

Farmer's Corner

"Helping The Producer Sell Better"



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Number 4

Where Do We Go From Here?

Money. We all need it. We never seem to get enough of it. In fact, the #1 reason farmers sell grain is that they need some to pay bills or the banker. This has been called the "Momma Says" school of marketing, short for "Momma says we need some more money in the checkbook!"

Fuel prices and other inputs have gone up dramatically this past year, leading to farmers saying that they need more for their crops. The question we have to ask ourselves is, does the market really care about what it costs to raise a crop? In fact, has the market ever cared about this?

High Prices are a Gift

While this may paint a bleak picture to some, others realize that it is really an opportunity. The market trades on innumerable pieces of information, and every once in a while that leads to high prices. What makes prices go up? Who cares? Whatever it is, high prices are an opportunity to lock in a profit.

The temptation is to analyze why prices are moving in the hopes of predicting future trends, but that's an impossible task. Instead, reach out and take the gift of a good price when the market offers it!

There are price levels where we should be selling some bushels for new crop every year. We are at or very near those levels for most crops right now. If you have the 2005 crop sold, get target offers in for the 2006 and 2007 crops at good numbers. The market is moving NOW and we never know if or when opportunity will be presented to us again, so it makes sense to be in the market with an offer as early as possible.

That's Nice, but What If . . . ?

When the markets heat up, discussion usually turns to "how much of an increase in prices can we expect"? The answer is very elusive; in fact, no one can answer it with any accuracy.

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There are a lot of people willing to sell that information to you. A whole industry has grown up around price prediction. What you really need to ask yourself is this, "If I knew what prices were going to do, how much would I be willing to sell that information for?"

If you REALLY knew, would you sell it for any price? That's very unlikely. If you didn't know, how much is THAT worth? Nothing, you'd be just another guy with an opinion.

Most of us sift through magazines and on-line services looking for other people's opinions. Many people keep looking at opinions until they find one that agrees with their opinion, then lo and behold . . . "Finally, one that has it right!"

The bottom line has got to be "How can I do what is best for me financially?" If you can't bring yourself to sell and be out of the market completely, then find the cheapest way to stay in the market without putting everything you have at risk. The tendency is to always think of prices going up,

not down, but prices do go down eventually. If you find yourself still holding old crop grain, or get to harvest with grain unsold, you especially need to consider a better way to stay in the market. There are costs associated with holding cash grain. In an elevator, you have to pay extra drying and shrink charges that might add up to as much as 5¢ per bushel over what you would have if you had just sold the grain. You also have to pay storage charges, many elevators charge a minimum charge of 12¢ or more for the first 90 days, then 3¢ per month after that. It starts adding up very quickly.

IF you are storing on the farm, you may not have the extra drying and shrink because you might not dry it down as far. There is a risk for quality discounts later if that grain would happen to go out of condition. There are also additional costs associated with keeping the grain in condition, running the fans, etc. - it all adds up. In fact, not having the money for the crop is also a cost.

Staying in the market....without downside risk!

The biggest risk is the market going lower. This can be potentially the biggest risk. Staying in the market with options is usually less expensive than storage without the downside market risk. Let's compare these two choices for staying in the market for 90 days on corn and 120 days on wheat. We'll also be using a 7% interest rate for the value of money.

Corn \$2.25 (Harvest Price)

Storage (in Elevator):

Storage cost	12¢
Drying/Shrink	4¢
Money cost	4¢
<hr/> Total Cost	<hr/> 20¢

Staying in the market with options:

Cost	14¢
<hr/> Total Cost	<hr/> 14¢

Wheat \$3.25

Storage (in Elevator):

Storage Cost	12¢
Money Cost	7¢
<hr/> Total Cost	<hr/> 19¢

Staying in the market with options:

Cost	20¢
<hr/> Total Cost	<hr/> 20¢

The numbers we have used in these examples are estimates at the time of this writing. The actual numbers may vary once we get to harvest, so you need to check with us to get accurate comparisons.

As you can see, in corn the cost of storage is higher than the cost of options and in the wheat about the same. Staying in with options is a better deal because you know that you won't receive less for your grain no matter how low the market goes. If the market goes up you get to participate in the increase in the futures market.

