

YOUR PROFIT

By Al Kluis



5 STRATEGIES TO CONSIDER FOR THE 2015 CROP

July 2016 CBOT Corn



This daily chart shows the 10-day and 40-day moving averages. You can see the initial high (\$4.50) in December 2014. Prices dropped to the first low in June 2015 at \$3.90. Prices went on an 80¢ 20-day rally to the high at \$4.70 in July 2015. From that high, prices dropped to the low at \$3.81 in August 2015. The chart shows good support at \$3.80 to \$3.90 with resistance at \$4.50 to \$4.70. A rally back to \$4.50 or higher will get prices back to a profit zone for most farmers. Do not miss it the third time!

A new customer came into my office this fall and blurted out his burning question before he even sat down:

“I haven’t been selling crops ahead the last two years. Now my lender wants a

written marketing plan and possibly a second mortgage to get financing for next year. This is really frustrating. What do I do?”

After he sat down, I told him he should want a marketing plan, too – not just to make his lender happy. After all, it is his crop and his money. Once he has a solid plan on paper, he can also use it to spell out those strategies with his marketing team and his lender.

We spent some time sketch-

ing out a plan. First, I asked him a lot of questions to gauge his marketing knowledge. He wasn’t very knowledgeable, but he wanted to learn.

Next, I had him plug some numbers into the grain inventory software (GrainBridge) that I recommend such as crop size, storage, cost of production, and so on. His yields were great, and his land and equipment costs were low. In fact, on this farm – even with today’s low prices and wide basis – he was able to show a

small profit. I also explained about futures alignments and showed him why he should market this year’s corn crop a lot different than the way he should market his soybeans.

I gave him five strategies to consider. Once he has thought it through, we will fine-tune the plan for each crop.

CONSIDER THESE FIVE STRATEGIES

Following are those five strategies.

1. Hold it and hope. This worked one year out of the last 10. However, it has been a disaster since 2012. Many farmers in a high-equity position (meaning they don’t have much debt) typically hold it and hope. Farmers with deep pockets and big bins can afford to do this, though that still doesn’t mean they make money doing it.

What about farmers who are leveraged or who have two bad crops in a row? Hold it and hope can be a fatal choice, because hope is not a marketing plan.

2. Hold and protect: In other words, hold it all and protect the downside with put options. This strategy would allow you to wait for basis improvement, but it would require you to write out a large check for your futures account. Unfortunately, your farm finances may already be tight. Still, it may be worth considering doing this on 5% to 10% of your corn crop just so you can learn how it works.

3. Hedge and wait: Hedge the corn and soybeans out into the spring and summer of 2016 and wait for the basis to improve, particularly if you have the corn and most

July 2016 CBOT Soybeans

This daily chart shows the 10-day and 40-day moving averages. You can see the initial high (\$10.50) in November 2014. From that high, prices dropped to the first low in June 2015 at \$9.25. Prices went on a \$1-per-bushel 20-day rally to the high at \$10.25 in July 2015. From that high, prices dropped to the double bottom at \$8.70 in August and September 2015.

The chart shows good support at \$8.70 to \$8.80 with resistance at \$10.20 to \$10.50. A rally back to \$10.20 or higher will get prices back to a profit zone for most farmers.



of your soybeans stored at home. This is something to consider on some of your corn crop because of the large carry in the corn futures market, but it doesn't make any merchandising sense for soybeans.

You need to treat each crop very differently, depending on your basis, carrying charge in the futures, and your local merchandising alternatives.

4. Plan and sell: Put together a scale-up marketing plan using both price and time targets so your crop is sold by mid-July. In this plan, you would make a series of 10% or 20% sales. This type of marketing plan takes more time and effort, but it can also make the farm a lot more money. The farmers who do this are not the hold-it-and-hope type. They are a lot more involved with the grain markets each day. Remember, you are growing money – not crops. Do this on 50% to 80% of your corn and soybean crops.

5. Sell and buy calls: Sell it all and buy call options back. This would generate a lot of cash right now and would allow you to make more money if futures go higher later. This only makes sense for the soybeans you have in the grain elevator. The cost

of the call option is less than your interest and storage bill of keeping the soybeans at the elevator.

AVOID THESE THREE MISTAKES

Here are the three most common marketing mistakes I see farmers make.

- 1. They do not have a plan.** They only start working on marketing when prices are low. They are usually hold-it-and-hope marketers who hit a home run once every 10 years. The other nine years, they pay a lot of interest bills.
- 2. They sell 100% or nothing.** These farmers live with a lot of stress and anxiety. They are bullish when prices are high, and they panic when prices are low. Watching the market every day and worrying is not a marketing plan. Selling when you can't stand the anxiety or when you have to have the money right now is not a marketing plan either.
- 3. They only sell cash grain, and only when it is in the bin.** These farmers are so worried about production risk that they ignore price risk.

I enjoy my job helping farmers, but I do find it frustrating that so many farmers only want to work on a marketing plan when prices are low. If you do not like grain marketing and do not want to

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take the time to work at it, then find someone on your farm to create and execute a written marketing plan. It will save you – and everyone around you – a lot of stress. As a result, you will have a stronger, more profitable farm.

LEARN MORE

After two hours with my new customer, he felt a lot better. Before he left, he asked one final question: “What’s the best thing I can do long term for my marketing?” My answer to him was easy. Learn more.

Yes, you can – and should – create a marketing team and work with a trusted adviser. The growth and profitability of your farm will largely depend on how good you and your team are at making decisions. If you know more, you will find it easier to make decisions, and they will be better decisions. You will do a better job choosing and leading your marketing team, as well as choosing an adviser. You will become more independent.

I have always found that customers who understood marketing concepts were my best and happiest customers. Yet, marketing classes are scarce. That’s why, years ago, I started building my own instructional guides. Today, I’ve got a full set of marketing classes (a three-year curriculum, in fact) to help you understand how to become a better marketer. Learn more at LTAclass.com or KluisU.com.

Just like I told my new customer, there’s another marketing strategy you should consider: Learn more and earn more! **SE**

NOTE: Trading of futures and options has substantial financial risk of loss and is not for all investors.