

Five Common Mistakes in Grain Marketing

(Celebrity Style!)

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A Different Approach to Marketing

What is a Marketing Plan?

- ✓ A marketing plan is a proactive strategy to price your grain that considers your financial goals, cash flow needs, price objectives, storage capacity, crop insurance coverage, anticipated production, and appetite for risk

Proactive, not reactive, not overactive



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...and not inactive

Barney Binless



Barney has no marketing plan, no storage and no interest in early pricing. He is our benchmark - his price is the harvest price each year.



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A Different Approach to Marketing

Marketing is Important!

- ✓ The average farm earns 20-30 cents per bushel (including gov't payments). Just 10 cents more per bushel could increase net income by 33-50%!
- ✓ Great marketing is not finding the high price. It's finding an extra 10-20 cents per bushel with a solid plan that *eliminates mistakes*.



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A Different Approach to Marketing

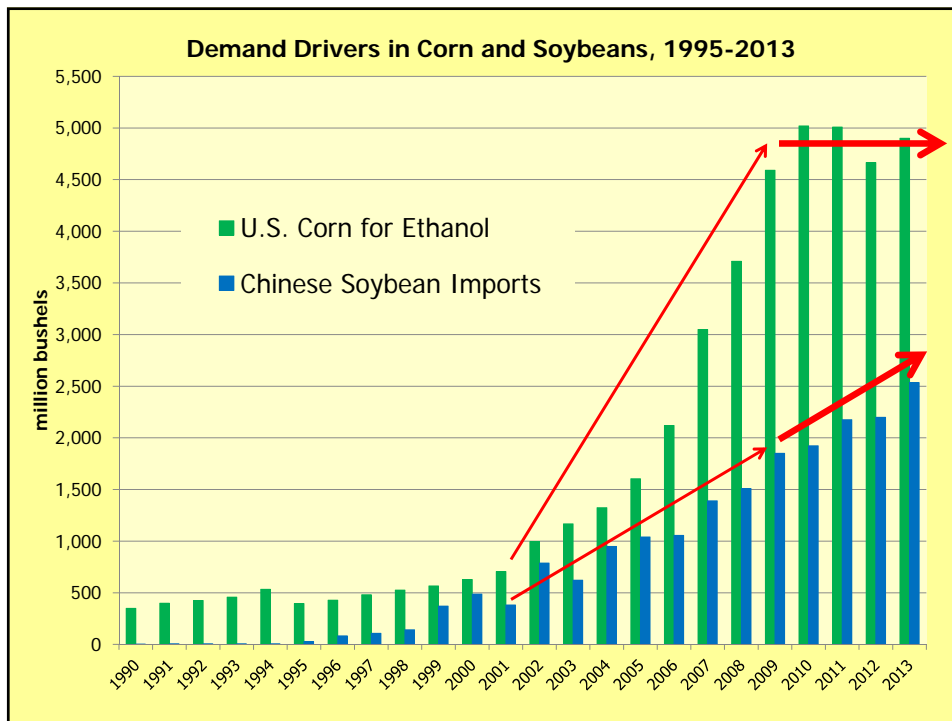
Why do I need a Marketing Plan?

- ✓ Fear and greed are powerful emotions - they will affect your decisions. A solid plan is the only effective weapon against these emotions

“Plan your trades, trade your plan”



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Five Common Mistakes in Grain Marketing

1. The reluctance towards pre-harvest pricing
2. Failure to understand and track your basis
3. Lack of an exit strategy
4. Holding grain in storage too long
5. Thinking you avoid storage costs when you sell grain and buy a call



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Mistake #1

The reluctance towards pre-harvest pricing

(featuring Terry Timer)

Are there any seasonal tendencies in futures prices that would favor pre-harvest pricing?



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Terry Timer



Terry pays attention to the seasonal highs in new crop futures prices by pricing 25% increments in March, April and May. In 2014, she won't sell with Dec corn <\$5.40 or Nov soybeans <\$11.60 per bushel.



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CBOT December Corn Futures, 1990-2013

- ✓ 18 years (75%) the market declined
- ✓ 6 years (25%) the market improved

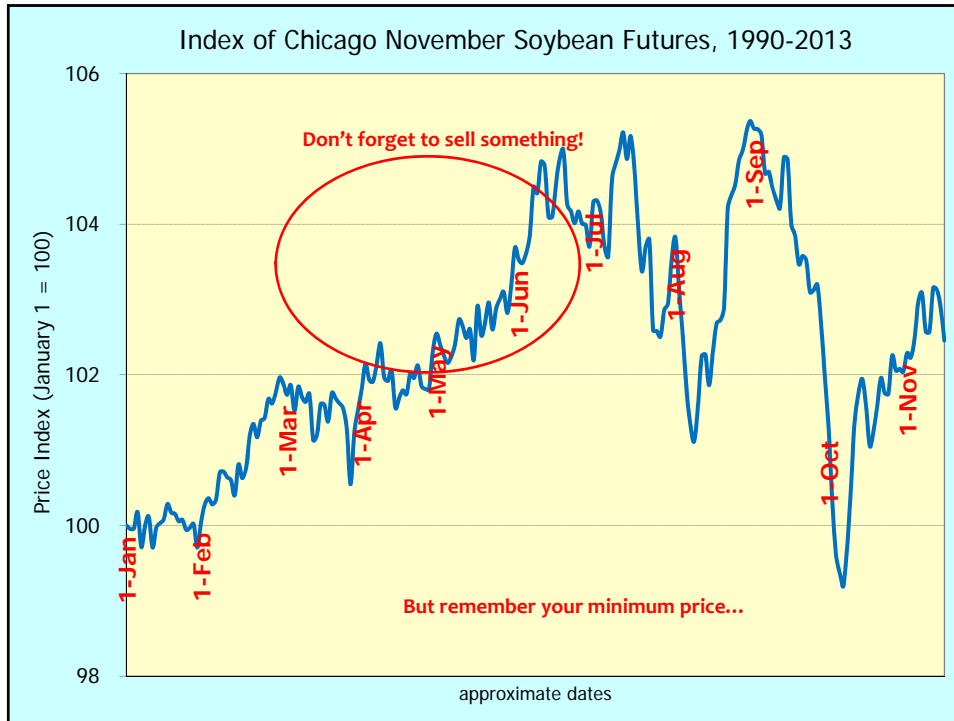
Year	1-May	1-Oct	Change
1990	2.70	2.29	(0.42)
1991	2.53	2.54	0.01
1992	2.53	2.12	(0.41)
1993	2.43	2.43	0.00
1994	2.58	2.14	(0.44)
1995	2.63	3.11	0.48
1996	3.33	2.90	(0.44)
1997	2.76	2.56	(0.20)
1998	2.62	2.05	(0.58)
1999	2.31	2.05	(0.26)
2000	2.62	1.99	(0.63)
2001	2.27	2.11	(0.16)
2002	2.20	2.56	0.36
2003	2.33	2.20	(0.13)
2004	3.17	2.06	(1.11)
2005	2.27	2.06	(0.21)
2006	2.72	2.68	(0.04)
2007	3.79	3.69	(0.10)
2008	6.32	4.84	(1.48)
2009	4.33	3.41	(0.93)
2010	3.92	4.66	0.74
2011	6.61	5.93	(0.69)
2012	5.39	7.57	2.18
2013	5.51	4.39	(1.12)
Average	3.33	3.10	(0.23)



CBOT November Soybean Futures, 1990-2013

- ✓ 15 years (63%) the market declined
- ✓ 9 years (37%) the market improved

Year	1-May	1-Oct	Change
1990	6.55	6.05	(0.51)
1991	6.09	5.89	(0.20)
1992	6.05	5.33	(0.72)
1993	5.96	6.18	0.22
1994	6.28	5.38	(0.90)
1995	6.06	6.37	0.32
1996	7.58	7.49	(0.08)
1997	6.96	6.21	(0.76)
1998	6.17	5.15	(1.02)
1999	5.14	4.81	(0.33)
2000	5.80	4.90	(0.90)
2001	4.34	4.52	0.18
2002	4.56	5.42	0.86
2003	5.53	6.87	1.34
2004	7.45	5.35	(2.10)
2005	6.22	5.73	(0.49)
2006	6.26	5.45	(0.81)
2007	7.84	9.92	2.08
2008	11.93	10.53	(1.40)
2009	9.71	9.18	(0.53)
2010	9.76	10.57	0.81
2011	13.74	11.79	(1.95)
2012	13.93	15.60	1.68
2013	12.09	12.68	0.59
Average	7.59	7.39	(0.19)



Soybeans show the need for a minimum price!

