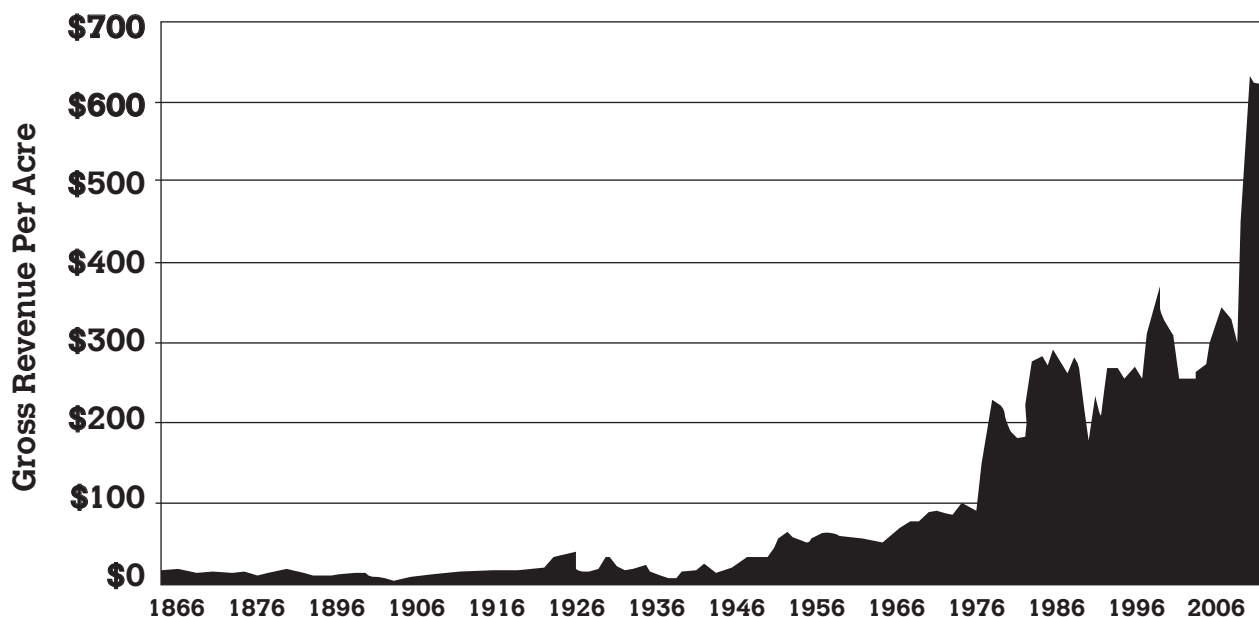


Inflation Is On Its Way

A well-managed farm is your best hedge.

Corn Gross Revenue Per Acre



I have read several articles recently about the best/worst investments of the last decade. Following are examples that show the performance of four main categories if you invested \$1,000 in 1999 and cashed in December 2009.

1 Gold went from \$1,000 to \$2,900. Many rate this the number one investment for the last 10 years. (I'll give you my number one pick later.)

2 Commodities – like the CRB or the Goldman Sachs Index – went from \$1,000 to \$2,680.

3 Certificates of Deposit turned \$1,000 into \$1,900. Right now you have to go out five years to get a 3% return.

4 The U.S. stock market (as represented by the S&P 500) had a dismal performance. A \$1,000 investment dropped down to \$760, for a 24% loss.

Which investments will be the winners and losers in the next decade? A lot of things can happen in the next 10 years.

The one factor that I am sure of is an increase in the inflation rate. It's not a matter of *if* but a matter of *when*. Some of the methods that I use suggest a doubling of the inflation rate by the last half of 2010 – from 2% up to 4% – and the possibility of 4% to 6% inflation by 2011.

For farmers, this will create higher interest rates and a large increase in your costs of producing crops and livestock.

Inflation is usually bullish for commodity prices, as investors try to buy assets that maintain purchasing power.

