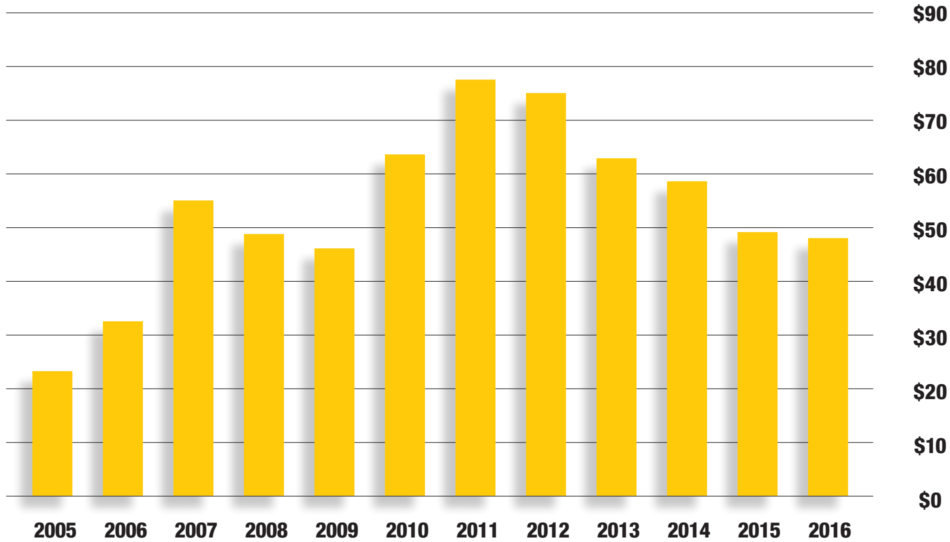
By Al Kluis

U.S. Corn Revenue (in billions of dollars)



This is the yearly chart showing total U.S. corn revenue. You can see that in 2005, corn revenue was at about $22 billion. Then, ethanol demand and global demand kicked into high gear and production and prices went higher. Total U.S. corn revenue exploded up to $76 billion at the peak in 2011 then started moving lower. Last year was the fifth year of lower total corn crop revenue. My early forecast is for total corn revenue to get back above $50 billion in 2017. That would signal that farm prices and farm profits have turned the corner.

WHEN WILL TRENDS CHANGE?

THE U.S. STOCK MARKET MOVES HIGHER WHILE GRAIN PRICES REMAIN LOW.

Two questions came up at almost every seminar I held this past winter:

1. How high can the stock market go?
2. When will farm prices and profits start to improve?

Before I answer those questions, a little background is in order. For over 40 years, I have been studying charts and price ratios, as well as analyzing the correlation between stock, energy, and commodity prices. So any questions I got about the stock and grain markets made me bring out my long-term charts and my calculator.

I base all of my long-term chart studies on grain using 2005 as my benchmark year. That was a pivotal year for several reasons, and the markets before 2005 are not the same markets as after 2005.

For example, I have developed a series of grain price, grain input, and grain profit indexes based on the prices in the fourth quarter of 2005. At that time, grain prices were very low. In fact, many of my farm customers made a lot of their income from loan deficiency payments.

At the same time, in the fourth quarter of 2005, the Dow Jones Stock Average was at about 11,000. That's what I made the starting point for the chart study I'm going to explain now.

In a nutshell, if you sold 1,000 shares of an Exchange Traded Fund (ETF) holding the Dow Index in 2005, you would have generated $11,000. With that $11,000, you could have bought 2,750 bushels of corn and 920 bushels of soybeans.