CBOT November Soybean Futures, 2000-2013

- ✓ 7 years (50%) the market declined
- ✓ 7 years (50%) the market improved

Year	1-May	1-Oct	Change
2000	5.80	4.90	(0.90)
2001	4.34	4.52	0.18
2002	4.56	5.42	0.86
2003	5.53	6.87	1.34
2004	7.45	5.35	(2.10)
2005	6.22	5.73	(0.49)
2006	6.26	5.45	(0.81)
2007	7.84	9.92	2.08
2008	11.93	10.53	(1.40)
2009	9.71	9.18	(0.53)
2010	9.76	10.57	0.81
2011	13.74	11.79	(1.95)
2012	13.93	15.60	1.68
2013	12.09	12.68	0.59
Average	8.51	8.46	(0.05)

CBOT November Soybean Futures, 2000-2013

- ✓ 7 years (58%) the market declined
- ✓ ~~5~~ 5 years (42%) the market improved

Remove years when Nov beans < minimum on May 1

Year	1-May	1-Oct	Change
2000	5.80	4.90	(0.90)
2001	4.34	4.52	0.18
2002	4.56	5.42	0.86
2003	5.53	6.87	1.34
2004	7.45	5.35	(2.10)
2005	6.22	5.73	(0.49)
2006	6.26	5.45	(0.81)
2007	7.84	9.92	2.08
2008	11.93	10.53	(1.40)
2009	9.71	9.18	(0.53)
2010	9.76	10.57	0.81
2011	13.74	11.79	(1.95)
2012	13.93	15.60	1.68
2013	12.09	12.68	0.59
Average	8.51	8.46	(0.05)



Soybean acres have the green light!



Soybean prices have a yellow light!

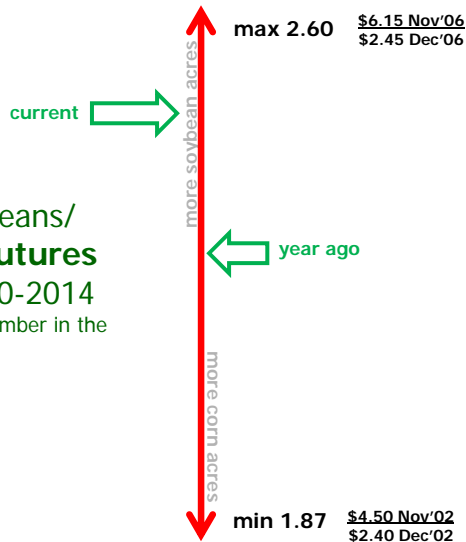


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Soybean acres have the green light!

November soybeans/
December corn **futures**
price ratio, 2000-2014
(during the month of December in the
prior year)



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New crop soybean prices? **Caution!**

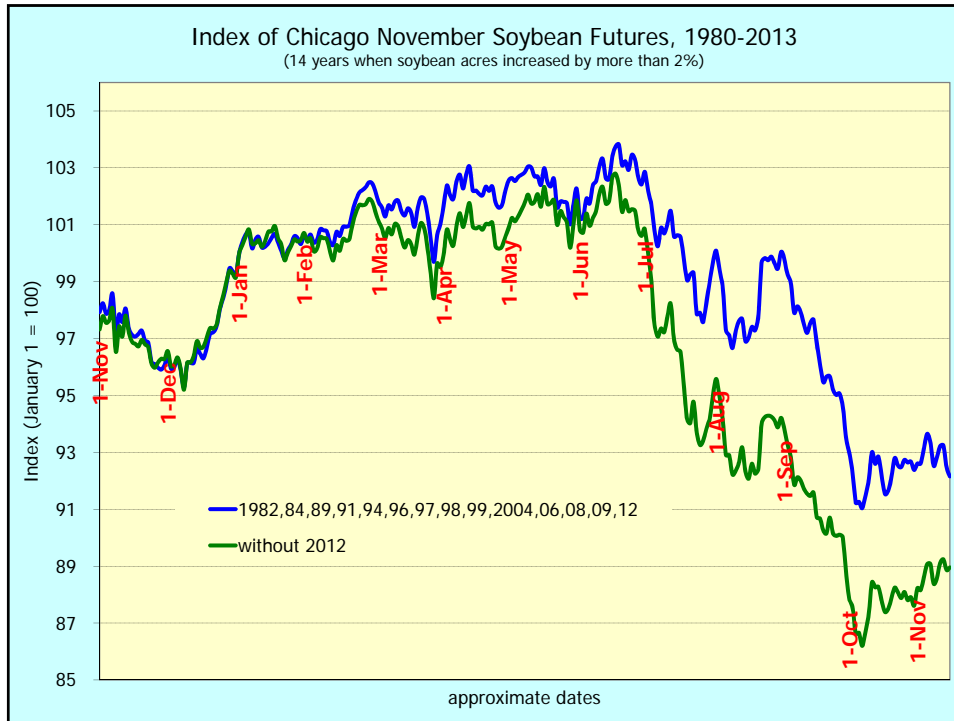
CBOT November
Soybean Futures,
1980-2013

✓ Years when
soybeans acres
increased by more
than 2%

Year	Soy acre increase (mil. acres)	1-Feb	1-Oct	Change
1982	3.3	7.04	5.29	(1.76)
1984	4.0	7.18	5.90	(1.28)
1989	2.0	7.38	5.77	(1.61)
1991	1.4	6.06	5.89	(0.18)
1994	1.5	6.43	5.38	(1.05)
1996	1.6	7.13	7.49	0.36
1997	5.8	6.82	6.21	(0.61)
1998	2.0	6.67	5.15	(1.52)
1999	1.7	5.25	4.81	(0.44)
2004	1.8	6.43	5.35	(1.09)
2006	3.5	6.17	5.45	(0.72)
2008	11.0	12.54	10.53	(2.01)
2009	1.7	9.25	9.18	(0.07)
2012	2.2	12.18	15.60	3.42
2014	1.6?			
Average		7.61	7.00	(0.61)



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Questions about soybeans in 2014

Do you believe soybean acres will increase by more than 2% (1.6 ma) in 2014?



How comfortable should you be about soybean prices at harvest in 2014?



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CBOT July Wheat, 1990-2013

- ✓ 16 years (67%) the market declined
- ✓ 8 years (33%) the market improved

Year	1-May	1-Jul	Change
1990	3.42	3.27	(0.15)
1991	2.83	2.67	(0.16)
1992	3.59	3.46	(0.13)
1993	3.01	2.92	(0.09)
1994	3.35	3.12	(0.23)
1995	3.59	4.46	0.87
1996	5.97	4.84	(1.13)
1997	4.25	3.23	(1.03)
1998	3.01	2.74	(0.28)
1999	2.68	2.46	(0.22)
2000	2.65	2.60	(0.05)
2001	2.82	2.51	(0.31)
2002	2.74	3.16	0.42
2003	2.82	3.06	0.25
2004	3.90	3.31	(0.60)
2005	3.23	3.24	0.01
2006	3.65	3.72	0.06
2007	5.01	5.70	0.69
2008	7.90	8.50	0.60
2009	5.70	5.06	(0.64)
2010	5.03	4.84	(0.19)
2011	7.92	5.85	(2.07)
2012	6.43	7.55	1.12
2013	7.21	6.46	(0.75)
Average	4.28	4.11	(0.17)



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Soft Red Wheat show the need for a minimum price!

CBOT July Wheat, 2000-2013

- ✓ 7 years (50%) the market declined
- ✓ 7 years (50%) the market improved

Year	1-May	1-Jul	Change
2000	2.65	2.60	(0.05)
2001	2.82	2.51	(0.31)
2002	2.74	3.16	0.42
2003	2.82	3.06	0.25
2004	3.90	3.31	(0.60)
2005	3.23	3.24	0.01
2006	3.65	3.72	0.06
2007	5.01	5.70	0.69
2008	7.90	8.50	0.60
2009	5.70	5.06	(0.64)
2010	5.03	4.84	(0.19)
2011	7.92	5.85	(2.07)
2012	6.43	7.55	1.12
2013	7.21	6.46	(0.75)
Average	4.79	4.68	(0.10)



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CBOT July Wheat, 2000-2013

- ✓ 5 years (63%) the market declined
- ✓ 3 years (37%) the market improved



Remove years when July wheat was low on May 1

Year	1-May	1-Jul	Change
2000	2.45	2.40	(0.05)
2001	2.82	2.54	(0.28)
2002	2.74	3.16	0.42
2003	2.82	2.06	(0.76)
2004	3.90	3.31	(0.60)
2005	5.23	3.24	(1.99)
2006	2.65	2.72	0.06
2007	5.01	5.70	0.69
2008	7.90	8.50	0.60
2009	5.70	5.06	(0.64)
2010	5.03	4.84	(0.19)
2011	7.92	5.85	(2.07)
2012	6.43	7.55	1.12
2013	7.21	6.46	(0.75)
Average	6.14	5.91	(0.23)



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Terry vs. Barney, 1990-2013

	 Barney	 Terry	> / = to Barney
Corn	2.74	2.88	18/24 years
Soybeans	6.88	6.96	16/24 years
HRS Wheat	4.47	4.55	16/24 years

- Barney Binless represents the harvest price.
- Terry is only willing to price insured bushels, or up to 75% of her crop, if the price opportunity is above production costs.
- For the record, Terry made no pre-harvest sales in 4 years in corn, 3 years in soybeans, and 5 years in wheat. She made partial sales in another 3 years in corn and wheat.



