

Farmer's Corner



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Number 10

Simplicity · Flexibility Security · Opportunity

Every one of us would like to lead a life characterized by the four traits listed above. Imagine a life of simplicity, where nothing was too complicated to figure out. Imagine having flexibility--the ability to make choices that fit your needs. How about security? Wouldn't it be great to know exactly where you stand at all times? Last but not least, we all want opportunity--the chance to improve, to reach for something a little better. In the real world, however, most of us don't have these qualities in every area of our lives. Wouldn't it be great, then, if you could have them in at least one area?

How about farm marketing? Marketing your crops can be an emotionally exhausting experience unless you have a plan and stick to it. There is a way to take the uncertainty out of marketing and replace it with simplicity, flexibility, security, and opportunity. Right now,

many producers are choosing between taking their money out of the market or leaving it in and hoping the price goes up.

What if you could have it both ways? You can, by selling to get your money and using options to stay in the market.

Simplicity-

Complicated contracts often contain hidden risks that go unnoticed because they are hidden by jargon or complex wording. Staying in the market with options is simple; you sell your grain and collect your money. That means that no matter what happens, you will never receive any less than that price.

Then, you can tie yourself to the futures month of your choosing. You have the opportunity to receive any increase in the price of that futures month between the time you sign the contract and when

the contract expires. This costs a little, but that cost is all you have at risk. You know the "worst case scenario" up front.

Flexibility -

Staying in the market this way gives you flexibility in several ways:

- **How long do you want to stay in the market?** (see the next article for our recommendation)
- **How much of your yield do you want to stay in the market on?** You can sell and collect the money on your entire yield but only stay in the market on a portion.
- **How big a rally are you waiting for?** You can cut costs by tying yourself to a higher futures price than where the market is currently trading. This allows you to spend less up front, but still participate in a large upward price movement.

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Security -

In the unpredictable, volatile world of grain prices, selling grain and staying in with options offers some much-needed stability and security. No one has a crystal ball that will tell them exactly what prices will do from one day to the next. Trying to market crops without some kind of plan in place is like walking through mountains in a thick fog. There is really no way of telling whether the next step will be onto solid ground or off the edge of a cliff. When you sell grain, no matter what the market does after you sign the contract, you are completely free of downside risk--and when you stay in with options, you can receive more if the market goes up!

Opportunity -

"What if the market goes up?" is the big question that stops so many from selling. When you take a little time to think about it though, it makes a lot more sense to take your money out of the market and get back in with just a tiny fraction of it than it does to leave the entire value of your crop open to market risk. The good news is, you can have that opportunity, immediate cash flow, and no risk of lower prices all at the same time!

If you could have simplicity, flexibility, security, and opportunity in every part of your life, life would be very good indeed. Since it is unlikely that you will enjoy them in every aspect of life, isn't it that much more important to strive for these four things in the parts that you do have some control over?

How Much Time to Buy? Less is Better

When you stay in the market with options, the potential for increase is tied to the futures market. This means that when you decide how long you want to stay in the market, you are choosing which futures month you want to receive any increase from. When making this decision, it is helpful to have a basic understanding of how the futures market works.

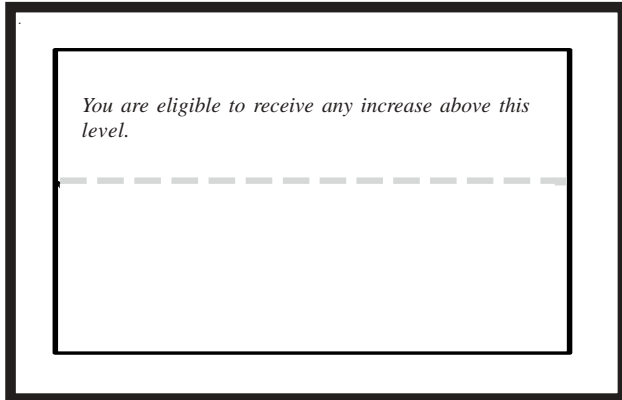
One of its functions is to ration the supply of grain throughout the season. When there are ample stocks of grain on hand, nearby futures prices are lower than deferred. If there is a shortage of grain (either perceived or actual), nearby futures prices will rise to attract grain into the market. Because an immediate demand for grain is causing prices to rise, the nearby futures price will go up higher and faster than the deferred months.

This means that if the market rallies, you will have better performance if you purchased less time; not only that, you will also have spent less money, since it costs less to purchase less time. Read on for another reason you should seriously consider buying less time when you stay in the market.

