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month as well as understand how some of the more complex futures and options strategies have worked over time. This paper trading and tracking/record keeping is a good exercise in that it can help participants track and analyze what would have happened to their market positions. They can see what has happened to option premium values on bull-call spreads, window/fence, bear-put spreads or other positions as the market has declined in recent months. They can better track the profit/loss of marketing strategies over time as well as get more comfortable using these tools. Most successful traders/marketers agree that keeping a journal or some written record of positions taken, justification for taking the position, and what eventually happened is an important part of the learning process. This is the same reasoning behind why we continue to stress the need to have a written marketing plan.

If more Texas marketing clubs are interested in paper trading, there is a Web-based program at the University of Florida called FACTSim <http://factsim.ifas.ufl.edu/index.php> that will allow you to paper trade over the Internet. I used the FACTSim program for a futures and options class that I helped teach on campus here at Texas A&M University last spring. Student evaluations at the end of the class seemed to suggest that the simulated trading experience was very useful in helping them understand the concepts that were being taught.

Since the look and feel of FACTSim is similar to that of some real time trading platforms, the experience can help users get more comfortable with what they might see if they decided to trade futures and options over the Internet.

Since FACTSim uses real-time tick data, participants can get in and out of positions very similar to the way they would in real-life. The cost for an account on FACTSim would run about \$15.00 per semester for each individual or per club if the club is using one account. If you think that we need to consider having something like this available for our Texas marketing clubs please let me know (phone: 979-845-8011, E-mail: mwaller@tamu.edu).

Dr. Steven Klose, Dr. Jackie Smith, and George Knappek also contributed to this newsletter.



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Marketing Club Corner

By Mark L. Waller

Rob's Departure

As you have probably already noticed, there is a new writer for this section of the newsletter this month. Rob Borchardt, our statewide coordinator for marketing club activities over most of the last four years, is no longer with us. Rob left Texas Cooperative Extension to take a private-sector job working with Agri-Pro seed company. We will miss Rob and the contributions that he made to our Extension programming efforts. I know that Rob worked with a number of your clubs in different capacities from helping with ideas on how to get clubs started, providing bylaws/agendas/evaluations, speaking at meetings, developing and maintaining Web-based resources, and answering many other questions. Rob was a valued co-worker, and he will be missed both professionally and on a personal level. I know that we all wish him the best in all of his future endeavors.

Interesting Club Activity

Jay Yates, the Risk Management Specialist at Lubbock has been working with the Lubbock marketing club to get a better handle on how certain marketing strategies actually perform over time. The club has been listening to the teleconference network speakers each month, over a period of several years. Following the teleconference presentations, club members usually discuss possible marketing strategies/alternatives. However, the club has not kept close track of the marketing strategies/alternatives they had considered during each meeting, and consequently, are not sure how they would have actually performed over time. Not having any record of performance has left some members wondering whether or not they are actually making progress. As a result, Jay has built a spreadsheet in Excel that he uses to track club trading/marketing strategies. Jay tracks the suggested futures and options positions and records potential profits and losses over the ensuing month. During the next month's meeting, after listening to the teleconference guest speakers, club members can decide whether to stay with existing positions, or determine what different market positions to take.

The paper trading and tracking experience helps them to better remember what positions they wanted to take the previous

Gainesville Master Marketer Program

The next Master Marketer Program will be in Gainesville beginning the first week of January, 2005. This will be the first time for a Master Marketer program to be held in North Texas. To register for the 2005 class, contact Dr. Blake Bennett at the Texas A&M Research and Extension Center in Dallas at 972-231-5362.

ATS Schedule of Classes

The schedule for the Advanced Topics Series (ATS) for 2004-2005 will be announced soon. The list of advanced courses will include several of the ones offered in the last 2 years with at least one new course for this year. The new course that will be offered will be Advanced Options Strategies. Pulling the Trigger, Developing a Marketing Plan and Advanced Futures and Options will again be offered at various locations around the state. Everyone on the mailing list for this newsletter will be getting an ATS brochure by November 1.

