

Farmer's Corner



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Number 4

*"Where is the wisdom we have lost in knowledge?
Where is the knowledge we have lost in information?"*

T.S. Eliot, American Poet, from The Rock (1934) pt. 1

It seems that as time goes by, we get an ever increasing amount of information--information from many sources that offers a great number of mostly useless tidbits that really seem to do nothing but confuse and paralyze, leading to marketing mistakes. The information comes from what appear to be credible and respectable sources that often have conflicting opinions.

In fact, what seems to be the one constant is that on any given point there is going to be disagreement. For example, one professor from a major university predicted that we would run out of corn as soon as 2008, while at the same time a source from the National Corn Growers Association said that there is no danger of running out of corn in the foreseeable future. The question is who do we believe?

This is just one example; no doubt you can think about any crop and its associated news and identify the same kind of conflicting scenarios and situations. This can be very frustrating as a producer and grain marketer. It can keep you up at night, cause you indigestion and generally cause you to just throw your hands into the air and say, "I don't want to decide, so I'll wait and see!"

While putting it off until the smoke clears may seem like a non-decision, in effect you are making a decision that has potentially huge implications for the livelihood of your operation. These are implications that you cannot choose

to ignore because they simply aren't going to go away, no matter how much you'd like them to.

Every operation must make business decisions that will ensure the ability of that operation to continue to be profitable. This means that, as the English poet W.H. Auden's poem title says, "To ask the hard question is simple." What price do I need to receive that will give me an acceptable profit level over the long run?

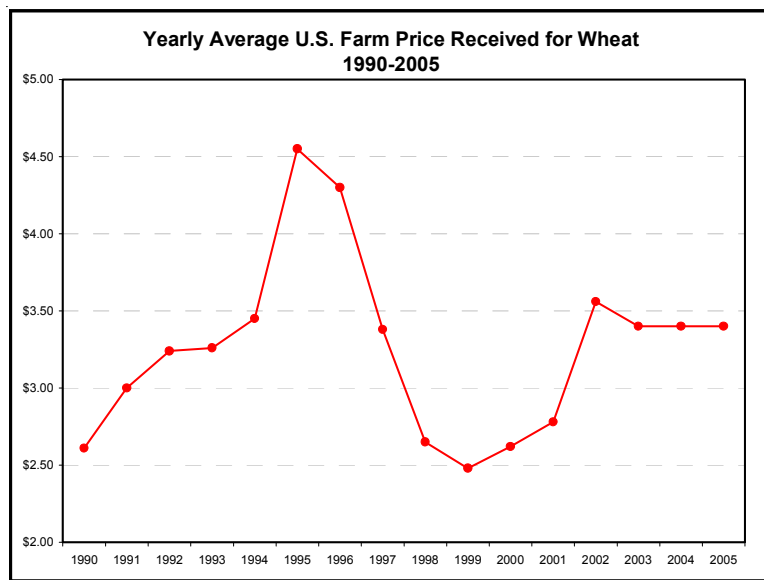
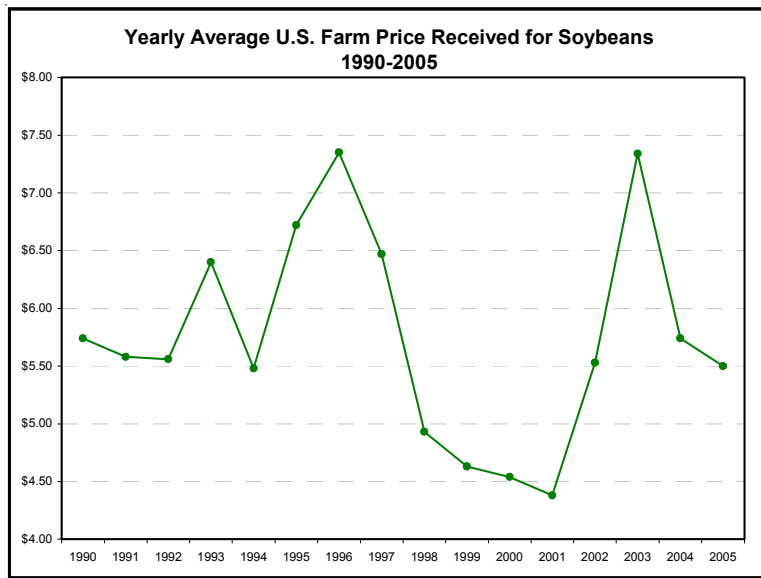
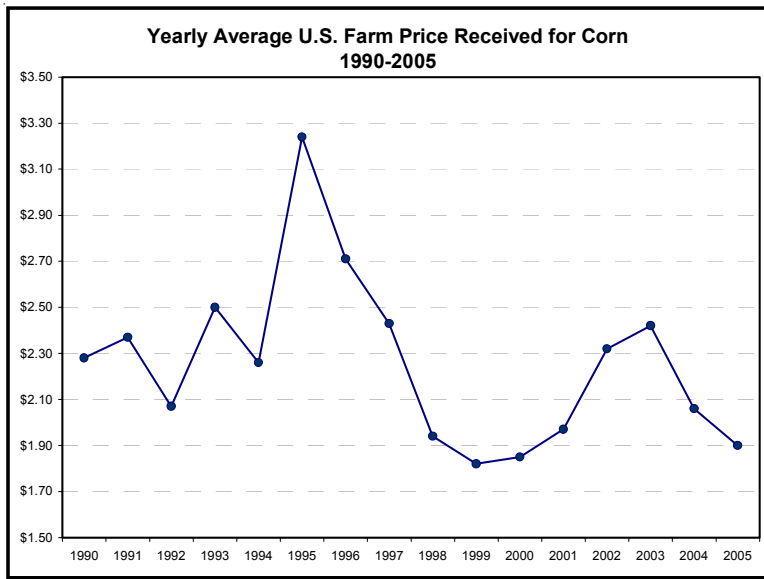
This is a question that cannot be found in any magazine or newspaper article. It's not found in Google or any other internet search engine. It's not for sale by any marketing guru or marketing wizard. It can only be found by taking the time to glean through your own records and through reasonable projections made through consultation with your key partners in your operation. These people know your operation, help you grow it (agronomy people), finance it (your banker) and make the key decisions about planting and marketing the crop (YOU!)

