FARMER TO FARMER
$EASONAL $TRATEGIES NEWSLETTER

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Phone and Fax 402-298-**8570** email roy@soyroy.com March 2015

Calendar

March 6, Friday 7:00 A.M. Mom's Café, Plattsmouth NE.
April 1, Wednesday, Watch your e-mail for details on a pending meeting in Ontario

SEASONAL TRENDS AT A GLANCE

The segment of the newsletter was written before the trip to Phoenix for Commodity Classic. Therefore it is general in nature. One of the most usable features of my seasonal strategies workshops is a feature I call "Always / Never Strategies". Many in the marketing business subscribe to the theory that nothing is for sure in marketing. I agree to that premise up to a point. In doing so I will point out why there are some things in marketing that are close enough to following an exact pattern that strategies based on these patterns can be relied on to be profitable marketing moves.

The first "always" rule says to sell corn on May 1. This can be either old crop from the previous year or anticipated production from the crop that is being planted at the time. Sales at that time have a 70 to 80 percent probability of being at a higher level than at harvest. This strategy takes advantage of the principle of risk premium. In most years the price is bid up around planting time anticipating some kind of a future production problem. However, this anticipated problem does not usually take place. Taking advantage of this rally makes a lot of economic sense. The production problem does not normally materialize. However, the possibility is high enough that most marketers are not comfortable in selling a large percentage of the crop at that time. Marketers must evaluate the probability of reduced yields and their ability to survive the economic consequences when deciding how much of the crop to sell at this time. Obviously rainfall and irrigation practices play a big part in this decision.

The second rule is "never hold unpriced corn after July 10." This is a corollary to the first rule. If the odds are good for a rally in April or May, prices will eventually come down from those highs. The best odds for that price retreat come at or shortly after the July 4 holiday weekend. Adding to the reliability of this strategy is the fact that storage and interest costs continue to reduce the net income the longer the time between production and sale. If the crop is held into July and the price does not go up, the accumulated storage costs reduce the net returns from the sale.

Third, "**always sell soybeans on September 9**". The rationale for this strategy is more complicated. There is usually a spring rally and a summer weather rally in the soybean market. The last remaining part of the previous year's crop should have been made from storage at those times. There is usually a period of low prices at the end of July or in the month of August. This is followed by a rally as the time approaches for the September government crop report. As this rally the first week of September materializes, odds are almost sure to drop after the report is released. Farmers have a good idea by September of how good their crop is that will be harvested in less than a month. Sales can be made based on an estimate of their final production without the fear of losing a crop to drought or other production problems.

The fourth always/never strategy is to track the futures price and cash price from September 1 through December 31. Base sales on a rally of at least 35 cents and three weeks above the harvest low. That event usually comes very close to October 1. Tracking this "dead cat bounce" is more complicated than simply setting a target price or a date on the calendar. The upside of this strategy is that there has been a bounce of this magnitude every year for the last 25 years. There are other factors that make this strategy a tool favored by many farmers. The income comes at an opportune time near the end of the year for tax planning purposes. The sales come after harvest so there is no production risk. There is very little storage or interest costs because of the proximity of the end of harvest. The down side is that there are no hard and fast rules to determine the exact day to sell. Potential price appreciation runs all the way from 35 cents in low price years to over a dollar and a half in extremely high price years. I can live with those factors!

Finally, "never sell soybeans in February". Several years ago I had a conversation with an advisor from one of the large marketing firms. He had recommended a large short position in November soybean futures. His rationale was that some of the market indicators were negative in their assessment of the soybean market. My reaction was that soybeans should never be sold in February because the top of the market has never been in February. He was not impressed with my analysis and told me in certain terms that he was the expert, not me. When I challenged him to find a year when soybean prices went down from the February level he was unable to do so. If prices rally in February, the opportunity for even better prices in March and April are almost 100%. The fact is that soybean prices <u>can go down</u> in March and April. They just have not done so in the recent past. To say that prices always go up is stretching the truth. It is a good bet that sales made in February will look wrong by planting time. In years when the fundamentals are negative the biggest part of the spring rally may last only three or four weeks. In other years is lasts much longer.

There is no silver bullet in marketing. However these strategies will improve your odds by basing market moves on historic trends. I have used them on my own farm since the early 1980's. I update them every year. I back test them occasionally by returning to the beginning and testing a 10 year period from the early days to five or ten recent years to see if the trends have changed. Charts of numerous comparisons are available on my website, www.soyroy.com/Charts and Graphs. In addition, I trade a small speculative account to see how they function when real money is at stake. I have described the results of that speculation in previous newsletters. Suffice it to say that the trial has been very successful in 2014 and 2015. I hope that the "always/never" marketing has helps you with your marketing. I am always available to answer questions. The best way to contact me is by e-mail. Cell phones are a good second choice. **Good Luck !**

CURRENT POSITIONS: I have no positions in corn. My bins are full of 2014 corn that is not priced. The small quantity that was on commercial storage was sold for $3.59 on January 5. I am looking at the Month of April to sell most of my old crop corn. I made the first sale of new crop beans on August 8. The cash price delivered to Midwest Co-op was $10.03. So far I have made sales of three additional increments. The first was at $8.97 or 62 cents over the harvest low. The second was at $9.35, exactly a dollar over the harvest low. The third was on October 31. The price was $9.50 or $1.15 over the harvest low. These sales eliminated any commercial storage cost which would have started the day following the last sale. These sales leave me with approximately 20 percent of my 2014 crop to store until spring to test whether the seasonal strategy of holding into spring is a new trend or if it is unusual action unique to recent years. Selling prior to my "drop dead date" of December 31 looks good after the hard drop in prices in January.

In the spec account, I sold May soybeans on January 5 for $10.51. I bought them back on February 13 for $9.95 for a realized profit of $.56. Also on February 13 I went long July futures for $9.99. At the current price of $10.19 I have a profit of $.20 on the most recent trade.

POST SCRIPT: We arrived home from Phoenix late Sunday night. Commodity Classic was a huge meeting with 7000-8000 farmers and other ag professionals in attendance. Emphasis was heavily oriented to all of the new technologies available for crop production. I wonder if farming is becoming focused on the operation of the new stuff and not enough on making it pay. As I become further distanced from the actual production side, I marvel at the innovations of those farmers who are taking my place in the field. I go to Commodity Classic mainly to visit with other farmers, both current and retired. I get my motivation from them, not from the new paint-or maybe I should say new DNA!

Prices as of the close of trade on March 2, 2015. Cash bids from Midwest Farmers Coop bid sheet.

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LISTEN TO ROY on radio 840AM, KTIC from West Point, NE every Friday at 9:20 AM. **The broadcast is available on my website for those who are outside the listening area.** Also, catch Market Journal Saturdays from 7:00 A.M. to 7:30 A.M. on Nebraska Educational Television or on the website, http://marketjournal.unl.edu. It is also on Dish Network, Channel 9411 on Friday at 12:30 P.M. and Sunday at 9:30 P.M. CST.

Check my home page at soyroy.com for my calendar, historic charts and writing on non-marketing topics.

This information is assumed correct. However, it may contain opinions of the author. Individuals who make marketing decisions are responsible for their own success. The author does not recommend any specific action in the futures or cash market

Note: If you are interested in an annual subscription to Roy's e-newsletter, contact:

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