

# Farmer's Corner



March/April 2007

Number 2

## Making the Decision to Sell

Tomorrow, grain prices will do one of three things: they will go up, they will go down, or they will stay the same. That holds true for next month, next year, and beyond. That truth leads to two conclusions:

1. The only price you can manage with any certainty is today's price.
2. Selling decisions must be based on something other than what prices might do after the sale.

### Where Do We Stand?

- b Dec Corn Futures: 1990-2010
    - $\frac{3}{4}$  \$3.50 & above = top 1%
  - b Nov Bean Futures: 1990-2009
    - $\frac{3}{4}$  \$7.50 & above = top 1.4%
  - b July Wheat Futures: 1990-2009
    - $\frac{3}{4}$  \$4.75 & above = top 2.1%
  - b Nov Rice Futures: 1990-2007
    - $\frac{3}{4}$  \$10.50 & above = top 1.1%

Poll Results	
What do historically high grain prices mean to you?	
Take some of the money now	254 Votes (55%)
Hold out for higher prices	77 Votes (17%)
Sell the carry	21 Votes (5%)
Buy the board and make a killing	18 Votes (4%)
A chance to mess up again	84 Votes (18%)
Other	9 Votes (2%)

*Agriculture Online Survey of American Producers as of 2/15/07*

These incredible prices invoke all sorts of emotions, and high emotions do not usually result in good decision making. The best thing to do is to take emotion out of decision making by using a rational, common sense approach to marketing grain. The best way to do this is to have:

1. Focus – on cash grain farming, rather than price prediction.
2. Long-Term Perspective – of consistently making a good profit year in and year out.
3. Meaningful Benchmarks – that can help you determine reasonable price goals for your grain.

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## **Focus**

Probably the most difficult job in farming is focusing on the business of cash grain farming rather than getting caught up in the emotion of trying to predict grain prices. For the sake of gaining a clearer focus, let's compare these two approaches.

The pitfall of price prediction that many producers fall into is based on thousands of factors that are mostly unknown or unknowable. If someone was to sit down and think of all the reasons prices should go up and all of the reasons prices should go down, they would end up with two very long lists of legitimate reasons with no clear answer. To try and predict grain prices requires a large investment of time, with little and many times negative return. Everyone has their own opinion on future price movements, but no one has the answer. If they did, you can rest assured they would not be sharing it with anyone.

Cash grain farming is simply the process of temporarily turning money into crops, and turning crops back into money, with the goal being that the resulting cash is greater than the starting cash. This process of cash grain farming is what a farmer's job should be because it is based on a few factors that are known or knowable. Cash grain farming requires a reasonable investment of time doing meaningful work that has a clear payoff in the end. Cash grain farming requires no opinions. All the answers are clear and easily attainable.

## **Long-Term Perspective**

Farming is a long-term business venture. The American family farm is one of the cornerstones of society that has been passed on through several generations. The reason the family farm has been around so long is because it is a business that has built wealth over the long-term.

To continue to be successful in the long-term, farming has to continue to build wealth. In order to accomplish this, farms need to get more money out of a crop than they put into it consistently over a long period of time. This consistent, long-term approach to farming can give some very meaningful perspective in years like this one.

Someone with a consistent, long-term approach to their farming operation doesn't worry that they might have sold their grain "too soon." They know that they sold their grain at what was a good profit for them and they focus on selling more for the future. They understand that they are in farming for the long-term and just want to make sure to lock in reasonable profit margins whenever they present themselves. A farmer with long-term perspective will not let a period of high prices derail his plan for consistent, long-term profits.

### Staying In The Market With Options

The options market allows you to benefit if the market goes up after you sell. Simply put, they allow you to lock in a price floor and still participate in higher prices.

This is a two-part process. First, you sell grain on a regular cash or forward contract. Second, for a fee, you are tied to a specific futures month and price for a specific period of time. You have the right to take any increase in that futures price at any time during the life of the contract.

Like every marketing alternative that allows you to extend your time in the market, options have a cost associated with them. In the current environment of historically high grain prices, you can spend that money and still have a very high price floor. There is a lot of equity available to you in this market that could be lost if prices were to decline. If you would like to lock in this equity but don't like the idea of not being in the market, staying in the market with options might be the solution.

