

# Master Marketer Newsletter

<http://agecoext.tamu.edu/marketer/list.htm>

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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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### Master Marketer Program Coming Back to Lubbock

In January and February of 2000, the second Lubbock Master Marketer workshop will be held at the Four Points Sheraton Hotel. The program was last offered in Lubbock during 1997. Attendance will be restricted to 60. The coordinator for the Lubbock 2000 session will be Jackie Smith (806-746-6101). Two leveling workshops are planned for the Lubbock participants. The leveling workshops will be one-day programs to help Master Marketer participants prepare for the rigorous coverage of futures and options during the regular training sessions. Leveling workshops have been scheduled for December 10, 1999 and January 11, 2000. The dates for the Lubbock Master Marketer Program are:

January 12-13 and 26-27, 2000

February 9-10 and 23-24, 2000

Anyone interested in the program should contact their county agent. Registration will begin September 1 and can only be done through your county agent until October 1. There is a high level of interest in the program and it is expected to fill up early this Fall. Preference will be given to producers in the Lubbock area.

### Technical Analysis Workshop in Abilene

On October 5, Alan Brugler, Technical Analyst for DTN, will present a program on interpreting price charts. The program will be held in the Taylor County Extension meeting room. Brugler, who provides daily charting information for DTN subscribers, will conduct a 9:00 AM to 3:00 PM technical analysis workshop for anyone interested in learning how to use future market price charts to help anticipate price movements. Brugler will discuss the use of trend lines, moving averages, support lines, corrections and other charting tools that can be used by producers to decide when to pull the trigger on any pricing strategy. The registration fee will be \$10.00 if mailed by October 1 or \$20.00 at the door. Please call Taylor County Extension Agent Gary Bomar at 915-672-6048 if you would like to attend.

Many producers expect commodity prices to be influenced only by supply and demand factors (fundamental analysis.) However, to have a complete understanding of the futures markets, they must also gain insight into how to obtain important information from studying the price charts (technical analysis). Because so much trading is done based solely on the study of the charts, it can be of great benefit, especially in the short run, to a producer who is trying to decide when to price his crop. In addition, Mr. Brugler will discuss terminology and concepts that will help producers be better prepared to read reports written by market analysts.

It is best to start out with basic tools you understand and apply them with discipline. The decision of "when" to price is of key importance in effective price risk management. In the long run, the market will reflect the supply-demand balance for a particular commodity. But the available information on supply and demand is not perfect and is subject to interpretation by traders with varying degrees of expertise. The result is a tendency for certain patterns to develop on the charts that can be used to anticipate price movements. The objective of this workshop is to introduce and demonstrate basic technical tools to be used in an effective price risk management program.

### URGENT: Lubbock 97 Master Marketers Please Send in your Surveys!

In July, the 1997 Lubbock Master Marketers were mailed an evaluation survey to be filled out and sent in to measure the success of the program and make needed improvements. If you have not received a survey, please call Jackie Smith at 806-746-6101. If you have the survey, please mail it back in the envelope provided, otherwise Jackie will soon be contacting you by phone. It is very important that all these surveys be returned even if you have negative comments.

## Guest Column

Carl G. Anderson, Professor &  
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### Cotton Stocks Large

The first field survey of 1999 cotton production in August was estimated at a surprisingly low 18.3 million bales of all cotton. Yet, this stands at 4.4 million more than the 13.9 million bales last year. Because of sluggish domestic consumption and exports, carryover stocks next August look plentiful at 5.7 million. That is up 2 million bales from a year earlier.

Despite the likelihood of a big 1999 crop since the fall of 1998, producers had forward contracted only 5 percent of the U.S. crop by August 1, the least since the low 49-cent per pound market in 1992. In Texas, the contracted acreage is much less at 2 percent. Thus, the Commodity Credit Corporation (CCC) loan will remain an important marketing alternative this season for producers.

However, low prices as much as a year ahead of harvest should not discourage producers from implementing a marketing plan to forward price future production. The lower price indicates that the market expects a big crop and depressed prices the next season. Too, option premiums are often priced favorably a year or more ahead of contract expiration. For example, a December '99 put, 2 cents out-of-the-money, with a 66-cent strike on November 13, 1998, cost 2.08 cents. The value of that put on July 15, 1999 was 16.08 cents for a net of 14 cents, or about \$70 per bale. With the price for base grade cotton around 42 cents, plus 14 cents from the put option, and around 12 cents from the loan deficiency payment, the total value reaches 68 cents. This is an example of how puts can be used as effective price insurance.

Since mid 1998, the cotton market for December '99 futures has been expecting a "big" crop and substantially larger U.S. supplies. First of all, producers should recognize that the price at harvest will likely be different than around planting time. Most of the time the harvest price will be lower.

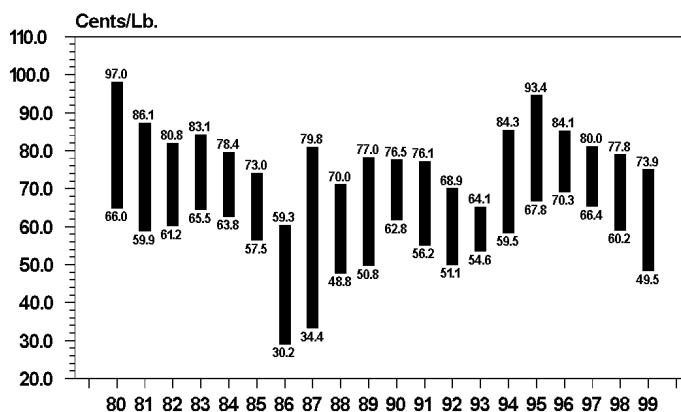
Seasonal price variations exist and fluctuate according to the overall supply/demand balance. Settlement prices for December futures in the last five years have varied from a low of 49.5 cents per pound for the 1999 contract to a high of 93.4 cents for the December 1995 contract. The average contract variation has been 19 cents per pound, or \$95 per bale.