Marketing Specialists Retire

Dr. Carl Anderson, who has served as Cotton Marketing Specialist for Texas since 1978, retired early this year but came back part time and continues to serve the cotton industry. Dr. Anderson will continue in his part time role at least for a few more months. Dr. Ernie Davis retired August 31, 2004, and after a mandatory time away from the job, will come back in a part time role to work on special projects and help us through the transition period as we hire another Livestock Marketing Specialist. Search committees are in place and applications from potential candidates around the country have been coming in. It is our goal to have both of these positions filled within a few months with outstanding people who can carry on the strong programs of Dr. Anderson and Dr. Davis.

Farm Assistance Update

Personnel Update

Will Phinzy has recently resigned his position as Risk Management Specialist in Uvalde to pursue a career in education. Will focused most of his work with cow/calf producers and led our effort to serve the livestock industry.

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Wayne A. Hayenga
Professor and Extension Economist
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Estate Planning Considerations

You own your farm or ranch business and have probably worked a lifetime in putting it together. You have paid income taxes on your earnings and reinvested "after-tax" dollars in the business to promote its growth. Reinvested profits and inflation have pushed the value of your business steadily upward, and taxes are now a significant concern.

In most families a significant problem can arise when the desire is to keep the business unit together and transfer it to the next generation, but not all of the children will be active in the business. The desire to treat all children fairly usually overrides the desire to keep the business together and the land may be divided so that no one has an economic unit.

One estate plan used is to use multiple legal entities to hold the business assets. For example, the operating assets (cows, equipment, working capital) can be held in a corporation or limited liability company with this entity "operating" the business. The land may be held in a partnership with all family members owning an interest. The partnership can lease the land to the operating entity. This gives all of the "owners" a return, and keeps the operating decisions in the hands of the workers.

Estate planning discussions usually revolve around tax issues. Tax management is an important aspect of estate planning.

There are four (4) taxes that need to be considered: estate taxes, gift taxes, income taxes (for the survivors), and social security taxes for the beneficiaries.

This year and next, every person can pass a \$1,500,000 estate with no estate taxes. That amount goes up to \$2,000,000 for 2006, 2007, and 2008. In 2009, it is \$3,500,000. In 2010, there is no estate tax, but in 2011, it goes down to \$1,000,000 again. (Does this make sense?) Most professionals think these rules will change, but we aren't sure when or to what amounts. A married couple has two (2) of these exemptions to use if their estate planning documents are properly structured.

Under current law, lifetime transfers to individuals in excess of \$11,000 per year per done are tax free. Gifts must be arm's-length transfers with no strings attached to successfully remove the property from an estate. Agricultural businesses composed of land, equipment and livestock which are not conducive to the divisibility necessary in an annual gifting program. The transfer of the individual productive assets of the business also can create problems in maintaining an efficient operation. Because the annual exclusion is small, the initiation of a gifting program may be advisable many years before the anticipated retirement of the current generation of management. Often, gifts of shares in a corporation or partnership units that hold the farming assets can be used for gifts.

Income tax savings for beneficiaries are possible with a properly structured estate plan. For a married couple, the survivor can often pay little or no income tax on the last crop. Also, if the survivor continues to farm, they can depreciate a lot of used machinery and equipment for the second time. If a beneficiary has a high income, he/she may like to have his/her inheritance in a trust. He/she could be the trustee; he/she would be the primary beneficiary; he/she could have the right to distribute income to his/her decedents for health, education, maintenance and support; and he/she could decide who could receive the remaining trust assets at his/her death. Why? Because if the primary beneficiary does not need the income, he/she as trustee can distribute the income to his/her descendants. Trust income is taxed to the recipient, usually at a lower income tax rate. Many families can fund cars, college educations, and household formations for children and grandchildren with income taxed at very low income tax rates. This type of plan can work for both spouse, and child beneficiaries.

If the potential heir is a farmer and will be inheriting farm property, giving the property to a trust with a farmer/heir being the beneficiary of the trust may save the farmer/heir self-employment taxes. The property will be owned by the trust, so the farmer/heir will need to rent the farm from the trust. The farmer/heir will receive an income tax deduction for the rent paid to the trust, thus lowering his/her Form 1040 Schedule F income. The rent is paid to the trust, which in turn distributes the income to the farmer/heir, so the income goes to the heir, is subject to income tax, but is not subject to self-employment tax.

