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Master Marketer Newsletter

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Texas Cooperative Extension, The Texas A&M University System

Master Marketer Highlights

El Campo Master Marketer-Don't wait! Sign up today!

The next Master Marketer program begins October 5th in El Campo. Call Dr. Larry Falconer in Corpus Christi at 361-265-9203 or download the brochure/registration form from the Master Marketer web site at <http://mastermarketer.tamu.edu>. As more and more Texas producers are trained in the award-winning program, the demand for the more advanced and specialized courses (Advanced Topics Series) increases. If you understand the value of marketing education, we urge you to take advantage of what could be the last opportunity in South Texas to become a Master Marketer graduate. Producers who understand market forces and alternative marketing techniques will have a clear advantage in the future. A commercial producer who increases his net price just 2.5% to 5% will increase net returns by \$10,000 to \$50,000 a year, depending on the size of his operation. Please provide this information to anyone close enough to El Campo to participate in this workshop and avoid missing the opportunity of a life time to attend a class taught by the best instructors available for each of the topics covered.

TTAP in November

Time is also running short to get signed up for TTAP (Tomorrow's Top Agricultural Producer's Program). The first session of four will be held in Amarillo this November. TTAP is a management development program for farmers and ranchers designed to develop the business management skills necessary to survive and prosper in current and future agricultural economic environments. This is a very in-depth, intensive program that is designed for those who are profit motivated, willing to share ideas, full-time career oriented, innovative and willing and able to manage change. This will be the second TTAP class. The TTAP program is comprised of 4 sessions over a 15 month period. Brochures/registration forms are available on the Master Marketer web site. For more information, contact Dr. Blake Bennett in Dallas at 972-231-5362.

Amarillo Master Marketer in January

If you are in the northern half of the state, don't miss this opportunity to sharpen your marketing skills. The first regular session in Amarillo will be January 11-12, 2006. For anyone needing to update their basic knowledge of the futures market, there will be a one-day leveling workshop on January 10th to better prepare you to take full advantage of the marketing strategies to be discussed in the Master Marketer workshop. The brochure/registration form is now available on the Master Marketer web site. Every time the class has been offered in Amarillo, it has been full, so if you plan to attend this class, it is recommended you send in your registration very soon or call Dr. Steve Amosson in Amarillo at 806-677-5600.

ATS Workshops

The final schedule for the ATS (Advanced Topics Series) will be available soon. These advanced specialized courses will be offered around the state beginning in December. Watch for the final schedule to be posted on the Master Marketer web site. These courses are designed to meet the needs of our Master Marketer graduates and others with the market knowledge to tackle even more rigorous marketing strategies and special marketing problems.

Marketing Club Corner



Mark L. Waller
Professor and Extension Economist-Grain
Marketing and Policy
Texas A&M University

Taking That Step: Actually Taking a Market Position

In talking to several of my coworkers, and talking to several marketing club members recently, it sounds like it is still a struggle for some of us to actually get over the hurdle and take a position in the futures or options market. From a psychological standpoint, some of us seem to have a tougher time saying it is time to get in the market and then follow through by calling our broker or logging onto the Internet and getting a trade initiated. One obvious first step might be to paper trade as a group to get more comfortable with the marketing/hedging process. Another might be to trade in your own account on a limited basis and discuss it with other club/group members. Different clubs/groups here in Texas are dealing with this issue in different ways.

A group in the Wichita area, headed by CEA Joe Raff, has developed a marketing plan for the cluster/representative model farm and ranch that they use to develop representative crop and livestock cost of production budgets. The group is taking paper trading positions when the price targets/objectives from their marketing plan are achieved. They are using a spreadsheet developed by their District Economist, Stan Bevers, to track the profit/loss, margin calls, interest payments etc. associated with the positions over time. The paper trading exercise allows the group to watch what happens to positions over time, and gives them the opportunity to discuss in a group setting what the risks/benefits of various positions are, as well as what went right or wrong over time.

(Continued on page 4)

(Marketing Club Corner continued from page 1)

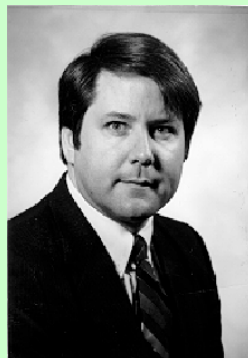
While individuals can also paper trade on an individual basis, they may miss out on some of the valuable group dynamics that can occur when several different group members add their own perspective as to what could or has happened.

Another group from near the Wall, Texas area has selected to have individuals take actual positions in their own accounts as opposed to using one group account. After looking at fundamental and technical market information, members consider the opportunities from both a market price and a farm program benefit/risk perspective. After considering their alternatives, club members actually bought cotton put options in their own individual accounts to protect against downside price risk. Those producers have since sold their put options, collected profits, and are re-evaluating their benefits/risk position to see what they should do next.

