

# Farmer's Corner



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## The More Things Change . . .

We've certainly seen big and relatively fast movements in both directions in the grain markets this year. As prices have moved up and down, so has the value of crops--the 2003 crop, 2004 crop, and even 2005 and beyond.

Prices aren't the only things in motion. Our marketing environment is in constant change, too. Markets are trading longer now than they used to, they can move more in a single day than they used to be able to, and news and information is becoming more and more accessible all the time.

Amidst all this activity, motion, and change, there are some things that stay the same. The emotions of marketing and the need for discipline are still just as prevalent as ever. Higher prices and bigger swings in the market mean higher anxiety and bigger swings in mood for those who approach marketing in an unprepared way.

As a remedy for market motion sickness, we prescribe a course of written goal setting followed by action of some sort.

Pursuing clearly defined goals has a way of calming the mental and emotional fluctuations of the markets.

Goal setting changes the marketing landscape from one of guesswork, luck, and ultimately futility (trying to predict markets based on a million factors), to one of relatively stable and reasonable pursuit of opportunity (trying to lock in a predetermined profitable level with little or no concern for how that price compares to others results or "what could have happened if...").

Those who follow the simple goal setting + action approach consistently year after year spend less time worrying about "what is the market going to do today", more time doing more important things, and on average sell for more money per bushel than those who employ a less disciplined approach.

Here's a simple way to tell if your current marketing approach is leaving money on the table: divide your total bushels sold over the last 5 years (or as many years as you like) and divide that number by the amount of money you received for

those bushels (after storage costs). This calculation will give you your average price per bushel. Just a quick glance at that number will probably tell you whether or not you could have done a little better.

Next, figure out how much a small increase in that number would affect your income. If you increased your average by 10¢ a bushel, how many more dollars would that mean to you?

Then, take a look at history to get an idea of what kind of average is reasonable to expect. Could you have sold 5¢ better than your average price? How about 10¢ or 20¢ better. We can help you with the historical information if you like.

The final step is to set a reasonable written price goal that will improve your average and follow that with some kind of action, either selling some bushels if prices are above your goal, or entering a Target Contract and sticking with it if prices are not quite where you need them to be yet. Get disciplined, set goals, take action, and enjoy the results!

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# Are You Using

# "Goal-Friendly" Contracts?

Once you've decided to commit to goal-oriented marketing, it's important to be sure that your methods are goal-friendly--in other words, that they support, encourage, and assist you in reaching your goals.

Here are some important attributes to look for:

### 1. When do I get my money?

Rather than selling grain when you need cash flow, profit goal oriented selling means you sell because your predetermined goal is reached. This often means you get more money sooner.

### 2. Does this contract eliminate or at least limit additional costs?

Getting your money sooner means you have grain sold and are not going to incur additional storage and interest costs. These savings go straight to your bottom line.

### 3. Do I have upside potential?

Let's face it; "What if it goes up?" is the question that keeps many from doing anything at all until a need for cash arises. Upside potential is nice to have, but it's especially nice if it comes without downside risk.

### 4. Do I have downside risk?

Selling when you need the money often means getting a lower price than you'd like. The ideal situation is to meet your price goal, sell so the risk of lower prices is eliminated, and then pursue upside potential with no downside risk.

### 5. Does this contract encourage or discourage the "Discipline Factor?"

The Discipline Factor is that shadowy force that keeps your goal-oriented plan on track. It ignores market noise and focuses on returning consistent profits.

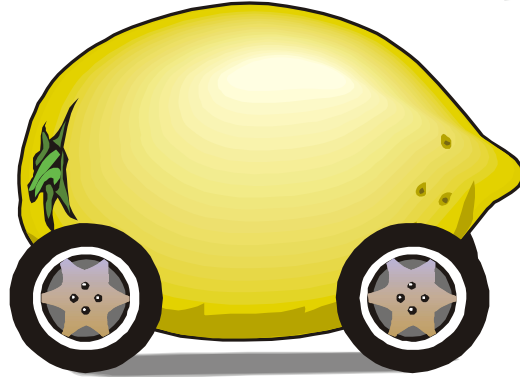
Any contract that turns one already difficult question ("Should I sell now?") into several difficult questions by splitting decisions up into price, basis, timing, and any number of other choices makes discipline even harder to maintain. Focus your time and energy on contracts that promote rather than discourage discipline.