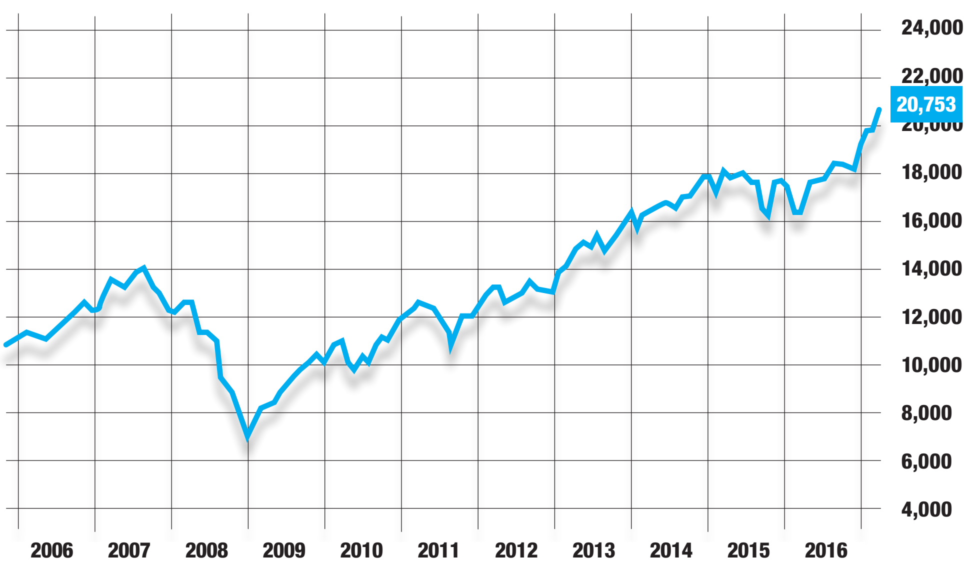
In other words, $11,000 invested in the Dow Index in 2005 would have bought you 2,750 bushels of corn and 920 bushels of soybeans.

Three years later, grain prices were much higher. In the summer of 2008, the commodity markets were sharply higher and the Dow was at 11,500.

In 2008, those 1,000 shares would have only bought 820 bushels of corn and 360 bushels of soybeans. The grain markets were very high compared with the stock market.

Over the following four years, the stock and commodity markets moved in close correlation. Both were trending higher. Wall Street and global investors embraced the commodity complex. Wall Street investment banks, pension funds, and commodity hedge funds became huge buyers in the commodity markets. The next time the grain markets went higher, both the stock and commodity markets went higher.

Dow Jones Industrial Average Monthly



This is the monthly chart of the Dow Jones Stock average. You can see the major low during the financial crisis back in 2009 at 6,600. From that low, prices are now up over 300%, with the index hitting a new all-time high in February at 20,840. By many historic measures, this is getting to be an old bull market. The current price-to-earnings ratio is very high, and stock investors appear to be in a state of euphoria. I am concerned about how sustainable this rally is. As a chartist, what I am looking at is a chart that is still in an uptrend. The higher the stock market goes, the better value I see in the commodity markets.

By the third quarter of 2012, the Dow was at 13,500. As a result, the 1,000 shares of the Dow Jones ETF would have bought 840 bushels of corn and 420 bushels of soybeans.

Since 2012, the correlation of higher stock and commodity prices has not worked. Stock and commodity prices have not gone up or down together. In fact, the stock market has soared, posting gains of over 70% over the last five years. Meanwhile, commodity prices have dropped by about 50% from their 2012 peak.

Today, with the Dow at over 20,800, stocks appear to be very high. Right now, if you sell 1,000 shares of a Dow ETF, it buys a record amount of corn and soybeans. Your 1,000 shares of the Dow Jones ETF will buy 2,800 bushels of corn and 1,020 bushels of soybeans.

By many historic measures, the stock market appears to be high, and the grain markets appear to be undervalued.

Here's a recap of those numbers:

	1,000 shares of Dow Jones ETF	Corn Bushels	Soybean Bushels
2005	$11,000	2,750	920
2008	$11,500	820	360
2012	$13,500	840	420
2017	$20,800	2,800	1,020

TO ANSWER THOSE TWO QUESTIONS

Here is my answer for the first question: How high can the stock market go?

Right now, you can say the stock market looks high or you can say the grain markets look low. I am not a bear on the stock market. When I look at my charts, I see an up trend. I am a long-term bull on the grain and land markets. Over the next decade, I believe that a balanced portfolio that had stocks and commodities is likely to outperform a portfolio that only has stocks.

Now for the second question: When will farm prices and profits start to improve?

The long-term grain price cycles I work with all turn higher by late 2017. The key to turning U.S. farm profitability around is crop revenue.

For your farm, it's the same. You need to do whatever you can in 2017 to get the best yield possible. You also need to get the crop sold now to maximize your revenue and to create a bottom-line profit for your farm.

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

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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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