We have already watched investors bid

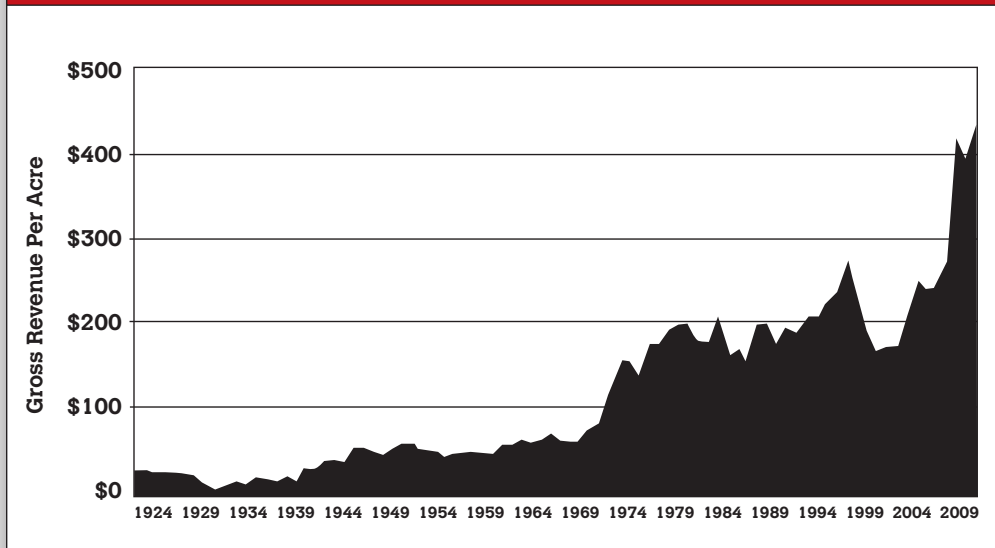
up the price of gold, silver, crude oil, grain futures, and ag-related ETF's. These investors want to diversify into all types of commodity-related investments, and they have a huge checkbook behind them.

I am bullish on commodities into the middle of the decade, but I question if the rally can last for the entire decade. That is not all bad news for farmers throughout the world.

Higher commodity prices will lead to huge gains in yields and productivity in the next five years.

If my corn yield increases from 180 bushels per acre in 2009 to 270 bushels per acre in 2019 and my cash price is stuck at \$5 per bushel, my gross per acre jumps to \$1,350 per acre. If some of the forecasts that say yields will double are correct, then my 360-bushel-per-acre-farm average will generate a mind- ➤

Soybean Gross Revenue Per Acre



3 Lock in your long-term interest rates.

You will pay 1% to 2% more this year but could save 3% to 4% for the last half of the decade. Long-term rates are up about 1% from last year at this time; odds are good they will keep moving higher.

4 Invest in your marketing team to learn all you can about marketing.

With commodities now viewed as an asset class on Wall Street, I look for some extreme volatility in the grain and livestock markets over the next five

boggling \$1,800 per acre.

This is hard to fathom. But who would have thought in 1999 when you were cashing in your loan deficiency payment checks that nine to 10 years later many Corn Belt farmers would generate \$800 to \$1,000 per acre in gross revenue by 2008 and 2009.

The plan I am working on with my customers is to increase yields and increase average selling price each by 5% each year. Do the math, and if Mother Nature cooperates, you will double your gross income by 2018. If the gross per acre goes up that much, then farmers who are successful in controlling costs will make large profits – even if corn stays down at \$4 per bushel.

Here are four suggestions to help you lock in more profits in the next decade.

1 Do whatever you can to maximize yield. Invest in the best seed, grid sampling, more drainage tile, and the best planting and harvesting equipment you can. Farmers who invest in this new technology consistently get better yields.

2 Try to lock in inputs at the right time. You can do this by being aware of the seasonal nature of energy prices and also by talking to your suppliers about how and when to get your inputs bought. Your supplier needs a decent margin and most will work to purchase inputs ahead to keep your business.

to 10 years. The more you can learn, the more dollars you will earn on every acre you farm.

My Number One Pick

Now back to the best investments of the last decade. My number one pick is good-quality farmland.

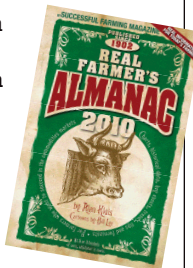
Land has appreciated, so each \$1,000 is now worth \$2,400 to \$2,600. And you are likely getting a 4% to 6% cash return on that land each year.

Will this trend last another 10 years? That's hard to tell. But odds are good that the well-managed farms that embrace technology and invest in themselves will create a lot of additional wealth by 2020. □

2010 Marketing Calendar, Almanac



Alan Kluis' 2010 marketing calendar (shown left) offers key dates for USDA reports, monthly seasonal odds, basis information, a plan-ahead marketing checklist, and more.



Kluis' 2010 Real Farmer's Almanac (shown right) complements the calendar with weekly and monthly trends. The calendar sells for \$30; the almanac sells for \$15. Or get both for just \$40. Shipping and handling are not included in these prices. To order, call 800/678-5752 or visit www.successfulfarmingbooks.com. □

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