## **Meaningful Benchmarks**

In years like this, it is easy to see big dollar signs and have irrational exuberance about the future. This is when you need to step back and look at some meaningful benchmarks to help you make your decisions on when to sell grain.

One good benchmark to rely on is a State or National Average. Consistently selling above the State and/or National Averages will go a long way to making your farm a long-term, successful operation.

Another very meaningful benchmark is your personal average. Your goal each year should be to sell your crop at numbers that will raise your personal average. If you can accomplish this goal over the long-term, your farming business will become more and more successful, you will build wealth, and your operation will grow.

Probably the most meaningful benchmark of all is your profit per acre.

State	1990-2005 Average Cash Price/ bushel			
	Corn	Soybeans	All Wheat	Rice
Arkansas	\$2.33	\$5.90	\$3.09	\$3.22
Colorado	\$2.39		\$3.20	
Georgia	\$2.60	\$5.74	\$2.91	
Illinois	\$2.32	\$5.86	\$2.95	
Indiana	\$2.31	\$5.80	\$2.97	
Iowa	\$2.19	\$5.71		
Kansas	\$2.33	\$5.67	\$3.15	
Kentucky	\$2.44	\$5.90	\$2.97	
Louisiana	\$2.45	\$5.93	\$3.13	\$3.28
Michigan	\$2.21	\$5.71	\$2.97	
Minnesota	\$2.10	\$5.62		
Mississippi	\$2.41	\$5.89	\$3.10	\$3.33
Missouri	\$2.31	\$5.73	\$2.93	\$3.21
Nebraska	\$2.24	\$5.59	\$3.16	
New Mexico	\$2.65		\$3.20	
New York	\$2.61	\$5.34	\$2.95	
North Carolina	\$2.60	\$5.72	\$2.96	
Ohio	\$2.30	\$5.79	\$2.95	
Oklahoma			\$3.17	
Pennsylvania	\$2.69	\$5.69	\$3.18	
South Dakota	\$2.03	\$5.45	\$3.30	
Texas	\$2.56	\$5.46	\$3.13	\$3.41
Virginia	\$2.49	\$5.67	\$2.85	
Wisconsin	\$2.21	\$5.64	\$2.78	
Wyoming	\$2.49		\$3.18	
<b>National</b>	<b>\$2.26</b>	<b>\$5.74</b>	<b>\$3.26</b>	<b>\$3.27</b>

## **Profit per acre = (Cash Price/bu X Yield per acre) - Total Cost per acre**

At current price levels, you can probably lock in close to the highest profit per acre that has ever been available to you. Using this as a benchmark, the only rational thing to do is to take this great profit that is available to you and lock in all you can. Thanks to crop insurance, you really have nothing to lose by locking in these great profits on at least the large majority of your crop.

Many of you may read this and say, “Nothing to lose?! What if the price goes up after I sell?” To that, you have to tell yourself that you are in the cash grain farming business and not the price prediction business. Your goal needs to be to take good profits when they are available rather than trying to hit the very top of the market. If you hold out to try and hit the highest price, what typically happens is the price actually gets lower before you decide to sell it. Therefore, by selling now and not getting caught up in the price prediction game, you can lock in your profit and have “nothing to lose” in the sense that the equity of your business is no longer at risk to the prices going down.

## **Long-Term Opportunities**

The farming business is unique in the fact that when prices rally and reach all time highs like they are doing in the current year, you can lock in the high prices for years to come. Two or three years from now, there may or may not be reasons for prices to still be this high, but the grain futures market allows your local elevator to lock in these prices for you today while they are at great levels.

One common struggle in grain marketing is “selling the discount” or selling prices for future crops that aren’t as high as prices for more nearby crops. Even though it can be somewhat of a mental block, it can be very profitable for you. These abnormally high prices are available for as far as three years out. Using the meaningful benchmarks discussed earlier, it is clear that even though the prices may not be as high as the current year’s, you can still lock in a fantastic profit per acre and raise your personal average.

# Now What?



It is now time to apply these lessons to your own situation. Take stock of how much you have sold, what your average is, and how much you have left to sell for the next few crops. Any bushels that you have not sold (whether it is old crop, new crop, or beyond), is equity that you have at risk of price fluctuations. Lock in these great prices right away and take your equity out of risk ASAP. At the very least, put in a target order to sell your remaining bushels.