

Master Marketer Newsletter

<http://mastermarketer.tamu.edu>

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Master Marketer Highlights

Master Marketer Workshop in Lubbock

The Master Marketer program is headed to Lubbock for what is likely to be South Plains producers' last chance to participate in this outstanding program. The first session will be January 3-4, 2007. An optional leveling workshop is scheduled for January 2. Please be thinking of producers from your area who need to be a part of this opportunity. Call Jackie Smith at 806-746-6101 for additional information or to sign up. Registration brochures will be mailed out soon.

Personnel Management Course

The second Personnel Management Workshop will be offered in Lubbock on April 3-4, 2007. Because the Amarillo program was so successful, the Lubbock Personnel Management Workshop will likely have the same speakers. Registration information will be made available this coming fall. If you need help on hiring and retaining employees, dealing with a multicultural workforce, conflict resolution or legal issues, this workshop is for you. The speakers all have many years experience with a wide range of personnel management issues and are very effective communicators. Don't miss this workshop! Please call Jackie Smith at 806-746-6101 for additional details.

TTAP Continues

The second class of the Tomorrow's Top Agricultural Producers Program is between the second and third sessions. During this interim time, participating operations are closing their 2005 financial records, analyzing their production and financial performance for 2005, and having a Farm Assistance analysis completed on their 2005 records. They are completing these alongside the TTAP team members and the FARM Assistance team. The third session will be held in November in Dallas, Texas. By this time, the participants are expected to have their business plans completed up through the financial portion.

Advanced Topics Series (ATS)

The ATS workshops for the coming year are being planned as this newsletter is being compiled. Brochures will be mailed soon and the schedule of classes will be listed on the Master Marketer web site by mid-September. If you are on our e-mail list, look for an electronic brochure in your inbox in the coming weeks. If you would like to be added to our e-mail list, click the link on our website or e-mail ershaw@ag.tamu.edu.

Website Calendar of Events

The Master Marketer website now has a Calendar available, so you can plan ahead long-term for our upcoming programs. Visit our website and follow the Calendar link and save the dates!

Marketing Club Corner



Jackie Smith

Extension Economist
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Kelli Merritt: A Farmer, A Master Marketer, and Now A Broker

Kelli Merritt is a cotton farmer, a Master Marketer graduate class of 2003 and now a licensed commodity broker. She has been involved in farming her entire life and currently farms 1200 acres of dryland cotton, 360 acres of drip-irrigated cotton and 90 acres of drip-irrigated alfalfa in Dawson County.

In the last few years, Kelli has become very interested in trying to understand cotton marketing and why cotton farmers were just taking their cotton to the gin to receive a "pot luck" price for the product they spent all year pampering and putting money into. Kelli says that the more she blindly bought and sold calls or puts, the more she wanted to understand that aspect of farming. She was sure it was a much more sophisticated a process than it appeared on the surface. After watching the cotton markets for a few years, she trained to be an S&P day trader. Kelli enjoyed the challenges of trading and learned more about the psychology behind the markets. Kelli said the S&P trading proved to be a nice compliment to cotton marketing. It taught her to respect the markets, to go with the flow of the market, not to try to change the flow and to limit losses while maximizing the profitable trades.

Kelli read all she could find about the cotton market, read every newsletter available and attended every marketing class she heard about. As she attended the classes, she realized there was a small percentage of producers just like her that wanted to know more, but had little time to really throw themselves into learning all they needed to know. She observed that most farmers love the production side of farming, however, they only marketed because "they had to." But Kelli says she was, in fact, a farmer that farmed "because she had to," and her love was for the marketing.

Kelli is a graduate of the 2003 Master Marketer class held in Lubbock and has attended several of the ATS classes. In the summer of 2003, Kelli went to New York to participate in the NYBOT Mock Trading Session and the Ag Market Network Cotton Roundtable discussion sponsored by NYBOT, FiberMax, Cotton Inc. and the Ag Market Network.

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Guest Column



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Are Past Commodity Marketing Approaches Still Relevant?

Across Texas, and the broader South Plains, the potential for weather extremes determines so much of how farmers address production and price risks. Each year, farmers I know across this area strongly consider significant changes in planting intentions, crop insurance arrangements, marketing strategies, and a myriad of other factors. Significant year-to-year production changes are not as common in the mostly rotation-locked Midwest. The quick adaptation to changing soil moisture conditions, input costs structure, or market outlook could be considered advantageous. When it comes to managing prices received, however, knowing that production could vary considerably only adds to the challenge.

Many of my friends and customers in production agriculture have commented that it seems we are dealing with a ‘new’ market. Stakeholders in every industry have likely developed a respect for price volatility since energy prices began climbing in earnest in the spring of 2004. As stunned consumers began looking to agriculture for energy in the form of ethanol or biodiesel, commodity traders sensed that the comfortable stockpiles of grain could dramatically decline. The increased demand for corn and sorghum for ethanol, coupled with continued strong feeding and export demands, only exaggerate the normal weather induced summer price volatility. The recent declines in the nearby corn futures contracts and the correspondingly less than equal declines in the deferred years illustrate the point. Traders feel strongly that futures prices of most grain commodities could make new highs this winter. The fact that corn futures contracts in the deferred years remain near full carry would, for now, help support that idea.