While group dynamics can help us work through some of the uncertainty of market behavior, at some point we need to be willing to actually take a position if we are going to get more comfortable using these tools. There will probably never be a time when you feel 100% certain that now is the time to buy or sell. At some point you just have to move forward.

Prepared by:

Mark Waller
Professor and Extension
Economist-Grain Marketing and Policy
Department of Agricultural Economics
Texas Cooperative Extension
Texas A&M University College Station, Texas 77843-2124



Dr. G.A. (Art) Barnaby
 Professor, Department of Agricultural Economics
 K-State Research and Extension
 Kansas State University

Crop Insurance Participation Increase after the 2000 ARPA Reforms

As a direct result of the Agricultural Risk Protection Act of 2000 (ARPA) insured acres have increased by 14.6 million acres and coverage increased by \$12.2 billion over the past 5 years. Insured acres in Kansas increased by 1.5 million and coverage increased by \$659 million. Texas was one of the few states that did not have an increase in insured acres over this period.

Kansas farmers have suffered recent crop losses and the crop insurance data available on the Risk Management Agency's (RMA) WEB site confirms this fact. Over the last five years only 2001 generated a loss ratio under 1.0 in Kansas. RMA's targeted loss ratio for "actuarial soundness" is 1.07. That means for every dollar collected in premiums, including both the farmer paid premiums and the premium subsidies, RMA expects to payout \$1.07 over the "long run".

By contrast over the past five years Iowa had no loss ratios above 1.0. The largest loss occurred in 2003 with a loss ratio of 0.94 and a low in 2002 of 0.25. Over the past seventeen years Iowa only had one loss ratio over 1.0 and that was in 1993 but the loss ratio was a whopping 4.65! However, when Iowa does have a loss it has a big impact nationally because Iowa in 2004 had over \$5 billion in coverage and nearly 20 million insured acres.

By contrast Nevada had a five year loss ratio of 2.18, the highest in the nation, but only about \$17 million in coverage. Even though Nevada's loss ratio was much higher than the five year Kansas loss ratio of 1.46 the impact is much less because there is so little coverage written in the state. Large dollars of coverage requires large acreages of insurable crops and large participation.

Texas had a lower five year loss ratio of 1.26, North Dakota was 1.31 versus 1.46 for Kansas over the most recent five year period. The reason Texas had a lower loss ratio was all caused by a single year of 2004 with a loss ratio of 0.53, the best ever! Over the past seventeen year period the Kansas loss ratio was 1.23 versus 1.29 for North Dakota and 1.38 for Texas. Over this same seventeen year period Iowa's loss ratio was 0.57 and Iowa farmer paid premiums exceeded indemnity payments.

Over the past 5 years the states with the highest net indemnity payments (state aggregate indemnity payments minus state aggregated farmer paid premiums) were all located in the Great Plains. Texas ranked first with an aggregate 5 year net indemnity of \$1.4 billion, North Dakota \$1.0 billion, Kansas \$922 million, South Dakota \$599 million, and Nebraska \$462 million. The only top 5 state able to meet the RMA "actuarially" sound target loss ratio of 1.07 was Nebraska with a loss ratio of 0.94.

Therefore, in this program it is better to be small, e.g. Nevada with few crop acres or large like Iowa and Illinois but with very low loss ratios. Texas, Kansas and North Dakota are neither. North Dakota ranks first with over 20 million acres insured, Kansas growers insured over 16 million acres and Texas growers insured over 14 million acres in 2004.

Even with these large Great Plains losses the national loss ratio for both the seventeen year period and the more recent five year period is a "dead on" actuarially sound 1.0 loss ratio. In order for the national loss ratio to be sound it requires other states to have underwriting gains to offset underwriting losses in the Great Plains. As a result, many insured farmers have asked; "are my crop insurance premium dollars being sent to Texas, Kansas, North Dakota and other high risk states to cover underwriting losses?"

The answer clearly is no for most states. However, those 19 states with loss ratios under 1.0 have shifted tax revenues to the higher risk states. Illinois and Iowa farmers would have the best argument that their premium dollars have been used to pay losses in higher risk states. But one must remember seventeen years is still a very short time horizon to be measuring loss ratios. This is especially true in a state where one expects a low frequency of claim, like Iowa. A large single loss year of 4.65 that occurred in 1993 in Iowa required several years to recover the underwriting loss because Iowa has a low frequency of claims.

However, even within states there may be differences between irrigated versus dryland, or wheat versus corn. Therefore, one would not want to do an "across the board" rate change. The other issue is this may be an unusual weather trend that may reverse itself over the next five years.

If rates and underwriting are improving as some "experts" have argued then one would expect the loss ratio in high risk states to be lower for the most recent five year period than they were for the seventeen year period. That is true for Texas but not Kansas and North Dakota. The Texas loss ratio improved from 1.38 to 1.26 while Kansas and North Dakota generated larger underwriting losses. The Kansas loss ratio increased from 1.23 to 1.46 and North Dakota increased from 1.29 to 1.31. Weather can mess up anyone's rating model!