In years like this season when crop supply is abundant, prices tend to be weak early before harvest and strengthen

toward the end of the season. Thus, buying out-of-the-money calls on March, May or July '00 for about 2 cents will give producers the benefit of a potential price increase later in the season without facing the risk of holding cotton.

Markets are not going to give you anything if you do not take action to implement your marketing plan. Don't try to pick market peaks or bottoms. Space pricing points over time. Learn the key technical signals and use moving averages to help identify price trends. Discipline to follow a year-round marketing plan helps to overcome the emotions of fear, greed and panic.

**New York Cotton Futures High & Low  
Settlement Prices, December Contracts, 1980 - 1999**



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## Teleconference Network

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The teleconference network is a series of once-a-month meetings featuring comments by the most respected market analysts. Marketing clubs call in on toll free lines to participate in the conference calls. Contact Jackie Smith at 806-746-6101 or Carl Anderson at 409-845-8011 if your marketing club would like to participate. The teleconference dates for the rest of 1999 are:

September 14                      October 12  
November 12  
December 14 (from New York Cotton Exchange)

The conference call for December will originate from the floor of the New York Cotton Exchange and marketing club members will be invited to come to New York for a series of educational events hosted by the Exchange.

**A reminder:** to continue to be allowed access to the toll free line, marketing clubs must send in a roster of participants for each teleconference session.

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## Focus Group Meeting in San Antonio

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On September 30, a focus group meeting will be held in San Antonio to explore the possibilities of a Master Marketer type program for lenders. Several lenders from all over the state have been invited to provide input on need for the program and how the agenda might be changed for lenders. Several of the focus group participants are lenders who are also Master Marketer graduates.

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## Texas Risk Management Education Program Update

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Defining the target destination for you farm/ranch business 5-10 years into the future is a good way to ensure the business doesn't drift in a direction that is inconsistent with your vision for the business. The destination is where you want your business to be in terms of financial position (equity, profit, cash flow), cost efficiency, production, marketing, size, etc. Just as important is outlining a road map of how the business is going to get to the target destination. This is referred to as strategic planning. The road map may consist of short-term goals and rewards for achieving those goals. With your destination and road map in hand, the next step is implementation of the plan, setting in motion the strategies to achieve the destination. Frequent evaluations of results of the strategy will identify any problems while there is still time to correct them.

It's a good idea to review and update your strategic plan at least once a year. Your long-term goals may change as

well as business cost structure, market conditions, and supply and demand forces.

Risk is an important component of any strategic plan. Understanding the risks (and rewards) associated with the strategies you are considering can greatly increase your chance of making the best decision. This is what the Extension Service's FARM Assistance program is all about- evaluating the financial and risk implications of alternative strategic plans before they are implemented.

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## Inside the Texas Agricultural Extension Service

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### Role of AFPC in Policy Development

Created by Texas A&M's Board of Regents in 1983, the main thrust of the Agriculture and Food Policy Center (AFPC) involves analyzing the impacts of changes in agriculture policy. Most of its analyses are requested by the Agriculture Committees of the congress, from which it receives annual appropriations. AFPC does not make recommendations. It analyzes impacts and gives the policy makers latitude to interpret its relevance and implications.

The strength of the AFPC research and extension program involves the farm level impacts of program changes. A baseline is developed annually which projects farm prices up to 10 years in the future. The baseline is developed jointly with AFPC counterparts at the University of Missouri and Iowa State University. Policy changes are analyzed against this baseline utilizing up to 100 representative farms. Each of AFPC's representative farms is defined and developed with the consensus assistance of a panel of 5-7 producers. Therefore, AFPC's program involves the active participation of over 500 farmers and ranchers from major production areas across the United States. When the 1996 Farm Bill was being debated, AFPC did 21 analyses of policy proposals requested by the Agriculture Committees. The key faculty members in AFPC include:

- # Ron Knutson, who directs the Center programs, spends most of his time in Washington, D.C. and on the road explaining results and coordinating the planning of future studies.
- # James Richardson, who developed AFPC's concept of farm level policy analysis.
- # Ed Smith, who works closely with Richardson in framing options for analysis, evaluating results, and communicating with Congressional offices as well as with Texas farmer and rancher constituents.
- # David Anderson, who is an extension economist who serves as a focal point for livestock, dairy, and poultry representative farm program development and analyses.
- # Joe Outlaw, who serves as a liaison between the FARM Assistance project and AFPC.

Several other Agriculture Economics Department faculty members are called on to assist AFPC in developing the baseline, developing representative farms, and completing the analyses.

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## **The Choice Web Site**

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[www.machinefinder.com](http://www.machinefinder.com)

This quarters featured website is machinefinder.com. This site is a very functional world-wide database of farm machinery listed for sale. The site is hosted by John Deere and has several features that make it very useful for anyone looking to buy or price farm machinery. Users are required to create an account by filling out a form and providing a user name and password. The account is free of charge and gives the user instant access to all types of machinery. Once an account is set up, users can search the database by manufacturer, year, category and model. The search returns a listing of equipment and contact information. Each piece of machinery can be viewed individually along with specific machine details. Two useful features are the “alert service” and the “machine shed”.

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