In the past, farmers have used a varying blend of cash contracting, futures, options, crop insurance, and commodity loans to manage pricing decisions. The pronounced increase in the December 2006 contract over the first five months of this year had farmers, and traders of all types, wondering if we are headed for another 1995/6 situation. Even more amazing was the generous carry, and corresponding day-to-day increases, in both the December 2007 and December 2008 corn futures contracts. Across the South Plains, knowing bushels available for sale was becoming increasingly uncertain as well. With so many traders, and the media like never before, emphasizing growing demand and restricted production potential, a wait and see approach to selling seemed justified.

Hindsight easily suggests that using options would have been better than doing nothing. The real point to defend, however, is that any time the futures market indicates that prices received can exceed costs, using options should be considered.

Farmers often indicate to me that the use of options is the most expendable part of their marketing plan. As someone who manages all aspects of selling commodities for farmers across the South Plains, I feel that options have been a major source of strength when trying to set price floors in a disciplined way. Buying put options when our production potential starts running out of steam, and buying call options to ‘minimum price’ sales to address the possibility of a rising market is, of course, saying nothing new. But given the increased price volatility that we have seen recently, and the hype surrounding possible adverse weather and a changing demand outlook, one has to wonder whether the use of options by farmers will continue to play a role in their marketing plans. Will this time-proven price risk management tool be abandoned by farmers in favor of simply waiting on the market to always reward patience once actual bushels are revealed?

In my view, any difference in approach assuming we are in a new pricing era, has more to do with how aggressively one uses options than whether the practice is discontinued. While options have drawbacks, there’s no other tool that can address futures price uncertainty as well with a known risk premium. As weather was punching holes in the crop estimates this past spring, and the ‘funds’ were punching holes in the old pricing paradigms, the use of options was again validated. One only has to look at the past year of futures price charts for corn, wheat, rice, cattle, heating oil or sugar to understand that this discussion could encompass a wide array of commodities. The world’s consumers are definitely taking demand to levels not seen. My experience suggests that farmers should stay grounded in a conservative plan executed with discipline. I also feel that, as in the past, protecting downside price risks during volatile price environments is best accomplished when the conservative use of options is included in the marketing plan— especially when farming in the sometimes arid South Plains climate.

(John is founder and President of Southwest Ag Consulting, Inc, a provider of individualized price risk management plans. His main office is located near College Station. More information can be found on his website at www.agconsult.net)

Choice Website

Elizabeth Spillmann

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Farmdoc: Decision Outreach Central

www.farmdoc.uiuc.edu

The farmdoc website is run by the Department of Agricultural and Consumer Economics at the University of Illinois. The goal of the farmdoc (farm decision outreach central) project is to improve farm decision-making under risk through education and research. To meet this goal, the farmdoc website provides farmers with comprehensive and integrated risk management information and analysis. While the information is targeted towards Illinois producers, much of the information and tools are applicable to Texas.

Publications, decision tools and databases related to a variety of risk management issues are found throughout the site. Subject matter sections cover finance, marketing and outlook, management, law and taxation, and policy. Specialty sections are devoted to AgMAS (Agricultural Market Advisory Services), a continuing research project studying the marketing advice of various marketing advisory firms. Other information on farmdoc includes crop insurance, farmland owners, prices and weather, and agricultural web resources.

Although farmdoc operates out of Illinois, it has volumes of valuable farm-related information, and many decision modules that are applicable to most states. Clicking on the “FAST Tools” button yields downloadable simulators, calculators, and spreadsheets for all kinds of financial analysis, investment analysis, loan analysis, and farm management tools. A subscription to FAST Tools is also available for timely updates of new items.

The website contains many articles, press releases, and current events in agribusiness, outlook and market advisory information. Some of this information is regional to the Midwest but most of it is widely applicable and timely. “Links” under Finance provides additional links to other financial websites you might find helpful.

Farmdoc has a wealth of financial information and is another great informational site to visit for some valuable calculator tools, grain outlook information, and financial assistance with your management decisions.

Marketing Club Corner, continued:

In 2004, she went to Chicago with other Master Marketer graduates on a trip led by Rob Borchardt and Blake Bennett to visit the CME, CBOT and the Futures Trading Commission.



Kelli Merritt during the Mock Trading Session at the New York Board of Trade

Kelli states that each trip and each class showed her how much she wanted to be a part of that segment of farming and investing. Earlier this year, she joined Pat McClatchy’s firm, Rosenthal Collins Group, LLC, as a licensed commodity broker. Pat is a veteran broker and Kelli is making an effort to learn from him and gain expertise in helping farmers hedge their crops.

Kelli stresses that she still remembers the overwhelming feeling of going to her first hedging seminar and thinking “this is a great idea, but where do I start?” She still remembers buying puts or calls and not having a clue what was going on. She knows what it is like to be overwhelmed by not knowing where or whom to ask questions. Kelli said, “I also know what it’s like to put every last penny into the farm, ‘hoping’ that I can pay out at the end of the year. And I understand not knowing where to begin.”

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If you would like to receive this newsletter by email, or have any other questions about the Master Marketer system, please write Elizabeth Spillmann at ershaw@ag.tamu.edu.

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