Choice Website

Elizabeth S. Spillmann
 Extension Associate-Risk Management
 Texas A&M University
www.grandin.com

Dr. Temple Grandin is an animal behaviorist and an Autistic woman who has overcome her disability to teach others what she understands about how animals learn and experience life.

Dr. Grandin teaches us that livestock, as well as other herding animals, learn by association, and that by slowly acclimating them to scary movements and noises while rewarding them for calm behavior, we can teach cattle to behave calmly in trucks, crowd pens and chutes. She also has created plans for curved chutes that keep cattle calmer while in line for treatment or slaughter. Any reduction in panic, fighting, and other stresses markedly improves meat quality and reduces the risk of injury to animals and handlers, ultimately saving time, money and resources.

Dr. Grandin also provides information on more effective herding techniques for moving cattle, and teaches handlers how to take advantage of the cattle's tendency toward anxiety while respecting an animal's "flight zone" to herd effectively while not causing panic in the group. She includes diagrams and other references for these and other handling techniques.

Dr. Grandin's website contains a menu outlining a broad scope of animal handling issues that any cattle owner might face, and focuses not on animal "rights," but rather the welfare of the live animal relating its comfort to a well-run operation and higher quality meat and by-products. She places emphasis on basic rules, for example that animals are calmer if they can see 2-3 body lengths ahead of themselves, which facilitates entry into the chute, and has done research on what methods of restraining and conveying animals are most effective and least stressful. Dr. Grandin even evaluates different kinds of non-slip flooring that can be used to increase line speed and reduce stress and accidents to humans and animals alike.

This insight has taught animal handlers new ways to reduce stress on animals, make handling and slaughtering them less dangerous and more efficient, and improve herd quality due to fewer injuries causing death or affecting meat quality, including dark cutters from stress in beef cattle, which cost \$6.08 per animal harvested in the United States as reported in the 1995 National Beef Quality Audit (Factors Contributing to the Incidence of Dark Cutting Beef; J. A. Scanga, K. E. Belk, J. D. Tatum, T. Grandin, and G. C. Smith, 1997).

Just like Master Marketers have learned to use unconventional or unfamiliar marketing techniques to improve their bottom lines for crops and livestock, Dr. Grandin shows us how applying proven behavioral techniques can improve our livestock business by improving herd welfare.

FARM Assistance Update

Jason Morris
 Extension Program Specialist-Risk Management
 Texas A&M University
FARM Assistance Update

After a brief absence from the South Texas region, FARM Assistance has reestablished its presence with the hiring of Mac Young in Corpus Christi. Mac has been tasked with working with producers to develop strategic financial analyses as well as communicating the applicability of the FARM Assistance program to individual production operations in the region. Aside from these duties, Mac will also support FARM Assistance's role in ADI, the "Lower Rio Grande Valley Agricultural Water Conservation Demonstration Initiative," which is a collaborative effort among Texas A&M University – Kingsville, Texas Cooperative Extension, Harlingen Irrigation District, and the Texas Water Development Board. Mac holds two degrees from Texas Tech University. He earned both a Bachelor of Science and a Master of Science in Agricultural Economics, and also brings extensive experience from the farm credit industry to our team.

We have also recently added Jeff Pate to the FARM Assistance team in Lubbock. Jeff will primarily support our participation in the Texas Alliance for Water Conservation (TAWC). TAWC is a sister initiative to the Rio Grande Valley's ADI. In this position, Jeff will be charged with working with project participants to determine the economic impacts (through the use of the FARM Assistance model) of conservation practices and technologies in the target area surrounding Lockney. Jeff is originally from Idalou, Texas and is a graduate of Texas Tech University where he earned both a Bachelor of Science and a Master of Education degree in Agricultural Education. Given his previous experience in agricultural production, lending, and education, we look forward to Jeff's valuable contributions to the FARM Assistance team.

Online Publications

The 2004 FARM Assistance Annual Report is now available for download from our website. This report provides a synopsis of the FARM Assistance program, its mission, and a glimpse into the program's findings as we have worked with producers from across the state. Those interested in obtaining a copy of this report should visit our website at <http://trmep.tamu.edu> and click on the "Reports" section to find the corresponding link.

Additionally, FARM Assistance will begin publishing a new informational series entitled "FARM Assistance Focus." These papers, which draw from the extensive FARM Assistance database, will seek to identify and analyze trends, impacts, and other relevant topics unique to Texas agriculture. As a result, readers should gain significant insight into the findings of the FARM Assistance program as well as keep abreast of meaningful changes in production agriculture throughout the state. This series will be available online soon and will be published on our website, <http://trmep.tamu.edu>, in the "Reports" section.



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