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Pre-Harvest Pricing

Seasonals are compelling, but not the most important reason for pre-harvest sales...

#1 Reason: I know my costs, and sales are made at prices that work for me!

#2 Reason: Seasonal tendency



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www.commoditychallenge.com



- A premier on-line trading game, featuring real-time cash, futures and options quotes
- Focus on marketing decisions and risk management tools (not speculation)
- Educational and free!



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Five Common Mistakes in Grain Marketing

1. The reluctance towards pre-harvest pricing
2. Failure to understand and track your basis
3. Lack of an exit strategy
4. Holding grain in storage too long
5. Thinking you avoid storage costs when you sell grain and buy a call



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no celebrity!



None of my celebrity producers does a good job of speaking to the important subject of basis and the impact it can have on grain marketing decisions.

Mistake #2

Failure to understand and track your basis

$$\text{cash price} - \text{futures price} = \text{basis}$$

In the grain trade, cash prices are quoted as a basis of so many cents "under" or "over" the futures price.

This practice goes back over 100 years.



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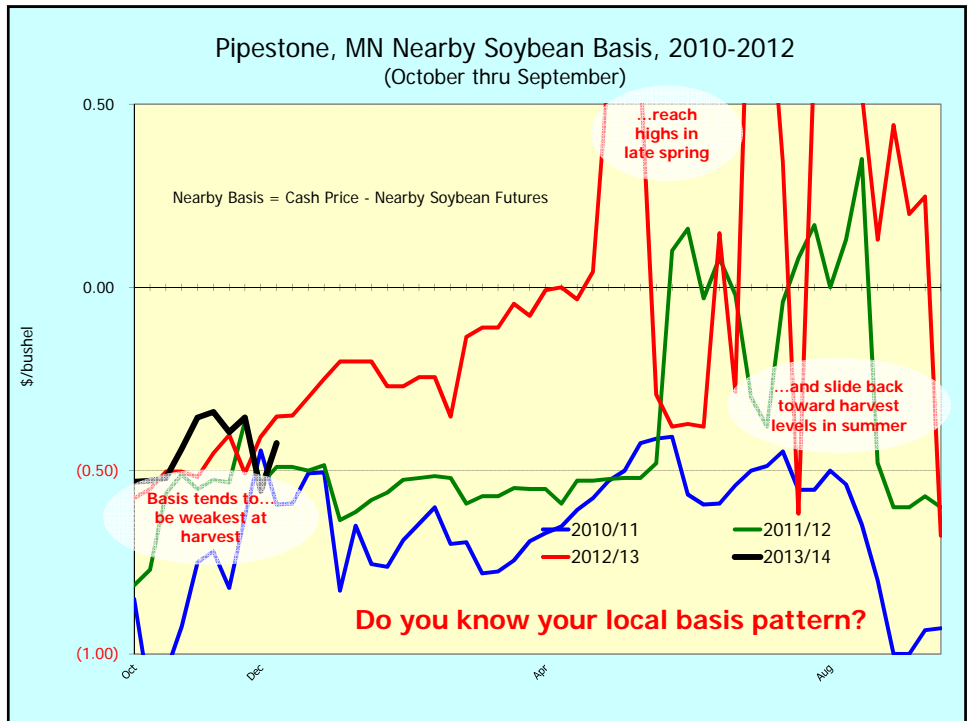
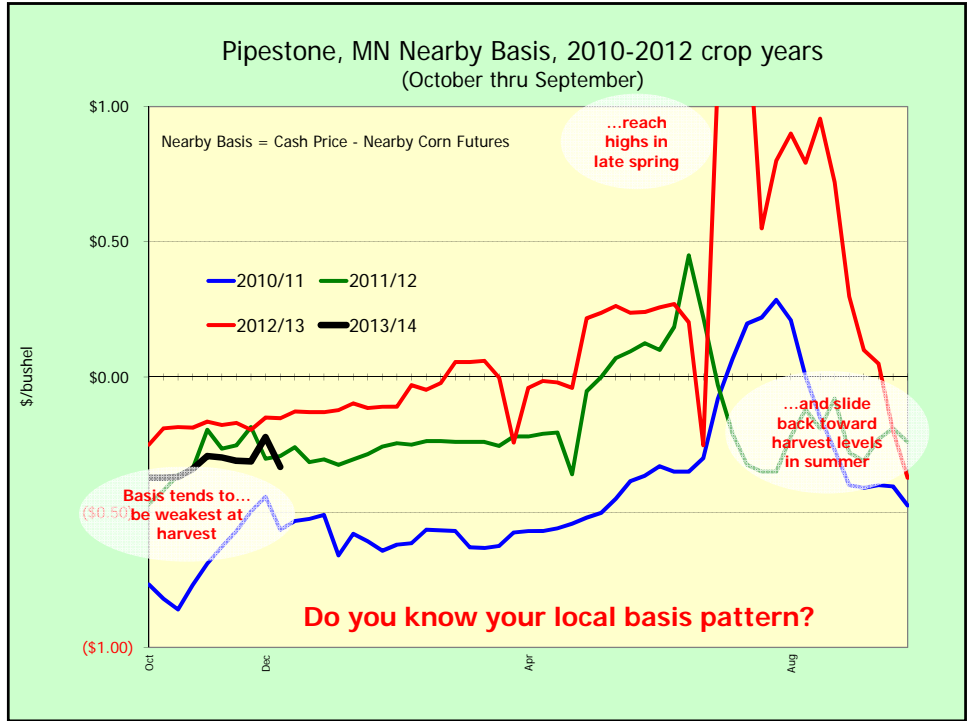
Mistake #2

Failure to understand and track your basis

- ✓ Basis links the "general" (futures prices) to the "specific" (local cash prices)
- ✓ Key basis factors include....
 - transportation costs and availability
 - local supply and demand for the grain, and for grain storage
- ✓ Grain basis patterns are broadly similar from one year to the next



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Mistake #2

Failure to understand and track your basis

Basis continues to change.

Ethanol plants have added a new level of volatility to the corn basis.

Keep up with the changes!



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Mistake #3

Lack of an exit strategy

(featuring May Sellers)

Earlier we showed some seasonal tendencies in futures prices that favor **pre**-harvest pricing.

Are there any seasonal tendencies in futures prices that would favor **post**-harvest pricing?



