

YOUR PROFIT

By Al Kluis

July 2017 CBOT Corn



This chart shows the major high at \$4.46 on June 15, 2016. From that high, prices plunged \$1.06 per bushel to \$3.40 per bushel on August 31. Since that preharvest low, prices have rallied back just over 38%. I am using a combination of analysis tools to show where I will have offers in to sell the 2016 cash corn if futures rally between May and July.

WHAT IS YOUR CMV?

KNOW YOUR CURRENT MARKET VALUE AND YOU CAN SET A PROFIT GOAL FOR YOUR FARM.

I've been involved with a lot of ag, financial, and nonag businesses over the last 40 years. I have owned everything from travel agencies to banks, investment companies, commodity brokerage firms, and a cash grain business. As a result, I have learned a lot about managing nonfarm businesses. I apply this to the farmers I advise on marketing strategies.

My approach in marketing grain has changed. It had to, since the grain markets and farm programs have changed. With the most recent farm program, you do not really have a

safety net; you need to create your own.

For the last decade, I've recommended a three-step risk-management plan:

1. Buy RP crop insurance.
2. Hedge 30% to 50% of your crop.
3. Protect the balance of the bushels with put options.

This strategy has worked really well

You'll usually want to get the cash crop sold between the first week of May and the first week of July.

during the last decade. In the big bull market years of 2011 and 2012, we left some money on the table, but that is the nature – and the sacrifice – of risk management. However, over the last three years of lower grain prices, my three-step plan has helped save the farm.

Keep using this three-step risk-management plan. It has worked great for getting a large part of your crops forward-sold. But now many of you have the great problem of ending up with a bigger crop than you expected. You thought you had forward-sold 40% to 50%. But after the harvest was in, that ended up being just 30% to 40% forward-sold.

This means you have a lot more bushels and also a lot more risk to manage.

Here are two suggestions for managing that risk.

1. Use price charts to establish price targets above the

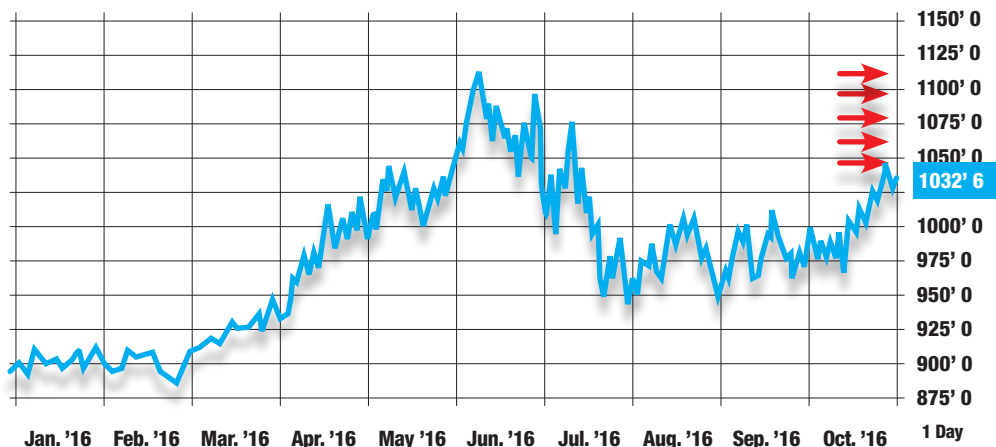
market. Call those offers in as good till cancelled (GTC) offers. Review the charts on the next page to see the price targets that are part of my plan at this time.

2. In addition to price targets, set time targets. If the price targets aren't hit by a certain date, you sell anyway. You'll usually want to get the cash crop sold between the first week of May and the first week of July. A simple but effective marketing plan is to sell 10% each week during those 10 weeks.

Not sure if you believe it's a good plan? Do a test. Split the bushels in half. Sell 5% each week during those 10 weeks. As a result, you will have sold half of the crop that way, and you can try another plan for the rest.

Following are ways you can apply some of the tools I used in my other businesses to your farm to make better decisions.

July 2017 CBOT Soybean



This chart shows the major high at \$11.18 on June 13, 2016. From that high, prices fell \$1.78 per bushel to the \$9.40 low on August 2. Since that preharvest low, prices have rallied back just over 62%. I am using a combination of analysis tools to show where I will have offers in to sell the 2016 cash soybeans if futures rally between May and July.

Here's a good example: Your CMV. Every day, investment firms and brokerage houses have to know the precise value of their portfolios and their capital ratios. This report has many names (it depends on how the company is owned and who the regulators are). I call it the CMV, or Current Market Value report.

Here's how to measure your CMV. First, an example, using a fictional crop of 100,000 bushels for this year. The producer thought he had forward-sold 40,000 bushels (50% of his 80,000-bushel crop, but he ended up with 100,000 bushels).

2016 Corn Crop

Total harvest (bushels)	100,000
Bushels forward-sold	40,000
Average selling price for bushels sold ahead	× \$4.00
Total Forward Sale Value	= \$160,000
Bushels remaining (unsold)	60,000
Current cash bid	× \$3.50
Total cash sale value	= \$210,000
Forward sale value	\$160,000
Current Cash Value	+ \$210,000
TOTAL = Current Market Value	= \$370,000

You can see that I am basically calculating the value of the crop if I had to sell everything right away. It sounds very simple – and it is – but very few people stay aware of their position this way.

Following is a blank form you can use to calculate your own CMV. Make another copy so you can do one for your corn and one for your soybeans or wheat.


2016 _____ Crop

Total harvest (bushels)	
Bushels forward-sold	
Average selling price for bushels sold ahead	× \$
Total Forward Sale Value	= \$
Bushels remaining (unsold)	
Current cash bid	× \$
Total cash sale value	= \$
Forward sale value	\$
Current Cash Value	+ \$
TOTAL = Current Market Value	= \$

At least once a week, figure out your CMV.

Many of you are proficient using spreadsheets (you can certainly turn this into one), but there's a psychological magic in calculating this by hand for at least a few weeks to start. Then it will really sink in.

DON'T LOOK BACK

For many farms, the combination of aggressive new-crop sales combined with record yields has helped stabilize farm income. If your CMV report shows you are getting back in the black, then you need to decide when to sell your crops. Set your profit goals. When you hit a price target that lets you be in the black, make your sale and don't look back. 

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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