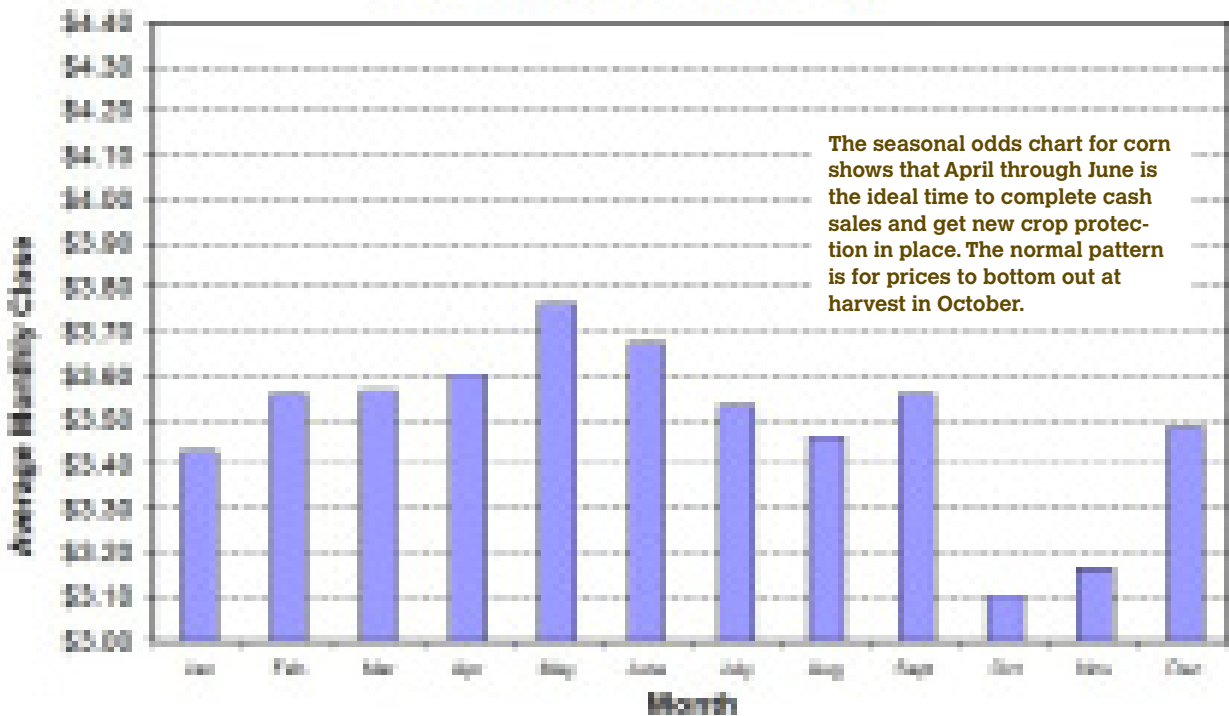


Seasonal Corn Prices 6-Year Average (Monthly)



How To Harness The Volatile Grain Markets

Here are five rules to use in 2011.

I got almost all of my 2010 crop corn hedged ahead in late June when I thought the market was going to plunge much lower. I guess I just get too jumpy when the news gets so negative. How can I get back in and raise my selling price for that crop?"

This was the statement and complex question I encountered at a seminar from a farmer in northwest Minnesota.

I did not have an easy answer for this farmer, but I did have some suggestions on how to make better decisions in the future.

It has been my experience in over 36 years of working with farmers that when they jump back in the futures market to make up for a bad sale, the financial results are not what they want.

Here are five rules to help you make better decisions in a very volatile market.

1 Make A Long-Term View. You have 18 months before you harvest and six months after you harvest to market your grain. In the last few years, we've had some large price and profit swings. Look at the last 12 months. Grain prices dropped low enough in late June 2010, so most corn and soybean farmers were losing \$60 to \$80 per acre. By harvest of 2010, farmers had profits of over \$200 per acre. At this writing in early February, for the bushels you have left to sell, the profits are over \$300 per acre. If you are patient and have a long-term plan, you can often hold off on making cash or new-crop sales when prices are low.

2 Have A Written Plan. The farmer from Minnesota did not have a written plan. He thought by watching the markets closely he could figure out when to sell. That doesn't work. As someone who has watched the markets go up and down for three decades, I know it usually looks really bearish at the bottom and really bullish at the top. Having a **written** plan that you share with your partners, your lender, and other team members really helps you stay disciplined and helps you keep control of your farm profits.

3 Make Incremental Sales. I usually make 10% and 20% sale recommendations. With the large price swings we have had and will continue to have in the grain markets, you want to be able to make multiple sales when prices are going up. I delivered some \$4.40, \$5.40, and \$6.40 corn, and I still had some left to sell. It's hard to make good business decisions when you don't have money in your ➤

Seasonal Soybean Prices 6-Year Average (Monthly)



The seasonal odds chart for soybeans shows that prices will usually peak out in May through July. The seasonal peak is usually followed by prices dropping lower into the harvest lows in October.

checking account. The way to keep some cash flow coming in and the anxiety level down is to make incremental sales into the market as it rallies.

4 Use A Combination Of Risk-Management Tools. By the time you are reading this, odds are good that you have bought your Revenue Protection insurance policies. That is an important part of your plan. By using crop insurance, hedges, and puts, you can manage your bottom line and still be in a position to sell some of your crop if and when prices move higher. This flexible three-step plan has worked well in the last three years throughout the huge bull and bear markets.

5 Use A Combination Of Analysis Tools. I spend a lot of my day working with charts, studying time, price, and motion. None of these analysis tools works all of the time. However, these tools do allow me to set specific price targets to make sales. They provide me with key weeks when I should sell. They also indicate some key months and key weeks that I can anticipate a low to develop.

Seasonal Odds Chart

Of all the tools I work with, one of the most reliable is the study of time. The seasonal odds chart is one of the best marketing tools for farmers to use.

For corn, the seasonal chart suggests that the highest price for corn will occur in the month of May with prices dropping lower into October. This suggests that by the end of May, I will increase my cash corn sales up to 90% to 100%. I will also have a large percentage of new crop price protection in place. For the fall 2011 sales, I will use a combination of hedges and puts to lock in prices ahead of the anticipated harvest low.

For soybeans, the seasonal chart suggests that the soybean prices will peak by June and turn lower into October. This suggests that by late June, I will have 90% to 100% of my cash soybeans sold. I will also have a large percentage of my new crop soybean price protection in place. For the 2011 crop sales, I will use a combination of hedges and puts to lock in prices ahead of the anticipated October low.

The combination of hedges, puts, and crop insurance will allow you to have some good profits locked in. This plan also

provides financial protection if you have a crop failure or if prices move sharply lower by this fall.

Back to the farmer from Minnesota. I suggested that he put together a 2011 marketing plan. This will work better than having him try to keep up with all the latest market news on the Internet. I also suggested that the next time he feels really jumpy that he do two things: Get off the Internet, and buy a put if he feels the need to get price protection. He should never be hedging a large percentage of his crop all in one day. □

Al Kluis

Al Kluis has been a commodity trader and adviser since 1974. Join his free webinar on Tuesday, April 12, at 8:00 p.m. CDT for updated strategy and merchandising recommendations.

To register, go to www.alkluis.com.

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