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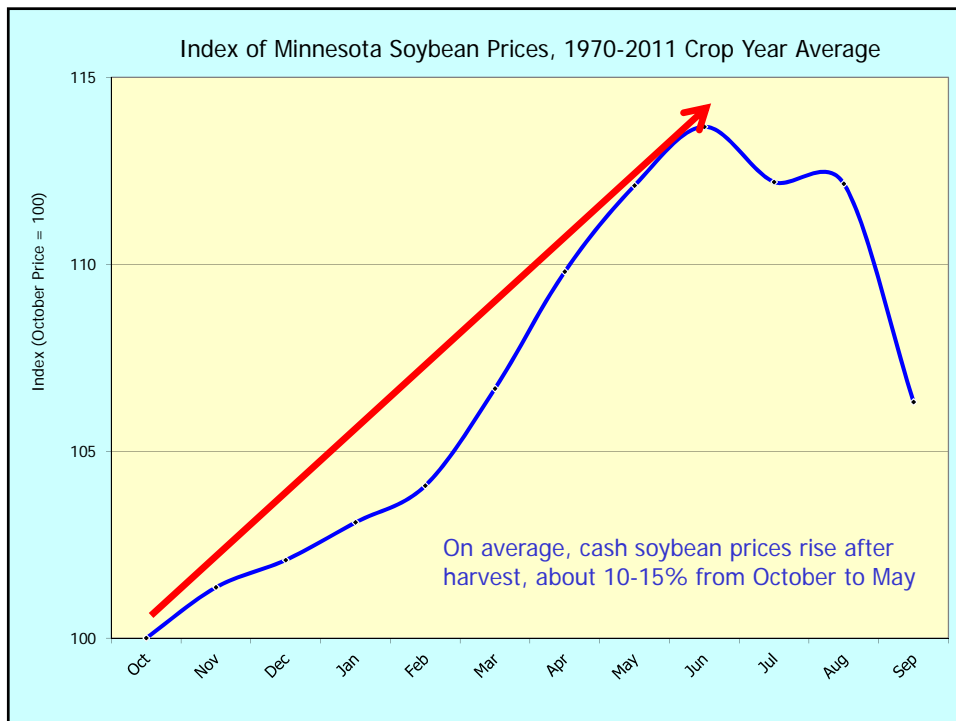
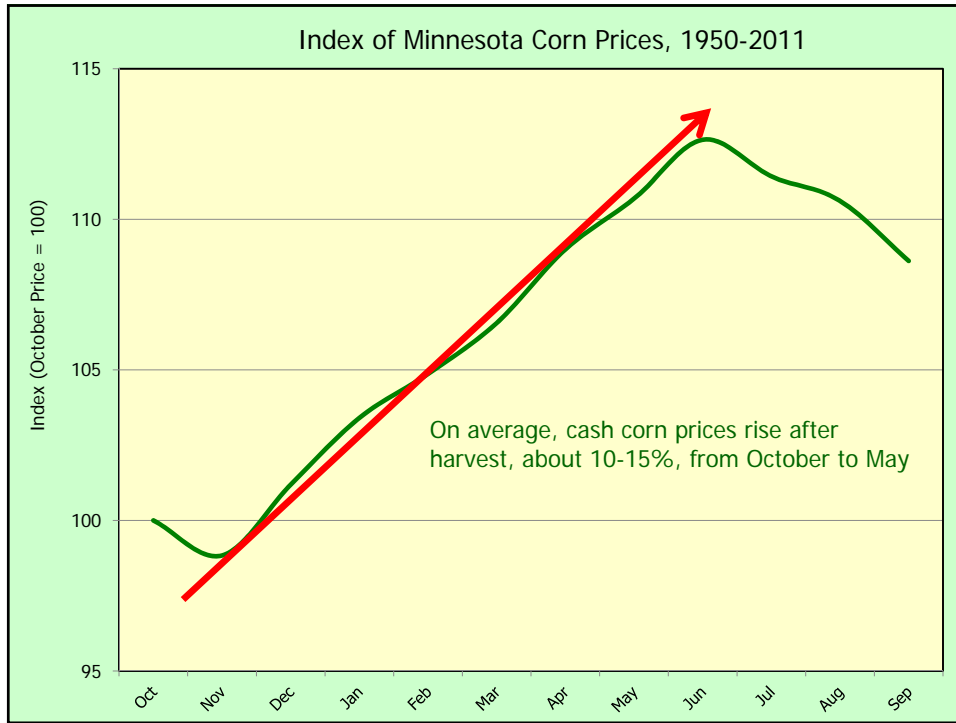
May Sellers

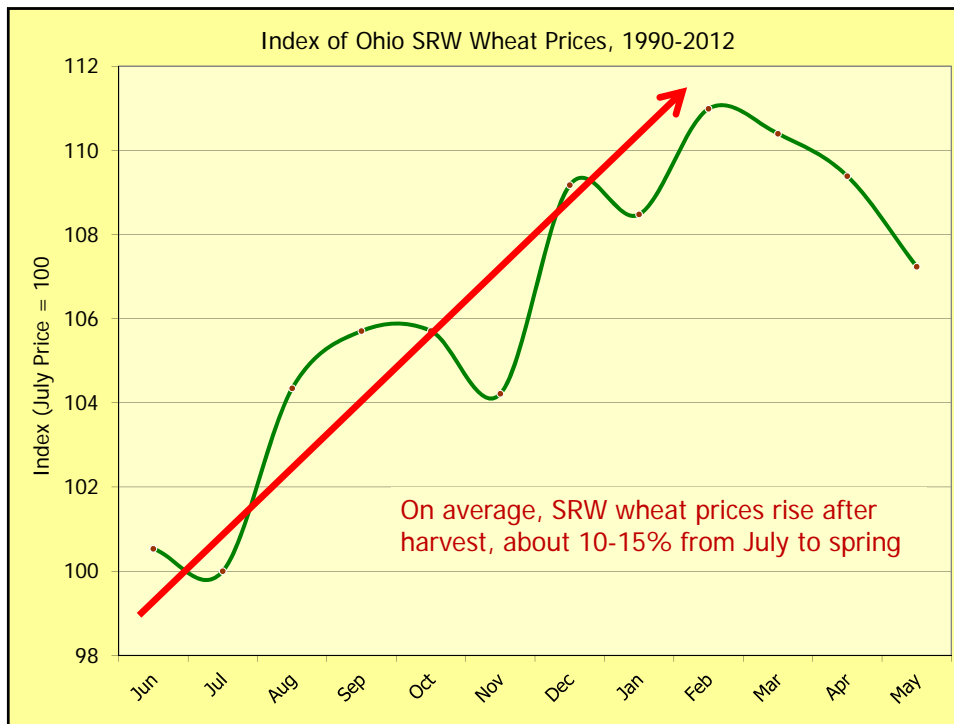


May has on-farm storage. Every year she holds her crop in the bin to sell in late spring. Her price is the cash price in the month of May, less storage costs.



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Mistake #3

Lack of an exit strategy

Clearly, cash prices tend to go higher after harvest. But what drives the cash price higher? Recall...

$$\text{cash price} - \text{futures price} = \text{basis}$$

or...

$$\text{cash price} = \text{futures price} + \text{basis}$$

Which one is driving the cash price higher?



CBOT July Corn Futures, 1990-2013

- ✓ 14 years (58%) the market declined
- ✓ 10 years (42%) the market improved

Year	15-Oct	15-May	Change
1990	2.49	2.85	0.36
1991	2.47	2.46	(0.02)
1992	2.67	2.62	(0.05)
1993	2.29	2.29	(0.00)
1994	2.63	2.67	0.04
1995	2.41	2.55	0.14
1996	3.33	4.88	1.55
1997	3.01	2.82	(0.19)
1998	3.07	2.46	(0.61)
1999	2.50	2.22	(0.28)
2000	2.23	2.39	0.16
2001	2.32	2.02	(0.30)
2002	2.32	2.08	(0.24)
2003	2.66	2.56	(0.11)
2004	2.31	2.92	0.61
2005	2.31	2.04	(0.27)
2006	2.31	2.60	0.30
2007	3.34	3.72	0.37
2008	3.98	5.99	2.02
2009	4.28	4.17	(0.11)
2010	4.01	3.63	(0.38)
2011	5.83	6.98	1.15
2012	6.63	5.97	(0.66)
2013	7.25	6.51	(0.75)
Average	3.28	3.39	0.11

CBOT July Soybean Futures, 1990-2013

- ✓ 7 years (29%) the market declined
- ✓ 17 years (71%) the market improved

Year	15-Oct	15-May	Change
1990	5.87	6.25	0.39
1991	6.60	5.71	(0.89)
1992	5.89	6.15	0.27
1993	5.64	6.02	0.38
1994	6.34	6.79	0.44
1995	5.74	5.68	(0.06)
1996	6.87	8.16	1.29
1997	6.86	8.00	1.14
1998	7.29	6.41	(0.88)
1999	5.90	4.69	(1.21)
2000	5.21	5.50	0.29
2001	5.01	4.44	(0.57)
2002	4.46	4.82	0.36
2003	5.52	6.49	0.97
2004	6.46	9.33	2.87
2005	5.39	6.13	0.74
2006	6.17	6.26	0.09
2007	6.31	7.78	1.47
2008	10.28	13.48	3.20
2009	9.03	11.31	2.28
2010	9.88	9.54	(0.34)
2011	12.09	13.27	1.18
2012	12.96	14.13	1.18
2013	14.20	14.13	(0.07)
Average	7.33	7.93	0.60

CBOT March Wheat Futures, 1990-2013

- ✓ 13 years (54%) the market declined
- ✓ 11 years (46%) the market improved

Year	Jun 15	Mar 1	change
1990	4.21	3.89	(0.32)
1991	3.55	2.69	(0.86)
1992	3.15	4.08	0.93
1993	3.62	3.73	0.12
1994	3.02	3.41	0.39
1995	3.62	3.54	(0.09)
1996	4.09	5.16	1.07
1997	5.11	3.73	(1.38)
1998	3.69	3.30	(0.39)
1999	3.15	2.45	(0.70)
2000	2.97	2.48	(0.50)
2001	3.04	2.67	(0.37)
2002	2.95	2.70	(0.25)
2003	3.10	3.18	0.08
2004	3.36	3.75	0.39
2005	3.78	3.30	(0.48)
2006	3.56	3.63	0.07
2007	4.11	4.68	0.57
2008	6.21	10.73	4.52
2009	9.40	4.95	(4.45)
2010	6.48	4.93	(1.55)
2011	5.22	7.76	2.54
2012	8.19	6.59	(1.60)
2013	6.71	7.13	0.42
Average	4.43	4.35	(0.08)

Mistake #3

Lack of an exit strategy



Do you have unpriced grain in the bin, waiting for the post harvest rally in futures?

