YOUR PROFIT

By Al Kluis

2016 Corn Kluis Sales

This is the daily December 2016 corn chart. You can see the major low in early March and the 12-week 85¢ rally. The corn market peaked in 2016 on the exact same day it put in a major low in 2015. I recommended a series of new-crop hedges with an average hedge price on December corn at $4.31 per bushel.

RISK MANAGEMENT SAVES THE FARM

RECORD YIELDS DO NOT OFFSET LOW GRAIN PRICES.

In early August, I started getting calls every day from non-customers who just wanted to talk. The conversations were all about the same topic: "What should I do with the last of my cash corn? I need to sell it to make room for my new crop harvest." Ouch. All of the callers were polite, but I could sense and feel the frustration in their voices.

Some of the calls were in response to my March 2016 Your Profit column (pages 22, 24), "A Risk Management Plan for 2016 in 3 Steps." Here's a short recap:

Step 1: Buy the right Revenue Protection (RP) crop insurance.

Step 2: Get 80% to 100% of your insured bushels hedged ahead with short futures.

Step 3: Get the rest of your production protected with puts.

This was a good year to be in command of a solid marketing plan. The corn and soybean markets went on a huge rally from the first week of March through the third week of June. Then they fell. Farmers who followed my simple three-step plan will stay profitable in 2016. For farmers who had no plan or had a plan that stayed on the bookshelf, or for those who used the old hold-and-hope plan – it is going to be another tough year.

Let's look at the corn market first. December corn rallied for 12 weeks. The low in March was $3.64 and the high came in the second week of June at $4.49 for an 85¢ rally. When the rally was over, it was over. Three weeks later, corn dropped below $3.50 on its way down to the late August low at $3.14. I made hedge recommendations between $4.08 and $4.48, getting 40% to 80% of the new crop hedged ahead. For producers who were scared to get that much hedged, I had them buy $4.20 puts.

For soybeans, the market went on a huge 15-week $3.18-per-bushel rally, surging from the late February low at $8.68 to the high the second week of June at $11.86. Once the market turned, the prices and profits went away fast. Six weeks after the high, soybeans were below $10 on the way down to the August low at $9.43.

I started hedging a little early with my first 10% hedge at $9.30, but I stayed with a disciplined scale-up plan and made five more hedge recommendation with the last hedge at $11.30 per bushel. The farmers who followed the hedge recommendation got 60% to 100% of their insured bushels hedged at an average of $10.60. The rest was protected with $10.20 puts.

I've used this three-step risk-management plan for the last 10 years. In seven of those years (including 2016), this simple risk-management and marketing plan helped increase the bottom line, with farmers delivering on profitable hedges at harvest.

In two of the last 10 years, you were better off selling at harvest and not doing any forward-selling. One year, it was about even. In 2016, the hedge profits on corn, soybeans, and wheat made the difference between a profit and a loss for many farms.

It's hard to pull the trigger. I know it is. But it is absolutely essential.

4 EXCUSES; 4 SUGGESTIONS

Here are the four biggest excuses for not selling ahead and four suggestions on how to get your crop sold.

1. It was really dry in my area and I did not know how big of a crop I would get. You are in a global marketplace. The weather on your farm and in your county does not matter anymore. If you

2016 Soybean Kluis Sales

This is the daily November 2016 soybean chart. You can see the major low in late February and the 15-week $3.18 rally. The soybean market went up faster and further than I had expected. But when it turned lower, it really got tanked. I recommended a series of new-crop hedges with an average hedge price on November soybeans at $10.36 per bushel.

are making 10% sales and using a combination of hedges and puts, then you can manage your production and price risk. If you are too worried about your production risk to make sales, then you need to find someone on your farm who can make those sales. This is how you can manage your price risk. Don't be ashamed to do it. Your marketing plan can include having someone else pull the trigger for you.

2. I thought with crop insurance that I did not need to sell ahead because the crop insurance would protect me against lower prices. Crop insurance gives you a license to sell. This means crop insurance works beautifully as part of your risk management IF you get sold ahead on your insured bushels. In that case, if you end up with a small crop and higher prices in October, then crop insurance payments will help you offset the hedge losses. Again, it is important to use a combination of hedges and puts, and get a large portion of your insured bushels sold ahead.

3. I thought it would keep going higher. Everything I read on the internet was bullish. If you read enough commentary on the internet, then you can always find someone who is bullish. The news is always bullish at the top.

However, an experienced marketer knows that is when the internet is full of bulls. They compete to see who can project the highest price. Be wary, because the news is always bearish at the bottom.

If the internet is giving confusing advice, stay away from it. You need to make marketing decisions based on what is right for your farm's bottom line – not what you read on the internet.

4. I think the USDA is wrong. The USDA has an excellent track record in its acreage, production, and ending stocks projections. It is not right all the time because conditions change, but in my 40-plus years of making a living as a grain trader and assessing the role of USDA numbers in the grain markets, trading against it is almost always a big marketing mistake.

A FINAL THOUGHT

Think of your crops like money, because they are. You need to manage production and price risks and have a well thought-out and written marketing plan. Most importantly, you need to act on it. Use it, even when it is the most scary. SF

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

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