

Farmer's Corner



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Focus on the Facts, Not the Frenzy

According to Webster, the word frenzy means having wild excitement or enthusiasm. When one considers the current state of affairs in agricultural commodity prices, the word seems to describe the situation accurately. We *do* have reason to be excited and enthused about the opportunities for crop producers in America, with all of the new demand for our products. Everyone knows that the demand for corn based ethanol is projected to grow substantially in the next few years. Our products are becoming mainstream. Even the shoe shine boy and the taxi cab driver know about corn today.

This excitement has attracted the attention of many groups of people, including investors willing to invest in our industry and those willing to invest in our commodity markets. This has led to some unprecedented marketing opportunities for crop producers for four or five years of crop production. Prices have been higher on several occasions in the past, but never have prices reached such levels for several years' production at the same time. No wonder everyone is so excited; we should be grateful for such excellent marketing opportunities.

Time to Take Stock

Unfortunately, such circumstances appeal to our emotions and we tend to focus on all of this frenzy and fail to consider well the facts. Many bushels have been sold for good prices,

but many are yet to be sold. Some producers sold a substantial portion of 2007 crops earlier before prices reached such lofty levels. Emotionally, when this happens we second-guess our decisions and have difficulty recognizing opportunity. Those decisions to sell were good decisions made with the facts available at the time. The uncharacteristic rally in prices which began last fall and continued through the winter does not make those earlier selling decisions a mistake. Any opportunity lost on bushels already sold can be offset by selling bushels that are yet unsold for the next several years. Such volatility in our markets calls for a close examination of the facts and for the need to exercise extreme discipline.

What are the Facts?

- December corn has traded in the top 1% of its 20 year range for six months straight.
- November Soybeans have traded in the top 1.5% of their 20 year range all of 2007
- July wheat has traded in the top 5% of its 20 year range for almost a year.
- Crop producers' profit margins are up significantly; even though production costs are up, market prices have increased much more, on a percentage basis.
- Such opportunities to lock in high prices for multiple years simultaneously have never existed before.
- The fact is that, considering the good prices for multi-years, most farmers, by locking in selling prices, have had an opportunity to make a record contribution to the equity in their businesses.

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National Average Prices

Your average selling prices received over a long period of time are a meaningful measure of your marketing success. Each of you has a personal average which is most meaningful to you. For demonstration purposes, the chart below shows USDA's numbers for national average prices paid to farmers for various time periods. An interesting exercise would be to compare your personal average with national numbers. Each time period includes USDA's projection for the 2006 crop.

	Last 30 Years	Last 20 Years	Last 10 Years	Last 5 Years
Corn	\$2.36	\$2.31	\$2.19	\$2.38
Soybeans	\$5.96	\$5.86	\$5.54	\$6.08
Wheat	\$3.30	\$3.32	\$3.19	\$3.60
Rice	\$3.48	\$3.32	\$3.24	\$3.38

Compare current prices available to you with the averages listed above. Interestingly, the last ten year average is the lowest set of numbers. Current pricing opportunities are giving you a chance to make a significant improvement to your average prices. Don't let this opportunity slip away.

What Can We Do With These Facts?

When prices are low, schemes to try to get more out of the market are rampant. Fancy marketing strategies and complicated contracts show up all around us. Now that prices are high we have a tendency to bask in these wonderful opportunities with prices going our way, farming is getting more profitable and we wonder just how much better things can get. Many producers have difficulty selling because they don't want to miss higher prices.

Knowledge of these facts outlined above makes the farm marketer's job easier, not more difficult. The fact is that farm marketing has gotten amazingly simple. All one needs to do is to book bushels. Simply lock in opportunities by contracting for delivery now or for some future delivery time that fits your plans. By nature, we always want more, whether it's more money, more land, more time, more leisure or almost anything we consume, but the market has already given us more and it is time to accept it.

Volatile Times Call for Discipline/ It is Time to Identify and Move Ahead

No one knows what is in store for the summer, prices could continue to be strong or the market could break if demand

slackens and the weather is good. But, it is obvious that, until the next crop is grown, any bit of news will have an impact on the market.

It is times like these when emotions take control. Everyone seems to have an opinion about the market and it is very easy to get caught up in all of the speculation. Unfortunately, this is the nature of our business.

However, as a producer it is important that you remain disciplined and not let your emotions sway your decisions. You must keep your focus on the bigger picture and not just what is happening now. You must make your marketing decisions in a way that will not put your business at an unnecessary risk.

You may have to make some tough decisions. But you can make these decisions easier if you just remain disciplined. Step back from the situation, set your emotions aside, think through the problem clearly and then make a decision. And, most importantly, once you make a decision, move on to something else. Don't berate yourself or agonize over the decision you've made. Be confident that you made the best decision you could with the information that you had.

It is time to IDENTIFY and MOVE AHEAD

Are You Using the Best Selling Alternatives?

Knowing the fact that you need to sell is not enough. There are many marketing alternatives available to sell your grain but do you know which ones will benefit you the most? Take a look at the following worksheet and see how your method of selling stacks up against others. Our experience has shown that using simple, straight-forward marketing alternatives best suit the needs of most producers, especially as prices reach very profitable levels.

Grading Selling Alternatives

Selling Alternative	Sets a Firm Price	Eliminates Downside Price Risk	Participate in Higher Prices	Receive Money At Harvest	Cost	Non Delivery Penalty	Easy To Understand	Good At High Prices	Good At Low Prices	Grade
Sell At Harvest	+3	0	-5	+5	0	0	+5	+3	-3	+8
Store & Sell	-3	-5	+5	-5	-5	0	+5	+3	-2	-7
D.P. & Sell After Harvest	-3	-5	+5	-5	0	0	0	+3	-2	-7
Sell At Harvest & Buy a Call	+3	0	+5	+5	-2	0	-2	+3	0	+12
Sell Before Harvest	+5	+5	-5	+5	0	-5	+5	+3	0	+13
Sell Before Harvest & Buy a Call	+5	+5	+5	+5	-1	+3	-2	+5	+2	+27
Buy Put Before Harvest	+1	+5	+5	+5	-1	+3	-5	+4	+2	+19
Hedge-To-Arrive Before Harvest	+3	+5	-5	+5	0	-5	-5	+3	0	+1
Premium Offer Contract Before Harvest	0	-5	-5	+5	+3	-5	-5	+3	-5	-14

Grading Scale +5 Best 0 Normal -5 Worst

You may grade the selling alternatives differently, but the point is that there can be a significant contrast in the various marketing alternatives and how you choose to sell your grain can make a difference. Doesn't it make sense to choose the best alternatives when you sell?

Although there are many marketing alternatives available, it's not necessary for you to use them all. In fact, there are some alternatives that rate so low that you must avoid them. It's best to stick with just a few selling alternatives, those that provide the most benefits.

Are We In A New Era?



Some of the details surrounding the recent increase in prices seem to be unprecedented, such as high prices being available for so far into the future, but do these opportunities mark the arrival of a new era where prices remain high continually and producers may put off selling because phenomenal opportunities will always be present? Will euphoria last forever?

Common sense tells us that the laws of economics and of supply and demand will maintain some sort of equilibrium over time, with prices continuing to rise and fall as market forces change, as they have always done. Being aware of this natural phenomenon will serve you well as opportunities present themselves.

“Those who cannot remember the past are condemned to repeat it” - George Santayana

“That which has been is what will be, that which is done is what will be done, and there is nothing new under the sun.” – King Solomon