For corn and wheat, your post harvest rally in futures is, at best, a coin flip.

May Sellers has an exit strategy. Do you have an exit strategy?



May vs. Barney, 1990-2012

	 Barney	 May	> / = to Barney
Corn	2.69	2.91	15/23 years
Soybeans	6.64	7.16	17/23 years
HRS Wheat	4.38	4.52	14/23 years

- Barney Binless represents the harvest price.
- Due to storage limitations, May sells 20% of his grain at harvest, and this sale is part of his average price.
- May's results are net of on-farm storage costs.



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Mistake #3 Lack of an exit strategy

Price driven exit strategies

- Sell all my grain in storage at a price x cents over my harvest price
- Sell all my grain in storage at a price x cents under my harvest price (stop the loss)
- Use a trailing stop



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Mistake #3

Lack of an exit strategy

Timing driven exit strategies

- Sell all my grain when the price trend changes from up to down
- Sell my grain in regular intervals over a particular time period (i.e. one truck per week over a ten week period)
- Sell at the end of May, like May Sellers



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Mistake #4
Holding grain in storage too long
(featuring Hank Holder)

The 11th Commandment of Grain Marketing

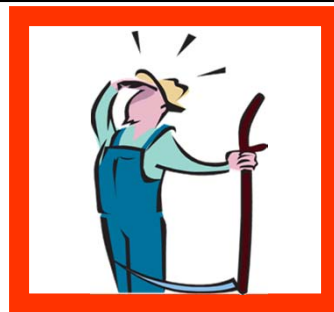
“Thou shall not hold unpriced corn or soybeans in the bin beyond July 1”★

★ June 1 for spring wheat



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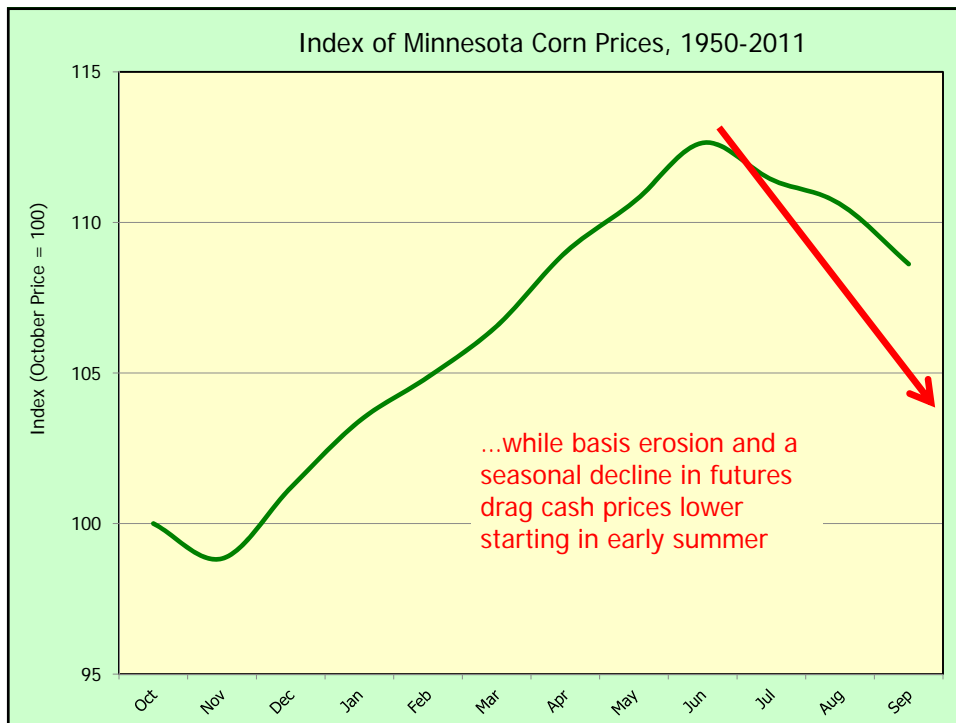
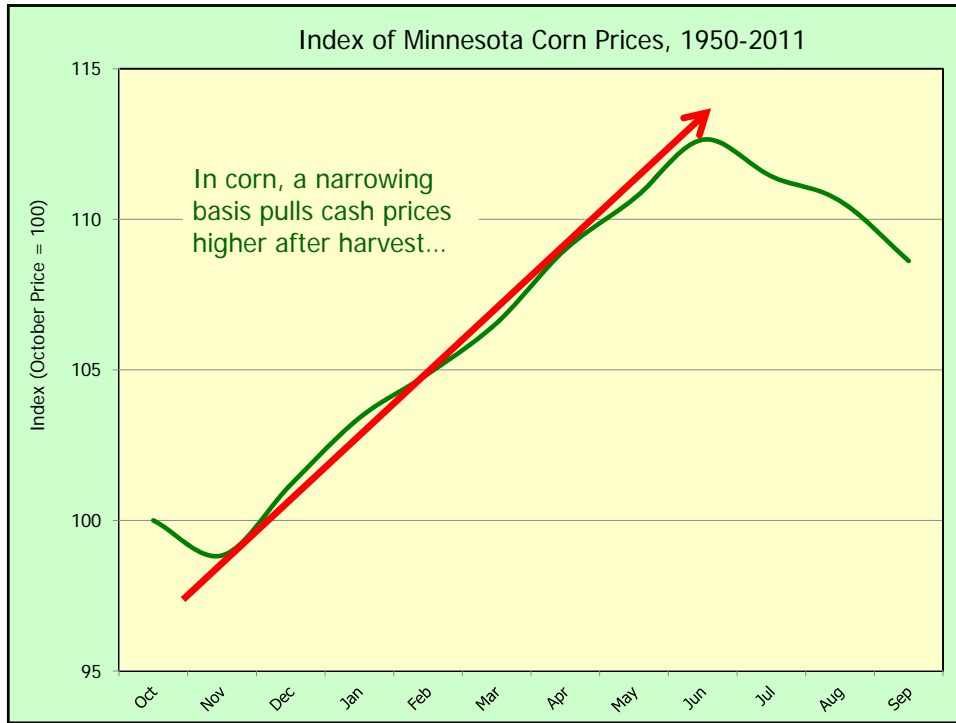
Hank Holder

