

# Master Marketer Newsletter

<http://mastermarketer.tamu.edu>

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Texas Agricultural Extension Service, The Texas A&M University System



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## Master Marketer Highlights

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### Lubbock Master Marketer Program

On February 24, the 63 newest Master Marketer graduates received their plaques in Lubbock. This outstanding group is expected to raise the level of marketing knowledge in their home communities. Many shared their ideas on how they are going to carry out the primary mission of the Master Marketer Program – to establish a marketing club in their area or county. Several have already started marketing clubs. Some are in jobs where they regularly advise and assist farmers in developing and executing marketing plans.

Master Marketers all over the state are finding many new ways to fulfill their volunteer obligation of multiplying the educational value of the Master Marketer training by cooperating with their county agent to help assist others in the county. Also, many have been effective in helping their county agent plan marketing educational programs. Master Marketers often know more about what other farmers need and they have learned a lot about the types of educational programs that are available. We often get requests from Master Marketers to come to their home county to teach futures and options workshops and include some of the innovative tools used in the Master Marketer Program. The Packer/Feeder game has been effectively taught all around the state. Often, a price simulation activity has been requested because the Master Marketer has experienced it.

### Houston Livestock Show and Rodeo is New Sponsor

The Houston Livestock Show and Rodeo recently joined the Texas Corn Producer's Board, the Texas Wheat Producer's Board and Texas Farm Bureau as a state sponsor of the Master Marketer Program. The support of these four sponsors provides the financial base for a program that has directly trained about 400 and indirectly benefitted thousands through the efforts of the Master Marketer graduates.

### Future Master Marketer Sites

The Master Marketer executive committee is planning for future sites for Master Marketer programs.

Sites being considered are Uvalde (Fall '00), Abilene and Vernon (both Spring '01).

### Futures and Options Trading by Clubs

Some clubs have expressed an interest in simulated futures and options trading. Good progress has been made toward determining a method for marketing club members to experience realistic futures and options trading without having to handle any "real" money. Blake Bennett, extension economist in Dallas and Rob Borchardt, risk management specialist in Vernon, have been reviewing the alternatives and are very close to making a recommendation to marketing clubs as to a very easy to use software package (for trading with historical data) and information on a company offering an internet simulated trading program (trading current markets). Blake has used simulated trading with a number of marketing clubs and has found it to be a very effective teaching tool.

### Lubbock 1997 Master Marketers E-mail Addresses

Jackie Smith would like to have e-mail addresses for the 1997 Lubbock class. If you are interested in being on a list to receive market updates and information on upcoming programs, please e-mail Jackie at [j-smith34@tamu.edu](mailto:j-smith34@tamu.edu).

### New Master Marketer Web Site Address

We now have an easier to remember address for the Master Marketer web site. It is <http://mastermarketer.tamu.edu>. Please update your bookmark. If you have any ideas on improving this site, call Jackie Smith at 806-746-6101 or e-mail your suggestions to [j-smith34@tamu.edu](mailto:j-smith34@tamu.edu).

### Ideas for Update Meetings

In the next few months, we will be scheduling one-day update meetings at the locations of most of the previous Master Marketer workshops. If you have any suggestions for special topics or speakers, e-mail Jackie Smith at [j-smith34@tamu.edu](mailto:j-smith34@tamu.edu).

**Strategies to Deal with Uncertainty in 2000**

Dr. Mark L. Waller, Professor and Extension Economist-Grain  
Marketing and Policy, Texas Agricultural Extension Service

Price expectations for the 2000 season are extremely uncertain at best. While the supply/demand balance has improved in recent months, ending stocks/inventories for corn, wheat, cotton, rice and soybeans are anticipated to remain in the ample to burdensome range. The world economic situation is improving faster than anticipated, and as a result, exports could improve further as we finish the 1999/2000 marketing year and move into 2000/2001. However, many of our export competitors had good crops in 1999, and the Southern Hemisphere crops this winter will be good enough to keep the competition for export business very tough over the coming year. Weather is probably the biggest unknown and the greatest source of uncertainty for producers and other market participants as we move into the spring of 2000. The drought that began last summer and fall extends from South Texas all the way up through the Plains states and the Corn Belt. When asked, producers and other market participants look at current futures prices for the new crop and almost unanimously agree that new crop futures prices are already too high if we have a normal production year with average or better than average yields. However, the same people also suggest the prices are way too low if we truly have a drought problem, resulting in substantially reduced yields for 2000. This uncertainty is reflected in the high premiums that we currently see in the options market. The implied volatility from these premiums is much higher than the historic volatility that prices have actually exhibited. Concerns about drought and the potential for a short crop are especially important to producers who are contemplating some early season pricing, but fear being tied into contracts with delivery obligations or quality requirements that they may not be able to meet if they are negatively impacted by the drought. Since early season prices are often some of the best offers of the year, it is important to figure out how to use pricing strategies (or tools) that will allow one to lock in a price or reduce downside price risk without taking on contractual obligations they may not be able to meet. Strategies that also allow for some upside potential as prices increase can help producers offset some of the potential loss in the yield associated with drought. In a year with this much risk, some strategies may be more appropriate or meet more of the producers needs than others.