There are other considerations that may be more important than taxes to some individual. A well thought out estate plan needs to take an unbiased look at the recipients of the estate, and if the property is to be held by several jointly, consider what may be the relationship of the beneficiaries after the death of the former property owner. We have all seen situations where the death of the patriarch or matriarch brought a great deal of stress to the relationship of brothers, sisters, nieces, and nephews. In situations where discord may be predicted in a "share and share alike" disposition of an estate, giving specific assets to each beneficiary may be of benefit. In future articles we will look at some of these issues.

By Elizabeth Shaw
www.tcre.org
The Texas Center for Rural Entrepreneurship

In today's challenging economy, rural agriculture producers and other agribusinesses are constantly looking to new ways to utilize land and its natural resources, seeking alternative enterprises to increase their bottom line. Entrepreneurship and creative business ideas are essential to the success of these diversified agribusinesses, and private and public educational and financial providers have recognized this new need for additional support for rural entrepreneurs.

The Texas Center for Rural Entrepreneurship is a non-profit organization created by rural entrepreneurs, economic development leaders, non-profit organizations, and local, state and federal government entities to establish neutral ground to facilitate the delivery of educational and technical support to meet the needs of rural entrepreneurs and organizations supporting entrepreneurs and the entrepreneurial spirit in rural Texas (TCRE, 2004, Purpose).

According to its website, TCRE designed the site to act as a link to resources for rural entrepreneurs to public and private support systems, match support resources to the needs of rural entrepreneurs and organizations in communities, and support the coordinated delivery of services and information between service providers and the rural businesses and communities they serve (TCRE, 2004, Purpose).

The Texas Center for Rural Entrepreneurship website provides information and links to providers including educators, government agencies, and consultants who are dedicated to promoting entrepreneurship as a rural development strategy. Providers help with business planning, capitalization, feasibility studies, marketing, workforce development, and many other important elements necessary for successful rural business and economic development (TCRE, 2004, E-Providers).

TCRE also lists educational programs, seminars, conferences, and has a library of helpful articles and publications for online support, as well as a business-to-business directory with which its users can network in a number of service categories.

Particularly helpful is the "E-ship Tools" section, which contains tools for evaluating your current business situation, information gathering, and self-assessment.

Registering for the Texas Center for Rural Entrepreneurship website is free, and allows you free, secure access to customize the site for your particular needs and interests, give feedback to the site, and receive periodic updates and news from the organization.

Farm Assistance Update, continued from page 1

Will was a valuable member of our team, and his contributions will be difficult to replace. We will continue to serve the needs of livestock producers from all our locations. Specifically in the near future, the Uvalde area will be covered from both College Station and San Angelo.

In other personnel news, we will soon be interviewing candidates for the vacant Corpus Christi position. Fall and winter are our busiest times of the year and we look forward to having someone back in the Corpus Christi center to coordinate this year's activities in the Coastal Bend and Lower Rio Grande Valley.

Partnership with USDA-FSA

FARM Assistance is now a certified vendor for the Farm Service Agency (FSA) borrower training. Completing the FARM Assistance program will satisfy both FSA's financial and production training requirements. We provide producers a certificate of completion letter to take to their FSA approval officer. The FSA farm loan managers should have our contact information. If you have any questions, contact us directly at any of our offices:

- Amarillo (806) 677- 5681
- (806) 677- 5667
- Lubbock (806) 746-4056
- San Angelo (915) 653-4576
- College Station (877) 826-7475 toll free

FARM Assistant Annual Report

What constitutes financial success? What characteristics are common among successful producers? A sneak preview suggests there may be evidence of crop yields that are too high. Yes, too much yield! These questions, issues, and more will be a part of our upcoming annual report. In our continuing effort to provide the producers of Texas the best information, we are searching the database of FARM Assistance participants to report insights into management strategies and characteristics that help promote financial success. Our first annual report, "The 2004 Road to Success," should be in distribution by this winter.

