

Farmer's Corner



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The Simple Truth

Volatility--we've had plenty of it lately, and may be in for some more. The question we hear most about volatile markets is "Why?" Why is the market moving around so much? What is happening, where is it happening, and how long will whatever it is last?

All of these questions are focused on trying to figure out how high prices will get. Meanwhile, deep down, we all know that no one knows.

Volatile markets are a gift, one way or another. If they occur because someone somewhere is losing a crop, they provide opportunities for that person to sell the next year's crop. For those who have crops in the current year, they provide an opportunity to sell two years' worth of crops at good prices.

Here's the hard part; volatile markets reward those with a plan. Not a dream, or a hope, or an "if it gets to this price I'll think about it" plan, but a fixed, firm, written and stuck to plan.

The simple truth is that it doesn't matter what the price was, or might be, it only matters what price you lock in.

Since we all know that no one can predict prices (and that you certainly wouldn't need a farm or a grain bin to do it, just a beach house and a cell phone), we are left with a fairly simple proposition. Successful farming = turning your grain into more money than you started with. If market conditions make that impossible, the next most important thing is to stop costs and keep as much of your original investment as possible.

Notice that "what is the price going to do?" doesn't even play a role in this scenario, other than as a huge distraction.

The proposition is simple, but the execution is hard. We are talking about having discipline and setting goals in an atmosphere where speculation and trying to outguess the market is the norm.

If all this make sense to you, then the obvious next step is figuring out what to do about it.

The situation is fairly clear-cut. The biggest decision producers who are still

holding on to grain instead of money are facing is whether to take action and turn grain into money or do nothing and take the chances that,

- 1) prices will continue to go up, not down, and
- 2) prices will go up fast enough and far enough to compensate for the cost of waiting, and still produce some additional income on top of that.

If you're determined to stay in the market, you need to be looking for ways to increase your exposure to opportunity while lowering your exposure to risk or high additional costs.

In other words, get most of your money now and still be in the market. You can get about 95% of the value of your crop (now for old crop, upon delivery for new crop) and stay in the market with a fixed cost and limited downside risk. All you can lose is the 5% you left in the market; meanwhile, you can get the increase on just as many bushels as you could have otherwise.

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If you've already sold . . .

Congratulations! You have already avoided the costs and risks that take so much money out of farmers' pockets every year. You won't have to worry about any after-harvest marketing costs, and you'll be able to put your money to work for you right away.

What now? Stay alert for opportunities to do the same with next year's crops. Get to work on figuring your costs of production and enter profitable target orders for next year.

If you haven't sold yet . . .

If you haven't sold yet, or haven't sold all your production, you have some important decisions to make.

The worksheets that follow are designed to help you compare your choices so that you can choose the alternative that is best for you.

Alternative #1 -- Sell Now and Avoid Additional Costs

Current prices will probably not return a reasonable profit. The advantages to cash contracting now are that you will eliminate any risk of lower prices and get your money at harvest.

	Crop1	Crop 2
Today's Price	_____	_____
x Yield Per Acre	_____	_____
- Cost Per Acre	_____	_____
= Profit Per Acre	_____	_____

If the current price is not satisfactory and you decide to stay in the market, you have several choices.

If you will be marketing after harvest, however, there will be some cost involved in any alternative you choose. Your goal is to find the alternative that provides the most opportunity and flexibility at the lowest cost.

Alternative #2 -- Get Your Money AND Stay in the Market

Instead of leaving 100% of your investment open to the risk of fluctuating prices, you can get about 95% of what your crop is currently worth and still be in the market with limited risk if prices go down and unlimited opportunity if prices go up.

	Crop 1	Crop 2
Current Price	_____	_____
	x .95*	x .95*
= Guaranteed Price Upon Delivery	_____	_____
+ Additional Increase in:		
Futures Month	_____	_____
Futures Price	_____	_____
* Approximate value. May be slightly more or less than 95%		

Note to those considering this alternative

In a strong market the nearby futures usually lead the way.

By purchasing shorter periods of time, you may be able to increase performance and reduce cost.

Also, if the market declines and you wish to extend your market participation, you will probably be able to get back in at a lower price.

Alternative #3 --

Do Nothing Now (Storage/DP)

Storing grain really amounts to making no decision at all. 100% of the value of your crop is open to market risk, and you are paying fees. Because you do not receive any payment until you price the grain, you will also be losing interest on your money or on outstanding loans.

	Crop 1	Crop 2
How many months until I sell?	_____	_____
x Storage Cost/mo.	_____	_____
= Cost of Delaying	_____	_____
Amount of time until payment received	_____	_____
= Interest Cost	=====	=====
TOTAL COST	_____	_____
Selling Price <i>(after fees & int.)</i>	<u>??unknown??</u>	<u>??unknown??</u>

Compare Your Opportunities . . .

	Crop 1	Crop 2
Cash Sale	_____	_____
Stay in the market but get 95% now	_____	_____
Store/DP and sell later	_____?	_____?

Which alternative will provide you with the most opportunities and greatest flexibility at the lowest cost?

Looking Ahead

When prices for the current crop rally for legitimate reasons, prices for the next year's crop (and maybe the one after that) rally too, but not for any reason other than the nearby is up too. This means opportunity for those who have a plan. Will you be growing crops next year? If so, it's not too early to enter reasonable Target Contracts for next year's crop.

It's easy, it's free, and it works!

Will You Be Ready To Answer If Opportunity Knocks?

Why You Should Have New Crop Target Contracts Entered

- Target Contracts are watching the market when you can't be.
- Target Contracts don't have that temptation to "wait for just a few more cents" when the market starts getting close to your goal.
- Getting grain sold will eliminate your exposure to price risk and added costs.

Things To Consider When You Enter Target Contracts

- Is the target price reasonable? Targets far above normal market levels are unlikely to do any good and may cause you to miss more realistic opportunities.
- Are you offering enough of your crop to make any real difference if your target is hit?
- Scaling targets can increase your opportunity. For example, if your profit per acre goal is \$50, you might enter targets to sell 20% of your production at \$30, 20% at \$40, 20% at \$50, and so on. This will give you a better chance of getting some bushels sold at a price you can live with.

If Your Targets Aren't Filled . . .

- Make up your mind to have your bushels sold by harvest. If you need to stay in the market, you can do it and still get most of your money up front.

Are You Storing the Right Commodity?



If you've been doing business with us for while, you know that we generally disagree with storage as a way to stay in the market after harvest. The cost and risk of storing far outweigh the benefits, especially over the long term. When you look at the results of storing year after year, you find that very seldom does the value of the commodity being stored increase enough to make up for the additional costs incurred. In fact, many times prices go down while costs are steadily going up.

However, there is one commodity that always increases in value if you store it. In fact, the longer you keep it in storage, the more valuable it gets! If you are determined to store a commodity, *we recommend that you store money instead of grain*. When you store grain, you have to pay us, and you assume all price risk. When you store money, someone else pays you, and you get to control your level of risk. Stored grain takes money out of your pocket every day, while stored money puts more of itself in your pocket every day.

Think about it.