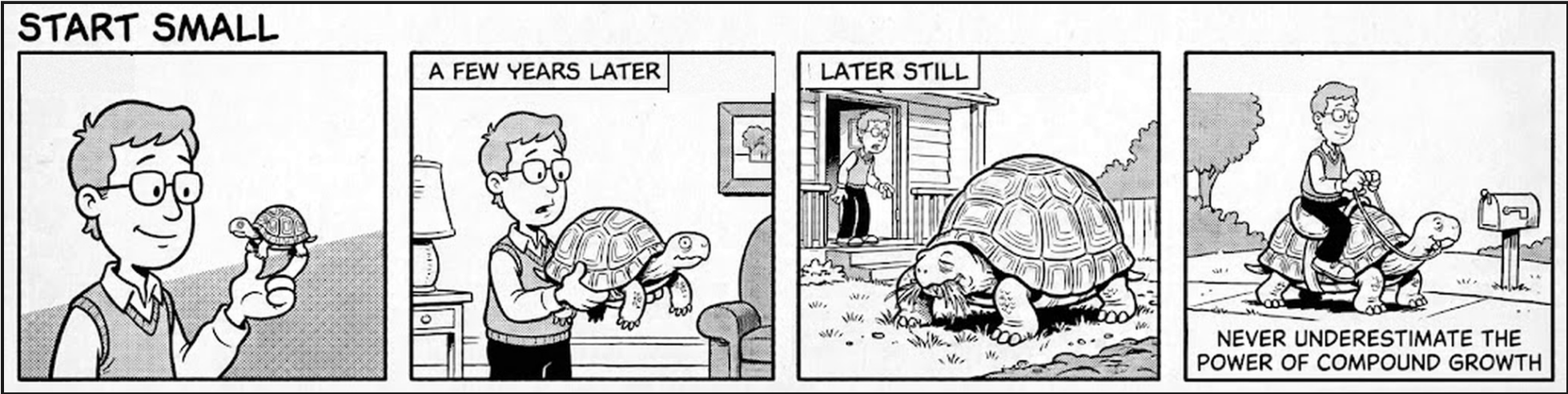
by Joe Bullock

The formula for wealth building is extremely simple. It has always surprised me how many people don’t seem to get it. The rate at which one accumulates wealth is determined by the size of the gap between the amount of money one earns, and the amount of money one spends. A person who earns \$3,000 per month, and spends \$1,500 per month, will, in the long run, be much wealthier than a person who earns \$10,000 per month, but spends \$9,500 per month. Most people have more control over how much they spend, than they do over how much they earn.

Excerpt from The Graduation Gift

The Funny Pages

By Connor Coyle



Two Bankers Contemplating Rod's Million-Dollar Idea.

Behind the Paper

The people who put Small Town Success together

CONTRIBUTING EDITOR

Matteo D’Antonio

Matteo D’Antonio is a journalism student at New Mexico State University, and he has been a friend of the editor since the first grade.

From the earliest days of this paper, Matteo has been a sounding board. He suggested ideas for what Small Town Success should be, and he helped shape the layout of the pages you are holding. For that work he has earned the title of Contributing Editor.

Issue One would not look or read the way it does without him. Thank you, Matteo.

WITH SPECIAL THANKS TO

Rodney Rance

for sharing his story in “Trials and Trailers”

Joe Bullock

for “Practical Advice” from The Graduation Gift

Connor Coyle

for the cartoons in The Funny Pages

And with love and gratitude to

Jim Spence

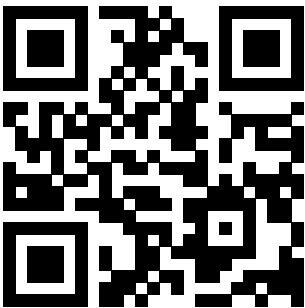
for mentoring me in portfolio management

My Wife

for her love and support

My Parents

for their love and support



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Questions or ideas? Email landonschumer@outlook.com or call or text (575) 520-3160.

Nothing in this publication is investment advice.