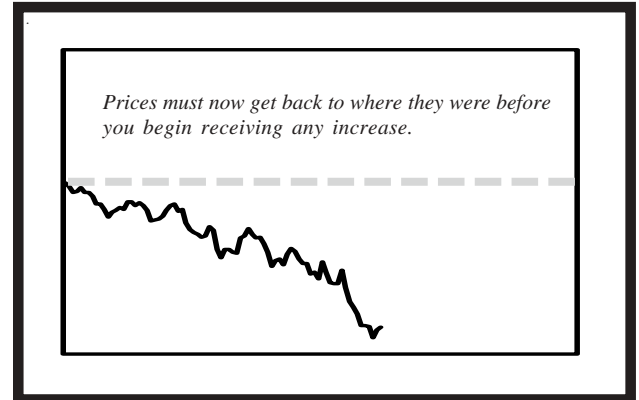
"Opportunity Replacement"

Another Benefit Of Buying Less Time

Example 1

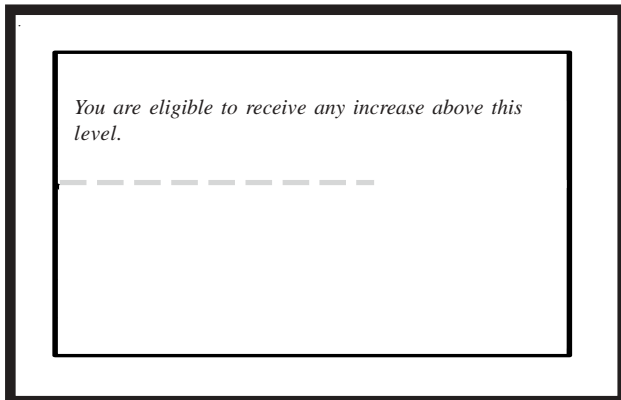


At harvest, you stay in the market with an option that expires several months later. Your opportunity for increase is tied to a deferred futures month. The dotted line represents your base futures price. You are eligible to receive any increase above this price.

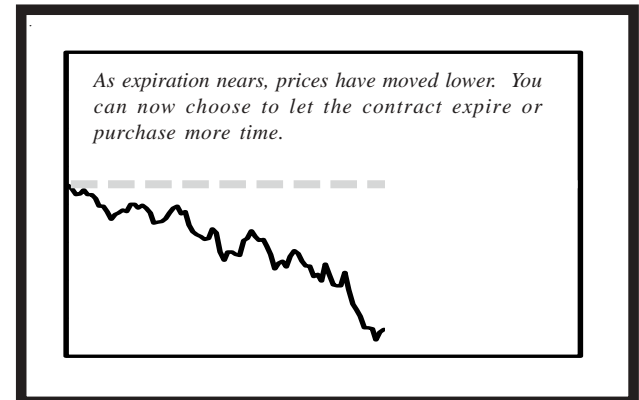


A few months later, prices have moved lower. The market must now recover to where it was at harvest before you begin receiving any increase.

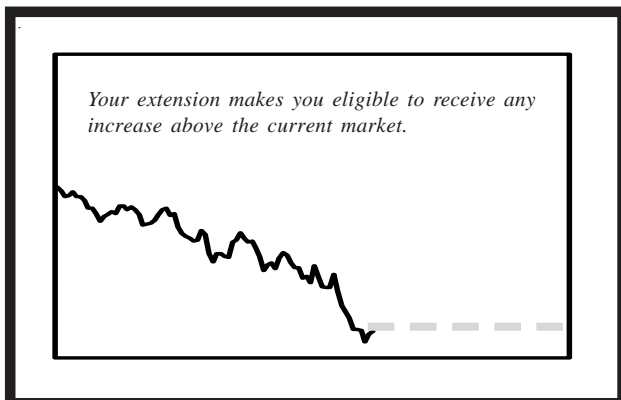
Example 2



At harvest, you purchase less time. Your opportunity for increase is tied to a closer futures month. The dotted line represents your base futures price. You are eligible to receive any increase above this price.



A few months later, as your expiration date nears, prices have moved lower. You decide to purchase a little more time.



You are now eligible to receive any increase from the current futures price level, so you don't have to wait for the market to recover.

If you purchase short-term coverage and prices have not increased as expiration nears, you have a decision to make; either let it expire or extend it for an additional fee. We can now offer you thirty-day extensions to provide even more flexibility at a lower cost.

Holiday Thanks



As we get ready to celebrate Thanksgiving, Christmas, and the New Year with our friends and family, we are reminded of how grateful we are to be involved in such good work. The agriculture industry provides one of the most important services of all to our nation and the world. It is truly an honor to work alongside you in such an important enterprise, and we hope that this harvest and the upcoming holidays, as well as all the years to come, find you and your family with much to celebrate and be thankful for.

From our families to yours, thank you.