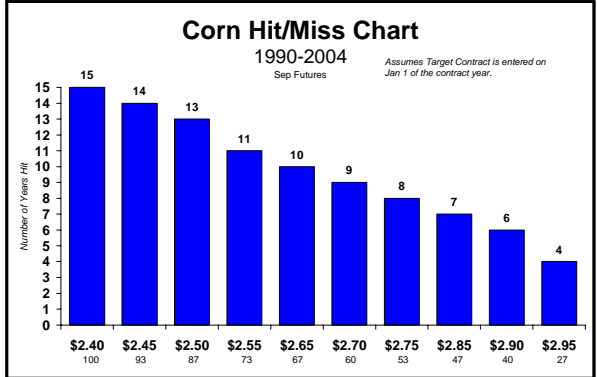
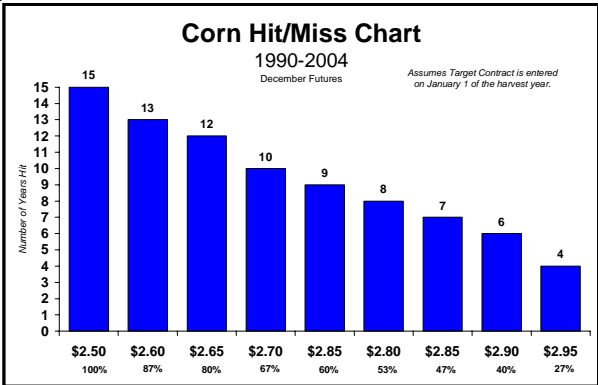
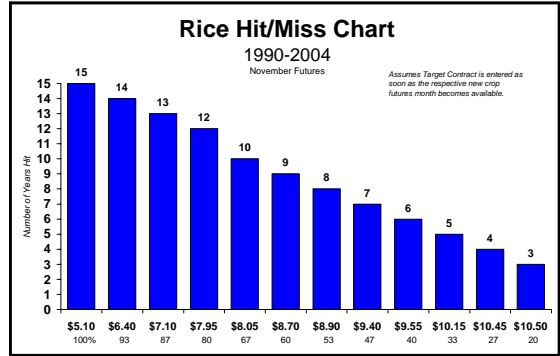
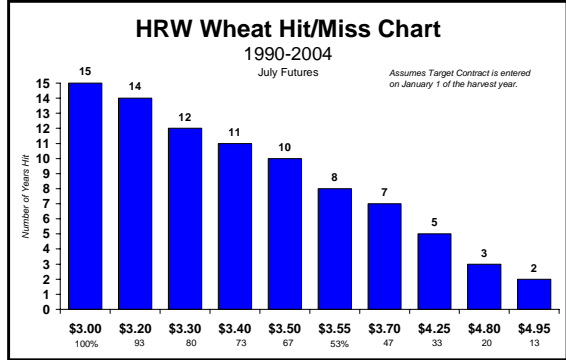
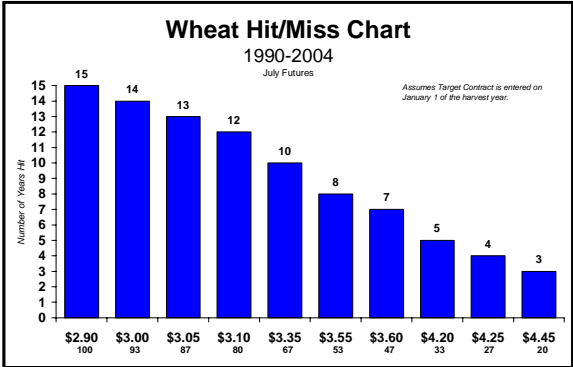
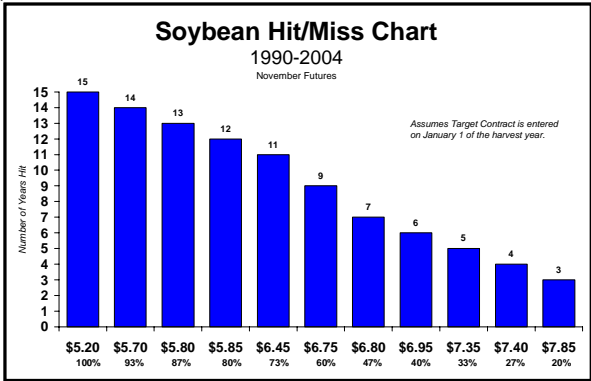
To-Do List

Old Crop

If you still have old crop grain in storage, get it sold to stop storage and interest costs and get your money back where it belongs - in your pocket. If you can't stand the thought of missing out on higher prices, use options to stay in the market.

New Crop

Look at the charts on this page to see how good today's price is. These charts tell you how often current new crop futures prices have been available over the last 15 years. If the current price is lower than the lowest price on the chart, enter a Target Contract at a reasonable level. If the current price is high (toward the right hand side of the chart), this is an opportunity to sell and lock in a Forward Contract. If you feel like you need to stay in the market, use options to do it so the current high price is protected and you are eligible for more if it keeps going up.



Summary

Much of the time, we store grain in the hope of receiving more. We incur extra expense, often times this turns out to be a waste of money. Sure, every once in a while it pays, but most times it doesn't. The market goes down and we pay extra for the privilege of riding it down.

With options, we can stay in the market cheaper and minimize the impact of the market going lower because we've established a floor. One caution, most people don't receive more, because the markets don't go up. They would have been better off just taking the money and looking to sell the next crop on a rally. This would be a better long range way of doing things, since there is no cost associated with selling early at good levels and not having to deal with "WHAT NOW?" at harvest time.

Marketing In Your Own Bins



If you have on-farm storage, by all means use your bins as a way to make harvest more efficient, but don't forget that bins, in and of themselves, are not a marketing tool. The only way to guarantee a premium for after-harvest delivery out of farm bins is to lock in that premium by selling. If you want to keep grain on the farm after harvest, look for opportunities to lock in good prices for later delivery. We accept Target Contracts for any delivery month you're interested in.

Also keep in mind that no bushel amount is too small to market. Whether you produce 500 bushels or 500,000, we want to help you increase your long-term price average.

Make some time to come in and visit with us about bushel amounts, prices, and delivery periods. We want to help enjoy more marketing success.