Farmer's Corner

Stickney Coop Elevator

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July/August 2013 Number 4

Balancing Your Grain Portfolio

In the world of investing, any collection of financial assets held by an investor is referred to as a portfolio. Most of us likely don't see ourselves as highly involved in this realm of financial investing, but if you've put money into an IRA or 401k, or you've invested in any type of mutual fund, you've got a portfolio!

These accounts typically give you the opportunity to invest in stocks, bonds and cash equivalents, which vary greatly in risk to reward ratio. It is your responsibility to spread your risk among different investment options in the way that suits your goals and risk tolerance best. There are seemingly limitless choices of investments within each of these categories. For the casual investor, the task of directing these funds can seem daunting.

Most of us don't possess the time or resources to independently research the sea of investment opportunities, opting instead for funds researched and pre-packaged by investment companies. While there are still choices to be made, these pre-packaged mutual funds greatly simplify things for the casual investor. Funds within each category have different classifications which provide you with information about the risk to reward ratio for each choice.

Most investment companies will help you even further in this decision making process by making recommendations for investments based on your answers to a series of questions about your goals and your feelings toward investing. These questions are written for the purpose of finding three general pieces of information pertaining to the investor:

1. **Investment objectives** – *What are your goals?*
2. **Time frame of investment** – *How soon do you need to reach your goals?*
3. **Risk tolerance** – *Are you more interested in preserving capital or having the opportunity for the greatest return in spite of risk?*

With this information they will make a recommendation that best suits your overall plan and allows you to be comfortable with the level of risk involved.

The obvious question here is; what does all this have to do with marketing grain? Great question, let's cut to the chase!

Though we likely do not think of the farming business in these terms, those of us involved in it are making investments each year into a grain portfolio. Applying the questions above to the way we direct our grain investments once they are made gives us a useful way to look at marketing.

Any type of investment should be based on a well thought out plan, and your grain portfolio is no exception. There are two basic parts to a grain marketing plan, the first one being very detailed and including all the appropriate expenses, yield projections, and the role of a crop insurance policy. These are all very scientific things that we know to be factual or projections based on history. The other part is where it starts to get tricky. Once the cost of producing a crop is established, making the decision about how much revenue in excess of these costs is acceptable tends to be the most difficult part of the process. Doing this means that we will have to make some decisions about how to strike a balance between maximizing profit and minimizing risk. A lack of balance in your grain marketing portfolio will likely lead to undue stress and /or dissatisfaction with your marketing results.

Let's explore the idea of balance further. In the recent past, revenue available by selling any crop at any given time has exceeded cost of production and provided some amount of return on investment. Due to the extreme volatility of our marketplace, the amount of that return on investment has had quite a range. We have seen prices that return very little revenue in excess of costs to profits of more than $500 per acre in some crops. With the potential for profit so high, settling for less than a huge number is not easy. Yet, passing up profit somewhere in the middle of the range could result in taking even less and opens the door for potential loss. The key to successful marketing (both financially and psychologically) is finding the right balance of profit, peace of mind and how much to leave un-priced to sell in case of a rally.

This is something you will need to consider for yourself and come up with the right formula. For those more averse to risk, the answer is probably to sell a substantial percentage of expected production prior to harvest at an average or better than average profit (available at time of print) in conjunction with a crop insurance policy. For the producer that has the means and intestinal fortitude for high risk it might mean remaining un-priced through harvest and several months beyond. Most of us probably fall somewhere in between and would be most comfortable with our proverbial eggs in a few different baskets involving multiple pricing points which are established prior to harvest and leaving a percentage un-priced at least until harvest.

There is a balance that is right for you! While it is impossible to know the future, there is a plan that will offer you success and peace of mind! To achieve this, we must be very deliberate in a marketing plan and find this balance by being honest with ourselves in contemplating these questions. These questions are submitted again without comment for your consideration:

1. **What are your goals?**

2. **How soon do you need to reach your goals?**

3. **Are you more interested in preserving capital or having the opportunity for the greatest return in spite of risk?**

We would love to have the opportunity to discuss this with you further!
Call us or stop in to discuss your grain portfolio today!