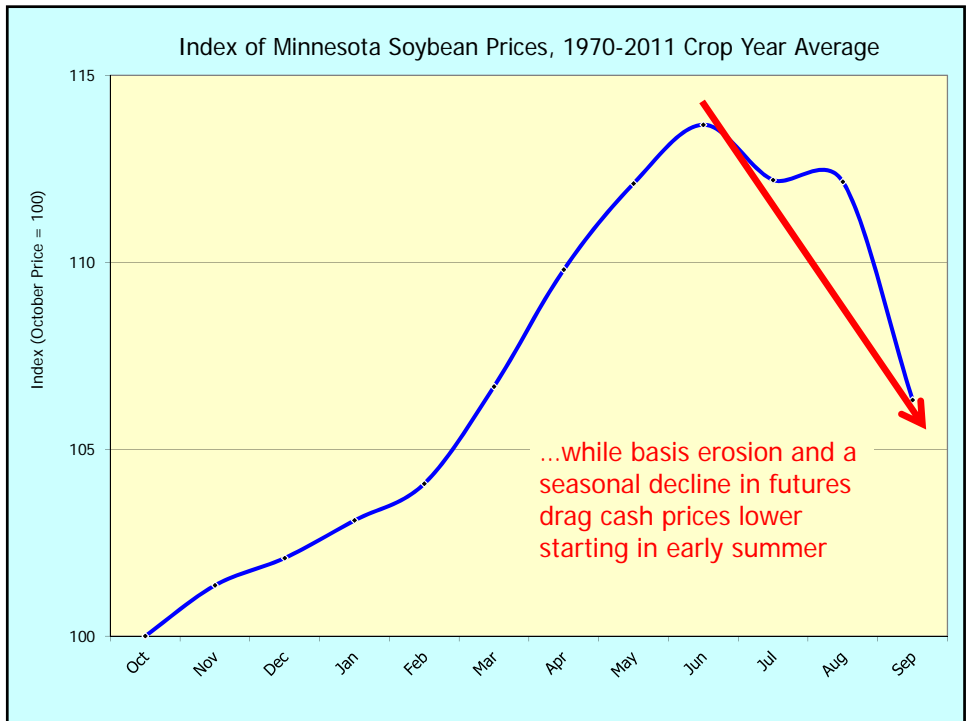
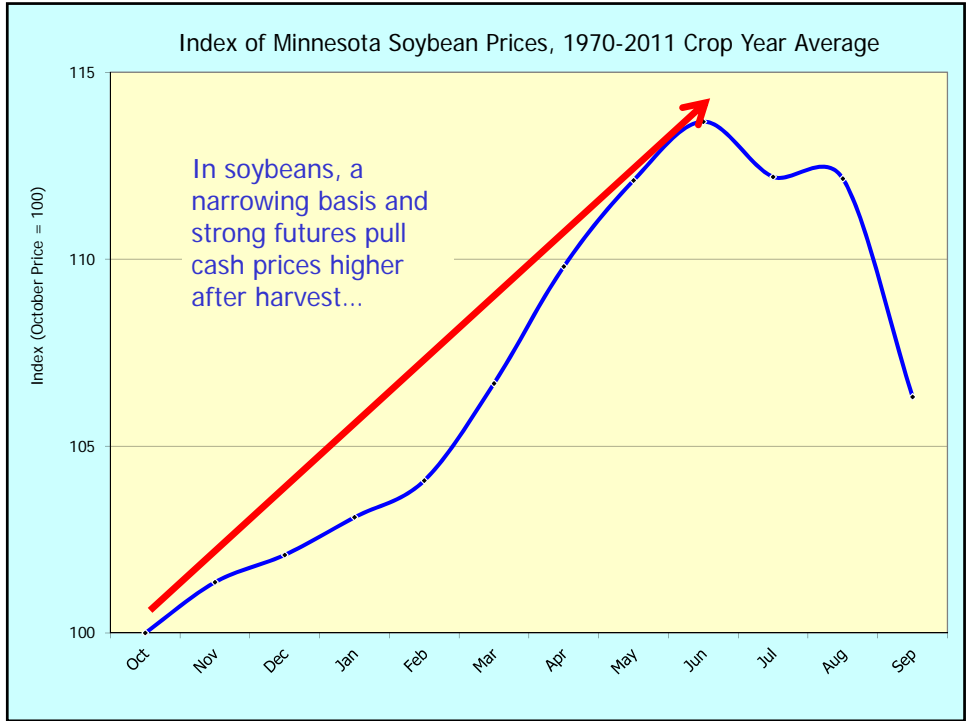


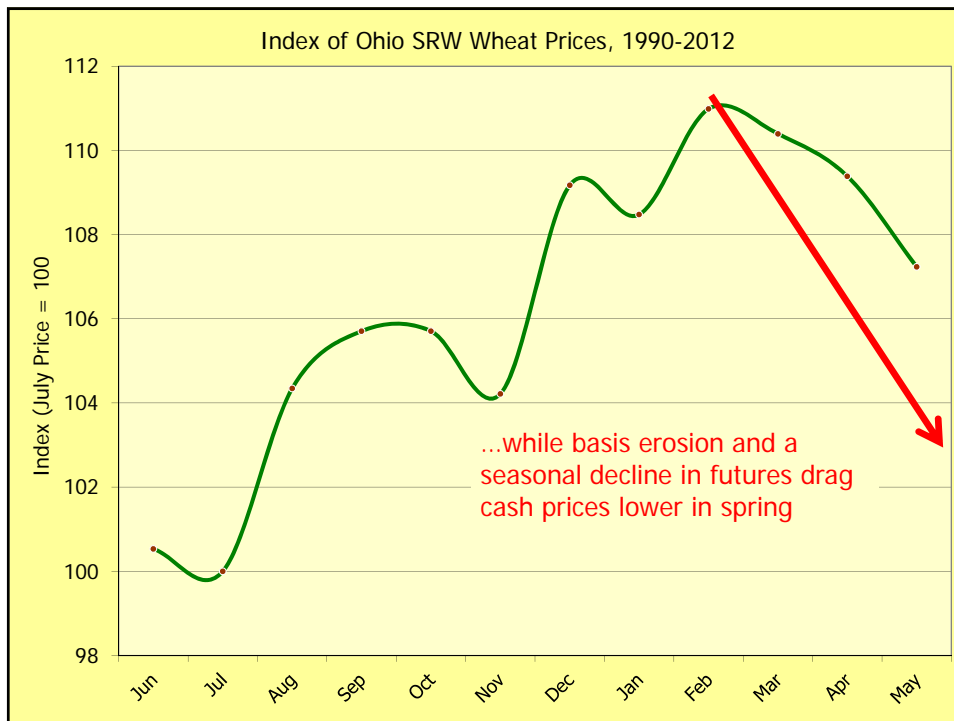
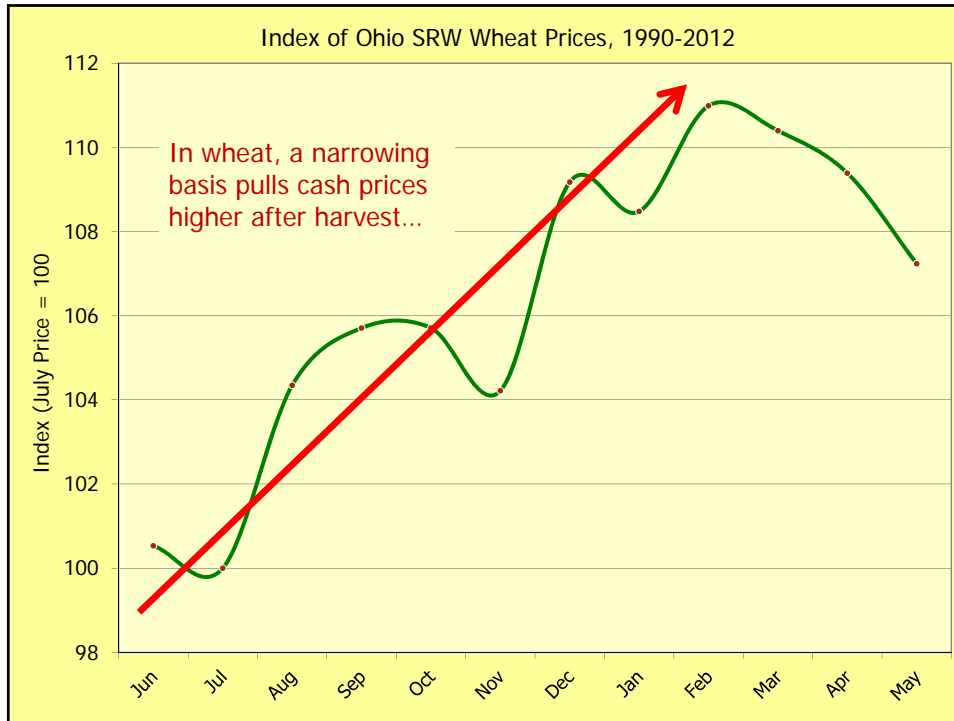
Hank is our perennial bull, always convinced that prices are about to surge higher. But Hank only has enough storage for one crop, so each year he is forced to sell the previous years' crop right before harvest, to make room for the new crop. His price is the following harvest price, less storage costs.



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Mistake #4

Holding grain in storage too long

The 11th Commandment is about the seasonal transition from old crop to new crop.

When futures are flat, this transition is quiet, but still costly.



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Mistake #4

Holding grain in storage too long

The 11th Commandment is about the seasonal transition from old crop to new crop.

When futures are high, this transition may be fast and jarring. Examples?