The worksheet below will help you grade contracts based on these five important factors. We've filled in a few and left some blank spaces for you to add more. Simply answer each question "Yes" or "No" and count up the number of "Yes" answers to figure the score -- the higher score, the better.

	Get Money ASAP	Eliminate/Limit Additional Costs	Upside Potential	No Downside Risk	Discipline Factor	Score
Cash Contract	+	+	-	+	+	4
Basis Contract	+	+	+	-	-	3
HTA (Basis Fixed Later)	+	+	+	-	-	3
Options to Stay In the Market	+	+	+	+	+	5
Store (Make No Decision Now)	-	-	+	-	-	1

# Our Lemon

# Law



How would you feel about someone who knowingly sold you a car with the potential for serious problems? A dealer that was trying to build a good reputation and attract repeat business certainly couldn't do it by selling lemon vehicles.

Ever bought a car that turned out to be a lemon? If you haven't, chances are you know someone who has. At first, everything is great. The paint is shiny, the engine runs quiet, the brakes work great, nothing could be better.

At some point, though, the car starts to fall apart. One breakdown follows another, and as soon as one problem is fixed the next one pops up. Before long the car's owner is fed up, but has spent so much money on repairs it just doesn't make any sense to start all over again -- certainly not a pleasant position for the owner.

This situation is analogous to something we face in the grain business. There are certain contracts and/or marketing methods we choose not to offer, precisely because we know they have the potential to "break down" and cause serious financial damage eventually.

These "lemons" may work fine for a while, but sooner or later they break down, and when they do the results are usually devastating to the farmer, the elevator, or both.

We strongly believe that the potential risks far outweigh the temporary benefits of these types of contracts, and so it is better to avoid them altogether.

## Lemon Check

*Here are some warning signs that a contract could be a "lemon."*



### **Exposes you to risk if "seldom" occurs**

There are several types of contracts that work okay unless an event that seldom occurs does occur. "Seldom" *will* happen sooner or later.



### **Takes the decision to sell out of your hands**

You are the person most qualified to make the decision about when to sell your crops. Any marketing alternative that puts that decision in someone else's hands has the potential to lead to trouble.



### **Claims to provide some "edge" on the market**

The simple truth is that making a disciplined, thoughtful decision to sell based on a solid plan is the safest way to sell, and the one that will lead to the greatest success in long run. Any contract that claims to provide some kind of trading edge is more than likely just encouraging speculation and adding risk.

# Who Knows What The Future Holds?

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## *Anybody With a Quote Machine!*



With all the hustle and bustle surrounding prices for 2003 and 2004 crops, it might be worth your while to turn your attention a little further out. Prices for 2005 and beyond may be better than you knew. Why even think about them this early on? Here are a few good reasons:

### **1. Sometimes you need to sell the "discount"**

2005 prices may look low compared to nearby levels, but they might be higher than normal. Sometimes, the highest new crop prices occur when nearby prices are even higher. In other words, a nearby rally can make deferred prices higher than they would otherwise be. For example, did you know that the highest prices for the 1999 corn crop occurred in October of 1997?

### **2. High prices don't always stick around**

No one can predict the future, but we can make firm statements based on what we know about the future now--statements like, "The current 2005 price is profitable for me at normal yields. I can safely sell a percentage of my anticipated 2005 harvest now and feel good about it."

### **3. Locking in good prices now = one less decision later**

Many producers express that making marketing decisions is one of the hardest things they have to do. Locking in some bushels now eliminates the need to make that decision later.