

Marketing Success Begins With Insurance

Then create separate marketing plans for your insured and noninsured bushels.

Corn: Determine Insured, Noninsured Bushels

Production

- 1,000 acres of corn
- Yield expected: 200 bushels per acre
- Total production: 200,000 bushels
- APH = 150 bushels per acre
- APH bushels: 150,000 bushels

Insurance: 80% CRC

Insured bushels (A bushels):

$(1,000 \text{ acres} \times 150 \text{ bushels APH}) \times 80\% \text{ CRC} = 120,000 \text{ bushels}$

The balance are B bushels: $200,000 - 120,000 = 80,000 \text{ bushels}$

The mood at my 2009/2010 winter seminars changed dramatically after the bearish January USDA Crop Production and Supply-Demand reports. The most common question that came up during the most recent sessions: Can the USDA corn production number be right?

My answer to that question is it's expensive to bet against the USDA numbers.

I have watched the grain markets for 35 years, analyzed the USDA reports during that time, and have traded commodities for those 35 years. The USDA track record is not perfect, but it has been very accurate most years and is the best source of fundamental information.

Now back to the seminars. A young farmer at a Kansas City seminar had this statement and question. "I need to generate at least \$750 per acre on every acre of corn I grow and \$600 per acre for every acre of soybeans. How can I lock in the revenue I need and still capture a rally if futures turn higher?"

That is a complex question, and although there are no guarantees, I have an answer that can help him in eight out of 10 years. The answer is to use my three-step risk-management strategy plan.

1 Meet with a qualified crop insurance agent and figure out the best crop revenue insurance policy for your farm.

I am not an agent and do not work for a crop insurance agency or company. But I do have a lot of customers who use crop insurance to protect farm income.

A huge benefit of buying a crop insurance policy is that it reduces your financial risk if you get a large portion of your crops sold ahead. In my company we call it the license to sell.

2 Categorize your crops into insured (A bushels) and uninsured (B bushels).

Study the tables on this page and the next page. The A bushels (the insured bushels) are the bushels that I will ag-

gressively sell ahead by hedging or putting hedge-to-arrive contracts on 50% to 80% of that production.

3 Get price protection by using put options on the B bushels.

Many producers work with their agents to determine what policy level to buy. The cost difference can be as much as \$15 per acre for corn and \$10 per acre for soybeans.

So Which Policy Level Is Right?

Here are seven questions that will help you evaluate which policy is right for you.

- What is the price guarantee that you can lock in for December 2010 corn futures and November 2010 soybean futures when the average February price is computed on February 26, 2010?

The higher the price, the more revenue you can lock in on your A bushels.

- How high is your actual production history (APH) vs. your farms productivity?

Again, higher APH allows you to lock in more revenue with the policy you buy.

- What is the price level of the CRC guarantee compared to the actual

How To Use Your Crop Insurance

- Select the right policy for your farm.
- Hedge 80% to 100% of the insured bushels (A bushels).
- Cover the uninsured bushels (B bushels) with puts.

Beans: Determine Insured, Uninsured Bushels

Production

- **1,000 acres of soybeans**
- **Yield expected: 50 bushels per acre**
- **Total production: 50,000 bushels**
- **APH = 40 bushels per acre**
- **APH bushels: 40,000 bushels**

Insurance: 80% CRC

Insured bushels (A bushels):

$(1,000 \text{ acres} \times 40 \text{ bushels APH}) \times 80\% \text{ CRC} = 32,000 \text{ bushels}$

The balance are B bushels: $50,000 - 32,000 = 18,000 \text{ bushels}$

price of December 2010 corn and November 2010 soybean futures on the March 13 sign-up deadline?

A higher market on March 13 makes putting on more hedges a possible better alternative than buying a higher percentage CRC policy.

- **Does your farm qualify for the lower cost enterprise discount?**

This can again be a huge savings or allow you to buy a higher guarantee.

- **What are your yield prospects for 2010?**

If you still have your 2009 corn crop out in the field as you are reading this, it may make getting a bumper crop very difficult this year.

- **Are you comfortable using hedges or hedge-to-arrive contracts to get the crop forward-sold?**

The most profitable farms I worked with this year had a lot of corn and soybean sold ahead by mid-summer.

- **Can you use puts to get price protection on the B bushels?**

The advantage of put options is that it creates a minimum price for your corn and soybeans without limiting the upside. It complements the CRC and hedge strategy I recommend. It is the

third part of my three-step risk-management process (see previous page).

What's In Store For 2010?

As I mentioned, the most profitable farms I worked with this year had a lot of corn and soybeans sold ahead by mid-summer. Those producers made money on the hedges, made money on the corn puts, and lost money on the soybean puts. But most important, they harvested a great crop, and they had a lot of revenue locked in on every acre they grew.

So what is likely to work for 2010? It depends on how prices unfold. I see three possible scenarios as I look ahead for prices this fall.

Scenario 1: Prices stay at this current price level and move still lower into harvest.

In this scenario, you will make money on your hedges and you'll make money on your puts. Also, if you have any crop shortfall, you will likely collect on your insurance policy. This is the least-likely scenario.

Scenario 2: Prices turn higher in late March, rally higher, and stay

higher all the way into the fall of 2010.

You will have margin calls on your hedges, your puts will be worthless, and you collect nothing on your crop insurance. However, unless you have a major crop disaster, you should have a good year farming. This is the type of wishful thinking that creates poor marketing decisions.

Scenario 3: Prices move higher and top out in the April-to-June time period, and are lower by harvest due to another large crop.

This is the most likely scenario and will be the most profitable – not just for grain farmers but for livestock producers and ethanol shareholders, as well.

Create Your Own Plan

I encourage you to use a spreadsheet to lay out these different scenarios. Every farm is different, so I cannot make one blanket recommendation of what you should do.

The key is to use my three-step plan and to answer the seven questions to create a risk-management strategy that will best work for you.

Learn More

Plan to attend a free Webinar entitled, "How To Make Your Crop Insurance Work In Volatile Markets." The Webinar will be held on March 8 at 8:00 p.m. CST. To register, go to www.alkluis.com. □

Alan Kluis has been a commodity adviser and broker since 1976. He is president and managing partner of Kluis Commodities.

Kluis Commodities
901 - 12 Oaks Center
Drive, Suite 907
Wayzata, MN 55391
888/345-2855

www.alkluis.com | al@alkluis.com