- corn and soybeans in 2008 and 2013
- corn in 1996
- soybeans in 2004



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Mistake #4

Holding grain in storage too long

Corn in 2008 (SW MN figures)

July 3 Cash corn: \$6.90

August 1 \$5.19 (-25%)

Harvest \$3.53 (-49%)



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Mistake #4

Holding grain in storage too long

Corn in 2013 (SW MN figures)

June 28 Cash corn: \$6.54

August 2 \$5.56 (-15%)

Harvest \$4.05 (-38%)



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Mistake #4

Holding grain in storage too long

Soybeans in 2008 (SW MN figures)

June 28 Cash soybeans:	\$15.54
August 2	\$12.95 (-17%)
Harvest	\$8.00 (-49%)



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Mistake #4

Holding grain in storage too long

Soybeans in 2013 (SW MN figures)

July 3 Cash soybeans:	\$15.36
August 1	\$12.76 (-17%)
Harvest	\$12.40 (-19%)



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The 11th Commandment

In how many years did it pay more than 15 cents to hold grain into the new crop?



1990-2013 USDA	Years	Percent
Minnesota Corn (July vs October)	4 years (2002, 2006, 2009, 2010)	17%
Minnesota Soybeans (July vs October)	5 years (1991, 1999, 2003, 2007, 2010)	22%
Spring Wheat (June vs Sep)	6 years (1995, 2002, 2005, 2007, 2010, 2012)	26%

Based on USDA average monthly prices received by farmers.



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Hank vs. Barney, 1990-2012

			
	Barney	Hank	> / = to Barney
Corn	2.69	2.47	8/23 years
Soybeans	6.64	6.30	7/23 years
HRS Wheat	4.38	4.21	10/23 years

- Barney Binless represents the harvest price.
- Due to storage limitations, Hank sells 20% of his grain at harvest, and this sale is part of his average price.
- Hank's results are net of on-farm storage costs.



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Five Common Mistakes in Grain Marketing

1. The reluctance towards pre-harvest pricing
2. Failure to understand and track your basis
3. Lack of an exit strategy
4. Holding grain in storage too long
5. Thinking you avoid storage costs when you sell grain and buy a call



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Mistake #5

Thinking you avoid storage costs when you sell grain and buy a call (AKA paper farming)

(featuring Peter Paperfarmer)



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Peter Paperfarmer



Peter has no storage, but he is convinced that it pays to “re-own” his crop with call options. He gets the harvest price each year, plus any profit or loss from buying an at-the-money call option at harvest and holding to expiration.



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Mistake #5

Thinking you avoid storage costs when you sell grain and buy a call (AKA paper farming)

(featuring Peter Paperfarmer)

To understand this last mistake demands a clear understanding of carrying charges in the market.

What are carrying charges?

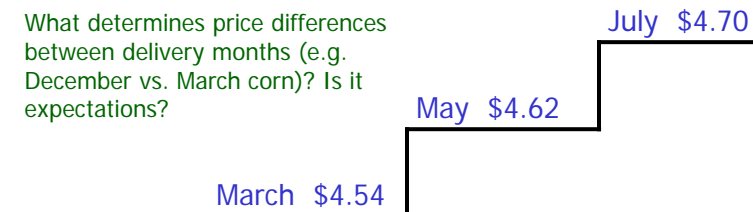


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Mistake #5

CBOT Corn Futures
October 18, 2013

What determines price differences between delivery months (e.g. December vs. March corn)? Is it expectations?



These price differences reflect **market determined** storage costs (aka carrying charges). Large carrying charges, where deferred contracts trade at a premium to nearby contracts, are common when *free supplies* are large.



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Mistake #5

CBOT Soybean Futures
Oct 18, 2013

Nov. \$12.91

Mar. \$12.73

May \$12.57

Jul. \$12.54

Aug. \$12.42

Inverse Carrying Charges: An inverted market represents the opposite of a carrying charge market – deferred contracts trade at a discount to nearby contracts.

This occurs when supplies are small - a scarcity of stocks. The market says "*we will pay a premium if you deliver now!*"



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Mistake #5

Thinking you avoid storage costs when you sell grain and buy a call (AKA paper farming)

“A Tale of Two Strategies”

The storage hedge

vs.

Paper farming with options



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Mistake #5

Thinking you avoid storage costs when you sell grain and buy a call (AKA paper farming)

Strategy #1: The storage hedge

Hold cash grain in storage and forward contract for spring delivery or sell deferred futures and wait for the basis to narrow. Works best when carrying charges are large. *No “upside” potential.*



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Mistake #5

Thinking you avoid storage costs when you sell grain and buy a call (AKA paper farming)

Strategy #2: Paper farming with options

Sell grain at harvest and buy call options.
Establishes a minimum price and offers "upside" potential. Makes the most sense when basis is strong and carrying charges are negative or inverted.



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Mistake #5

A Tale of Two Strategies The Storage Hedge – Pipestone, MN

anticipated price = futures price (when sold) + anticipated basis – brokerage fees

Date	Cash	Futures	Basis	Action
October 14, 2011 (Actual Prices!)	Local corn bid at \$5.98	Dec'11 \$6.40 July'12 \$6.63	Harvest basis is 42 under the Dec, 65 under the July.	Place the crop in storage, and sell July futures. Objective? Option price July (0 basis) by spring.
		Big Carry!		
May 1, 2012	Local corn bid at \$5.88	July'12 \$5.79	Basis is now 9 cents over the July.	Sell cash grain and buy futures.

Net Result: \$6.63 futures + (0.09 basis) = **\$6.72**

Alternatively: \$5.88 cash + 0.84 futures gain = **\$6.72**

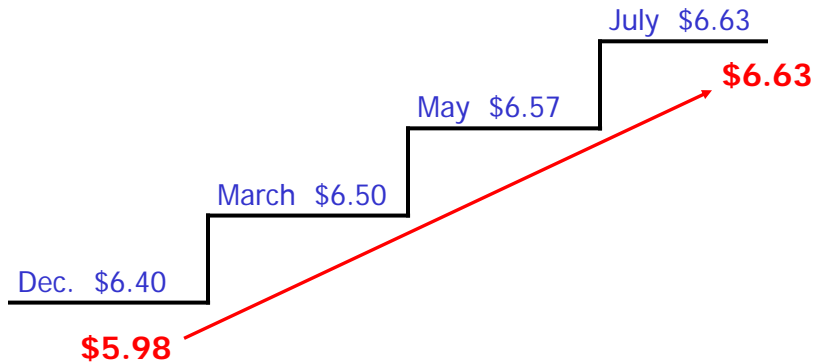


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Mistake #5

CBOT Corn Futures
October 14, 2011

Option
price



I placed the crop in storage at harvest, then "sold the carry" with July futures! I expected option price the July by spring.



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Mistake #5

A Tale of Two Strategies Paper Farming with Options – Pipestone, MN

minimum price = grain selling price – premium paid for calls - brokerage costs

Date	Cash	Futures/Options	Action
October 14, 2011 (Actual Prices!)	Local corn bid at \$5.98	July'12 @\$6.63 670 calls cost 60 cents Poised for profits should July futures go higher than \$7.30 (\$6.70+0.60)	Sell corn for \$5.98, and "re-own" corn with a July 670 calls, at a cost of 60 cents
Mid-June, 2012	NA but \$6.00	Jul'12 @ \$5.80 July 670 calls are worthless!	We reached our worst case scenario: \$5.98 cash price - 0.60 premium = \$5.38



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Mistake #5

Thinking you avoid storage costs when you sell grain and buy a call (AKA paper farming)

The storage
hedge

Paper farming
with call options

\$6.72

\$5.38

\$1.34 per bushel difference!



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Mistake #5

The storage hedge
asked you to...

... sell tomorrow
(sell high)

July \$6.63

May \$6.57

March \$6.50

Dec. \$6.40

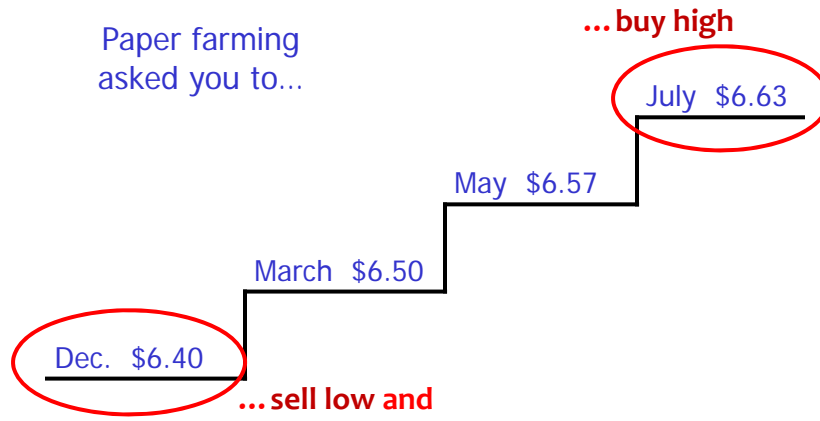
... store today (buy low) and



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Mistake #5

Paper farming
asked you to...



