

YOUR PROFIT

By Al Kluis

December 2017 CBOT Corn



This chart shows the major low in the first week of March at \$3.80 per bushel. Prices rallied over 40¢ per bushel by late June. If you have 200-bushel-per-acre yields, that is another \$80 per acre in revenue. At \$4.30 to \$4.50, you should consider getting 10% to 20% of your anticipated 2017 crop hedged.

REVENUE PER ACRE ALWAYS THINK OF YOUR CROPS AS MONEY – BECAUSE THAT'S WHAT THEY ARE.

I have seen some huge market reversals in the last 42 years of grain trading. The change in the grain markets, farm prices, farm profits, and farm attitudes from late February to late June 2016 is one of the biggest reversals I have ever witnessed. One farmer called me in mid-June and said, “I was scared in late February that I would lose money farming in 2016. Now, I’m afraid that I might miss it. What do I do now?”

This is a good problem to have. The March 2016 *Successful Farming* magazine cover forecasted that we would be “back in the black” this year. I got a lot of ribbing about it at the time, and now some farmers are calling in to ask if it’s for real.

For U.S. farmers, the rally in corn prices has added \$10 billion onto your revenue. The \$3.40 rally in soybeans has added another \$13 billion onto your 2016 revenue. Wheat revenue is up about \$1 billion. For typical 1,000-acre central Corn Belt farmers, their farms have swung from a \$120,000 projected loss in early March 2016 to a positive cash flow of over \$100,000.

Let’s go back to the big question of what to do now and how you can manage your marketing so that you don’t miss out.

It’s important to put together a plan so that

you don’t miss this opportunity. Here are two alternatives to consider.

- 1 Make incremental sales.**
Sell in 10% increments and don’t look back. I don’t know of any way to pick an exact top in the grain markets, so I use tools like the relative index that measures momentum. I also use the Elliott Wave theory. While these tools

are helpful, they are not 100% accurate.

The best way to harness a large rally is to make a series of 10% sales.

Some of my customers will sell a semitrailer load of corn every day that corn is up 10¢ a bushel. On days when it is up 20¢, they sell two semitrailer loads. They usually get a good price near the high and end up with a great average selling price.

- 2 Use all of your marketing alternatives.**
If you get most of your insured bushels hedged ahead and you are not comfortable placing more hedges, then get price



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November 2017 CBOT Soybeans



This chart shows the major low in the first week of March at \$8.70 per bushel. Prices rallied over \$1.50 per bushel by late June. If you have 50-bushel-per-acre yields, that's another \$75 per acre in revenue. At \$10.40 to \$10.80, you should consider getting 10% to 20% of your anticipated 2017 crop hedged.

protection by purchasing put options. This allows you to get price protection in place without making a delivery commitment. When prices tip over, you will make money on these puts. It is not a question of *if* prices will turn lower but, rather, a question of *when*. History indicates that prices move down twice as fast as they move up. So when prices turn lower, these large profits can disappear rapidly.

LOOK AHEAD TO 2017

I placed some new-crop 2016 hedges when November soybeans hit \$10.40 and December corn hit \$4.28. Even though soybean prices are higher than that now, I am still happy with those sales and plan to make some 2017 hedges on about 10% of my 2017 crop when November 2017 soybeans hit \$10.40 and December 2017 corn hits \$4.30.

Think of marketing in terms of revenue per acre instead of price per bushel. This can help you take some of the emotion out of marketing.

beans hit \$10.40 and December 2017 corn hits \$4.30.

In the last two presidential election years (2008 and 2012), I sold some crops ahead for the following year. In 2009 and 2013, I was very happy with those hedges at harvesttime.

As bullish as everything looks now, it can look a lot different by the fall harvest of 2017.

FINAL THOUGHTS

Think of your crops as money – because

that's what they are!

I have used a lot of marketing plans through the years, and I've seen what works for farmers and what doesn't work.

The worst mistake you can make is to hold on to your crop until the new crop is made.

The other common mistake is to panic when prices are low and get a large portion sold ahead when prices are below the cost of production.

Consider making sales based on revenue per acre or per farm.

On this recent soybean rally, I have had several farmers say they were able to sell soybeans ahead and that the revenue was \$30 to \$50 per acre above their budgets. They were disciplined enough to make a series of sales, selling about 5 bushels per acre ahead when each price target was hit. They did not hit the top, but they now have a good average price, and

they are going to have a very profitable year in 2016.

Think of marketing in terms of revenue per acre instead of price per bushel. This can help you take some of the emotion out of marketing. **SF**

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

AL KLUIS Commodity Trader

Al Kluis has been trading grain futures since 1974. Sign up for a free trial to his daily morning email and weekly "Al Kluis Report" by going to alkluis.com.



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