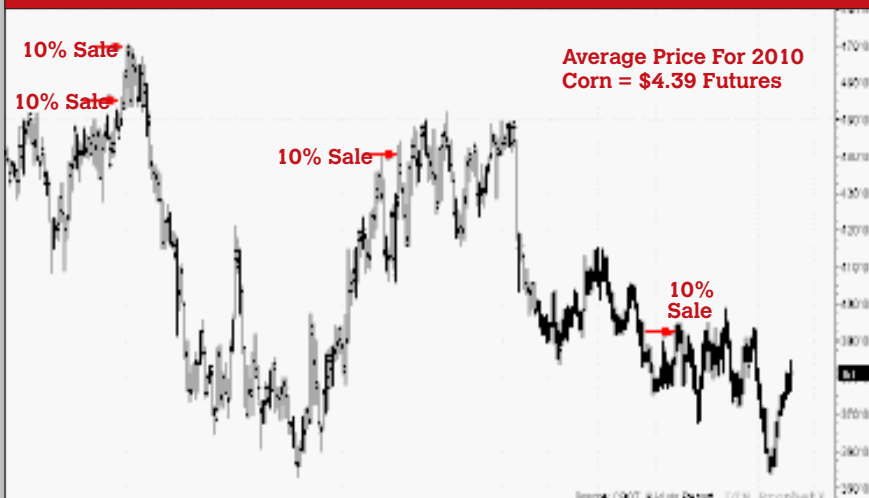


December 2010 CBOT Corn



Diversify Your Grain Sales

Here are three ways to reduce risk and improve grain marketing results.

What happened to your projected seasonal rally in corn and soybeans?" asked a frustrated farmer from eastern Nebraska in early June. I told him that every year is different and that the late-June time period is usually a key time for a change of trend.

In 2008 and 2009, the late June corn and soybean sales were right near the high of the market, while early June 2010 appears to be a major potential low. This confirms one old trade rule: When something works for two years in a row, watch out because it will usually do the opposite in the third year.

The successful farmers I work with diversify how they sell their grain. Here are three different ways you, too, can find success in your marketing.

1. Know who you get your market

information and advice from.

I encourage you to work with at least three different sources and to sell grain to at least three different companies. I suggest you follow your favorite adviser and make 80% of your sales following that adviser's advice.

However, I still see a lot of benefit in getting advice and analysis from three sources who are using different analysis methods. As stock investors who had all their money with Bernie Madoff found out or farmers who had 100% of their corn hedged with VeraSun, having everything with one person or one firm can really blindside you and create additional financial risk.

2. Diversify when selling your grain.

I encourage you to use at least three different risk-management methods. A combination of the three listed below is even better.

- Buy the right crop revenue insurance for your farm. This becomes the foundation for a marketing plan.
- Use hedges or hedge-to-arrive contracts.
- Use puts.

Younger farmers who have more debt and less storage will usually be more aggressive in hedging. Older farmers with big bins and deep pockets will sometimes pass up good new crop-selling opportunities. They will store their grain into the next year. They do not get the crop hedged on the summer weather scare rallies.

Besides hedges, hedge-to-arrives, and puts, many elevators offer minimum price contracts or minimum/maximum contracts. Understand these different contracts and use the right combination for your farm.

3. Understand why you make the grain marketing decisions you do. An old saying says farmers sell for one of two reasons: They need the money, or the crop is starting to smell. Seriously look at your decision-making process and understand why you sell. Take time to study this process if you want to improve your marketing and your bottom line.

The best reason to sell is when prices have hit a price target that offers your farm an excellent profit level. This shows the importance of knowing your costs and being willing to sell grain on a disciplined

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scale-up marketing plan. You will often find yourself making the sale even when the news is bullish.

The profit objective sale is one of the best reasons to make a grain sale. Another good reason to sell is when you have hit a price target and are selling at a major chart resistance level.

You can also make sales based on ➤

November 2010 CBOT Soybeans



time cycles. I have often made sales or purchase decisions using the time cycles I work with.

If you aren't happy with the average selling price, a review of why you are selling your grain is one of the first steps to changing and improving your market decision-making process.

3 Marketing Attitudes

When I hold a marketing seminar, I will often survey the attendees to see what their knowledge levels and attitudes toward marketing are.

I've found that they tend to fall into three categories.

1. Those who like marketing. They enjoy reading my early-morning e-mail updates. They take 20 to 30 minutes every morning to review the markets, read analysis, and check on bids and basis levels. They know that time spent on marketing is important to the bottom line in their farm.

2. Those who tolerate marketing. They do just enough each week or month to get some grain sold. They will often be frustrated in June through August when they have too much grain left to sell and

no new crop hedges in place. They do not take the time to study or to work at marketing every day like they should.

3. Those who ignore marketing. They will sell the grain when it starts to smell or when the operating note is due at the bank. They may grow a lot of bushels, but they do not generate a lot of dollars. Unless they have land that is paid for, farmers with this attitude are not likely to survive.

I believe all farmers – no matter if they are in the first, second, or third group – can benefit from putting 20% to 50% of grain into a managed grain program. The track record of the professionals who have sold grain for farmers in the Cargill Pro-Pricing contracts is better than the average farmer in nine out of the last 12 years.

With more and more Wall Street money coming at the grain markets and less government support programs, margins are thin and volatile.

Enrolling part of your crop in one of these managed grain programs is one of the best ways to diversify and spread out risk. If you aren't familiar with these programs, check out what is available in your area.

So what can you do now?

In 2009 when new crop corn and soybeans were at better profit levels, I encouraged producers to get as much as 60% to 80% of their crops locked in with hedges.

This year I made new crop hedges of 40% to 60% of the corn and soybeans. You can see where I made the new crop hedge recommendations by reviewing the red arrows on the December 2010 CBOT corn chart (on the previous page) and the November 2010 CBOT soybean chart (on this page).

In 2009, I was also aggressive in buying puts on 20% to 40% of the 2009 crop that was not locked in with hedges. In 2009 when prices were a lot higher, it was an easier decision because I could lock in good returns.

This year with the lower CBOT prices, I have not hedged as much, and I'm buying less puts because prices are not high enough to lock in an acceptable profit.

The frustrated Nebraska farmer I quoted in the opening paragraph had all of his 2009 crop when I talked with him in early June. He would only sell cash and would only sell to his local elevator. By only using one market alternative at one location, he really limited his chance for success. As a result, his potential profits from 2009 have disappeared since the corn market topped out in early January 2009. □

Al Kluis

Al Kluis has been a commodity trader and adviser since 1974. Join his free webinar on Tuesday, September 14, at 8:00 p.m. CDT. To register, go to www.alkluis.com.

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