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Peter vs. Barney*, 1990-2012

			
	Barney	Peter	> / = to Barney
Corn	2.69	2.67	3/23 years
Soybeans	6.64	6.95	11/23 years
HRS Wheat	4.38	4.45	7/23 years

- Barney Binless represents the harvest price.
- Peter's purchases ATM calls on July corn and soybeans on November 1 (May ATM wheat calls on September 1) and holds to expiration. Results are net of premium and brokerage costs.

* after harvest



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Peter Paperfarmer's results:



Peter's "average" price is impressive, but in corn and wheat they are skewed by two spectacular years (1995/96 and 2007/08).

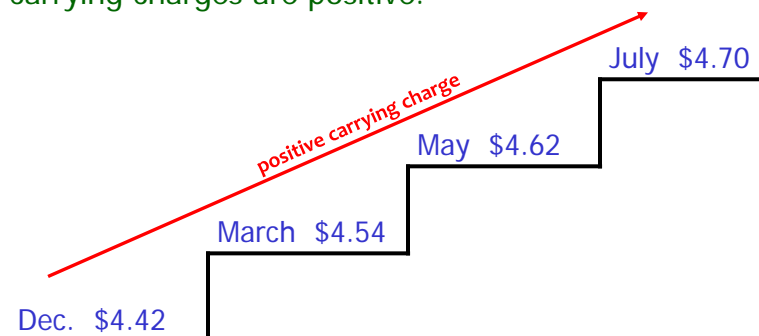
His most likely result is still something less than Barney's harvest price.



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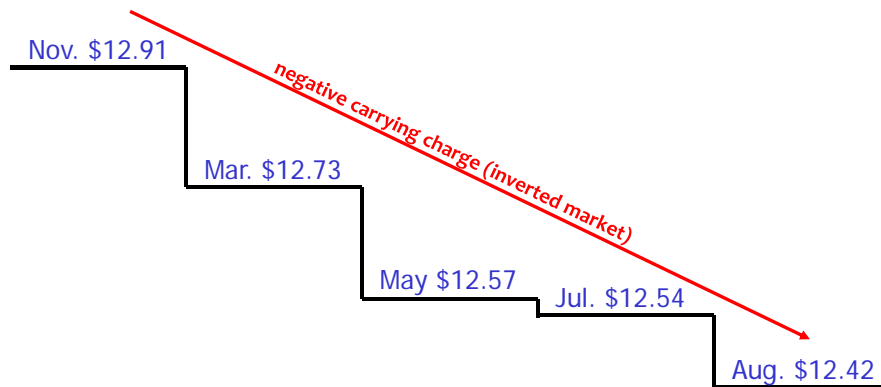
Mistake #5

Because carrying charges reflect a market determined storage cost, you cannot avoid storage costs by selling nearby and buying deferred futures contracts when carrying charges are positive.



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Mistake #5



Storage costs are only avoided if the market is inverted, a situation when paper farming makes some sense.



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Five Common Mistakes in Grain Marketing

Summary	Spring Wheat	Soybeans	Corn
The reluctance towards pre-harvest pricing	5%	10%	10%
Failure to understand and track your basis	5-10 cents	5-10 cents	5-10 cents
Lack of an exit strategy	Big!	Big!	Big!
Holding grain in storage too long	10%	10%	10%
Thinking you avoid storage costs when you sell grain and buy a call	Big!	Big!	Big!



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Speculation

“October. This is one of the particularly dangerous months to speculate. The others are November, December, January, February, March, April, May, June, July, August, and September.”

Mark Twain 1897



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Marketing Plans

See how I work to eliminate mistakes in my marketing plans.

- ✓ Pre-Harvest
- ✓ Post-Harvest



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Corn

This is a commitment to pre-harvest marketing! Plan

Objective: Buy crop insurance to protect my production risk and have 75% of my anticipated corn crop (based on APH yield) priced by mid June.

Price 10,000 bushels at \$4.90 cash price (\$5.40 Dec. futures) using forward contract/futures hedge/HTA contract

Price 10,000 bushels at \$5.30c/5.80f, or by Mar 17, pricing tool tbd

Price 10,000 bushels at \$5.70c/6.20f, or by Apr 15, pricing tool tbd

Price 15,000 bushels at \$6.10c/6.60f, or by May 14, pricing tool tbd

Price 10,000 bushels at \$6.50c/7.00f, or by May 28, pricing tool tbd

Price 10,000 bushels at \$6.90c/7.40f, or by June 13, pricing tool tbd

Plan starts on January 1, 2014. Earlier sales may be made at a 50 cent premium and would be limited to 30,000 bushels.

Ignore decision dates and make no sale if prices are lower than \$4.90 local cash price/\$5.40 December futures.

Exit all options positions by mid-September 2014.



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Corn

2014 Pre-Harvest Marketing Plan

Objective: Buy crop insurance to protect my production risk and have 75% of my anticipated corn crop (based on APH yield) priced by mid June.

Price 10,000 bushels at \$4.90 cash price (\$5.40 Dec. futures) using forward contract/futures hedge/HTA contract

Price 10,000 bushels at \$5.30c/5.80f, or by Mar 17, pricing tool tbd

Price 10,000 bushels at \$5.70c/6.20f, or by Apr 15, pricing tool tbd

Price 15,000 bushels at \$6.10c/6.60f, or by May 14, pricing tool tbd

Price 10,000 bushels at \$6.50c/7.00f, or by May 28, pricing tool tbd

Price 10,000 bushels at \$6.90c/7.40f, or by June 13, pricing tool tbd

My understanding of basis will play a big role in the selection of a pricing tool to-be-determined.

Plan starts on January 1, 2014. Earlier sales may be made at a 50 cent premium and would be limited to 30,000 bushels.

Ignore decision dates and make no sale if prices are lower than \$4.90 local cash price/\$5.40 December futures.

Exit all options positions by mid-September 2014.



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Corn

2014 Pre-Harvest Marketing Plan

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Price 10,000 bushels at \$4.90 cash price (\$5.40 Dec. futures) using forward contract/futures hedge/HTA contract

Price 10,000 bushels at \$5.30c/5.80f, or by Mar 17, pricing tool tbd

Price 10,000 bushels at \$5.70c/6.20f or by Apr 15, pricing tool tbd

Price 1 **Dec'14 corn ~\$4.50** '14, pricing tool tbd

Price 1 '14, pricing tool tbd

Price 1 **No action taken yet** '13, pricing tool tbd

Plan starts on January 1, 2014. Earlier sales may be made at a 50 cent premium and would be limited to 30,000 bushels.

Ignore decision dates and make no sale if prices are lower than \$4.90 local cash price/\$5.40 December futures.

Exit all options positions by mid-September 2014.



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Spring Wheat

2013 Post-Harvest Marketing Plan

Objective: Seek strategies that balance risk and reward in the current market environment. **Hold no unpriced wheat beyond June 1, 2014.** **11th commandment!**

25,000 bushels: Place in storage and sell the carry with July futures. Exit plan: Unwind my storage hedge when the cash basis narrows to option price, or by June 15.



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Spring Wheat 2013 Post-Harvest Marketing Plan

Objective: Seek strategies that balance risk and reward in the current market environment. Hold no unpriced wheat beyond June 1, 2014.

25,000 bushels: Place in storage and sell the carry with July futures. Exit plan: Unwind my storage hedge when the cash basis narrows to option price, or by June 15.

Knowing carry and basis has shaped my strategy!



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Spring Wheat 2013 Post-Harvest Marketing Plan

Objective: Seek strategies that balance risk and reward in the current market environment. Hold no unpriced wheat beyond June 1, 2014.

25,000 bushels: Place in storage and sell the carry with July futures. Exit plan: Unwind my storage hedge when the cash basis narrows to option price, or by June 15.

... and I have an exit strategy!








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Why is an imperfect plan better than no plan at all?

- A plan is a benchmark for goals – it gives you something to adapt in a changing environment
- A marketing plan is a plan to make money – having no plan includes the option of losing money

Five Common Mistakes in Grain Marketing

What did we learn? **Eliminate mistakes!**

	Terry Timer showed us the value of pre-harvest marketing
	Know your local basis
	Grain in the bin? May Sellers has an exit strategy. What is your exit strategy?
	Hank Holder pays the price for disobeying the 11 th Commandment
	Peter Paperfarmer showed us the power of carrying charges



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