**Forward contracts** – forward contracts provide a positive benefit in that they allow producers to price early, and lock in both the price and the basis. However, for Southern dryland crop producers, contracts that state a specific quantity and quality could mean that producers are

simply trading price risk for contract performance risk. Producers who have had to buy grain to fill a contract as a result of a production shortfall, aflatoxin contamination or other quality problems, understand all too well the risks involved. Even for cotton producers, who often use acreage contracts, there are contract performance risk concerns since merchants may walk away from these contract obligations if they find that they're not sufficiently hedged. This has happened numerous times in Texas over the last 10 years. Using forward contracts on a small percentage of your expected production is probably okay, but be careful not to over commit.

**Purchasing put options** – purchasing a put options allows the producer to set a price floor by providing the right to sell futures (short hedge) at a specified futures price. Since this is a right and not an obligation, the producer does not have to sell futures or deliver the grain. As a result, this strategy avoids the contractual performance risk associated with a forward contract, and allows the producer to end up with a better price if the cash market continues to rally (refer to publication no. RM2-12.0 titled Hedging with a Put Option in your Risk Management Curriculum Guide for a thorough explanation of how to use a put option to hedge). There are a couple of negatives associated with using this strategy. First, since you're using a hedge in the options market to offset cash market risk, you are still subject to basis risk. Second, you do have to pay the premium up front, and in a year like this with so much uncertainty, the premiums can seem very expensive.

**Reduced cost options strategies** – if the premium associated with purchasing a put option seems too expensive, there are a number of alternatives that can be considered where a portion of the upside potential is given up in order to reduce the net option premium. Three of the common strategies that can be utilized include; 1) the window/fence strategy in which a put option is purchased to provide downside price protection, then an out-of-the-money call option would be sold. The revenue generated from the call option that was sold would be used to partially offset the cost of the put option that was purchased (refer to publication no. RM2-18.0 titled The Window Strategy with Options in your Risk Management Curriculum Guide). 2) sell futures as a hedge, and purchase a bull/call spread to provide some upside price potential. While the sale of the futures contract would set a general price level, the bull/call spread allows for some upward price improvement potential by offsetting some of the futures losses if the futures market price moved higher. With this strategy, a call option is purchased at some strike price, and another call option is sold at a higher price. The revenue generated from the call option sold would be used to partially offset the cost of the more expensive call option that was purchased (refer to publication no. RM2-20.0 titled Using a Bull Call Spread in your Risk Management Curriculum Guide). 3) sell futures as a hedge, and purchase an out-of-the-money call. The

cheaper call premium would raise the floor or minimum selling price, giving the producer a higher level of protection if the market falls. However, since the purchased call is out-of-the-money, the producer's selling price may not improve beyond his floor price until the market has rallied beyond the level of the out-of-the-money call. This third strategy works more like insurance and implicitly says: I do not care if the market moves up a little higher, but if it really takes off to the upside, I want to benefit. The window/fence and bull/call strategies implicitly say: if the market moves a little higher I want to benefit, but I will give up anything above a certain level where I sold the call.

There are an almost infinite number of ways to combine contracts, futures, puts, and calls. Be sure before you use any tools/strategies that you understand the risks and rewards involved. Be careful, and understand that some strategies such as selling multiple years of production in the same contract year, or selling multiple options to generate commission can significantly increase your risk. Be sure you know how you intend to manage that risk and have your action plan in place for the day when the market moves against your position.

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## **Inside the TAEX System**

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### **Dickens County Marketing Club Profile**

One of the primary purposes of the Master Marketer Program is the creation of marketing clubs by the Master Marketer graduates. This section is going to profile one of the marketing clubs that was created and is still ongoing.

The Dickens County Marketing Club started in September 1999. The County Extension Agent, Joe Ben Choate, and Vernon Master Marketer graduate Ann Walker serve as the primary leadership for the club. In addition, Ed Murray and Greg Arnold are recent graduates of the Lubbock 2000 class. The club meets at 7:30 a.m. at a local cafe in Dickens, Texas and average attendance at the meetings is nine people with twelve official members. A typical meeting includes covering a lesson and discussing the markets. Commodities of interest are cattle and cotton.

Through the five meetings held to date, lessons covered include: Developing a Marketing Plan, Cost of Production, Introduction to Futures and Introduction to Put Options. To extend their education, the members of the club joined funds and have decided to trade an option on feeder cattle. We wish them luck with their position.

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## **Choice Web Site**

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**[www.grainline.com](http://www.grainline.com)**

Grain marketing information available at Grainline.com consists of marketing news, cash price quotes, futures and options quotes - linked to quotes.imo.com, talk forums, classified ads, and loan deficiency payment (LDP) information.

The LDP information is very well organized and allows the user to easily find information specific to his or her county. First, click on the state you are interested in on the U.S. map. Then, using the LDP drop-down menu, locate and select your county; then click "go" to view the loan rates, posted county prices (PCP) and LDP rates for all eligible crops for the county you selected. If interested, you can also view average LDP rates for any state.

Cash price quotes for many locations in the U.S. are available on grainline.com. While currently the majority of these locales are in the Midwest, there are instructions on how you can get your elevator or other buyer listed on grainline.com.