With the crop planted, you pretty much have this year's cost nailed down. Sure there may be some unplanned expenses along the way, but the lion's share of production costs are pretty well predictable at this point. You can make some decisions based on known factors and that can be very helpful.

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Once cost of production is known, you can move onto the next step; desired profit per acre. It can be very helpful to compare previous year's results to determine how the operation has performed recently. There are other benchmarks that can also be helpful, such as comparing the average price received by others in you local area, your state or your region.



If you have already made sales for new crop, calculate how much grain you have left to sell and then plug in current numbers to determine where you stand right now. Think about the things that can change and how that will impact your outcome.

The kind of crop insurance you have will determine how far you should go in the forward contracting of crops. If you have purchased either Revenue Assurance with fall price option or the Crop Revenue Coverage, you have guarantees in place that provide you with protection against non-production and price increase. It's a good time to contact your crop insurance agent to determine exactly what you have purchased.

If you didn't purchase either of these products, you must ask yourself the question, "How much am I confident that I will raise?" For most people, this number typically is about 50% of average yield, but it will strictly depend on where you live and the history of the area's crops.

If you have already sold your bushels guaranteed by insurance or what you are comfortable with selling, the next question is somewhat more challenging. If prices are at a level that is telling you to sell, what do you do with the

remainder of the unsold bushels? You might consider selling them on a stay in the market contract. This gives you the ability to sell the grain and participate in a market increase, collecting more if you raise the bushels or allowing you to get out of the contract for a small fee if you come up short on those bushels.

The key point is that you have the ability to preserve profitable prices that will allow you to be profitable over the long run. It's not about picking the highest price or outguessing the experts. It's about making sound business decisions that will directly impact your livelihood!

It's very easy to say "I don't have time to do this" or "I'll make time for that later". The reality of the current situation is best summed up by a quote from Hippocrates, "Time is that wherein there is opportunity, and opportunity is that wherein there is no great time."

We currently have historically very high prices. Nobody knows whether the market will go higher or not, just as nobody can guarantee the market will go lower. The truth is we have an opportunity to lock in what have to be considered good prices that should not be ignored!

I sold \$1.00 ago and I'm feeling kinda poorly!

Many producers, continuing good marketing habits, forward contracted earlier at historically high, profitable prices. The challenge these folks are facing is that prices have moved higher - significantly higher in some cases. Feeling a little bad about that is perfectly understandable. Here are some words of encouragement if you are in that situation.

First, you have made good sales; these remain good sales even though the market has gone higher. You could have done better by waiting, but you listened to past experience and decided that selling was the right thing to do. This was not a mistake! Where would you have been in all those other years where not selling at those same prices would have had disastrous results for your operation?

Second, unless you've sold everything you are going to raise, you can sell some more at much higher prices and raise your average. In fact, with the rise in the markets, you are now presented with the rare opportunity to sell later crops at prices we'd have only dreamed about prior to this year. This presents some great opportunities.

Lastly, if for some reason you just can't sit by with prices rallying and not participate, you do have the option of adding a "Stay in the Market" feature to your existing contract. While there is no way to capture the gains in the markets to this point, you may purchase the option to participate in further increases in the market.

One word of caution though, to add this feature it will be relatively expensive. The market is very volatile and as such the option costs have increased dramatically. You would be adding a significant expense to your existing contract without any guarantee of adding to its value.

Very Important:

Don't let the rise in the markets and all the "noise" distract you from continuing to capture the current opportunities. For many, they use having sold at lower prices as an excuse to say, "I'll never do that again!" That is the very same thinking that has led people down the road to disaster in previous rallies. We need to remember that popular saying, "we need to sell when everyone else is telling us not to".

Joke heard at the Roundtable of Knowledge in Farmville USA recently:



A farmer is mowing a road ditch and finds an interesting bottle. He stops the mower and dusts off the bottle and a genie appears. "I will grant you three wishes, two now and one six months from now!" The farmer says, "I want to lock in my input costs for the next two years and I want \$4.00 for my corn." The genie says, "Your wishes will be granted!"

Six months later the genie appears and asks the farmer for his last wish. The farmer says, "I wish for \$4 corn." The genie says, "Wait a minute, we granted that wish last time!" The farmer says, "I know, but this time I'm going to sell it!"