



SELLING MULTIPLE CROPS

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Selling the Crop for Multiple Years

These 13 thoughts are provided for those who may be considering selling large amounts of crops for Multiple years into the future.

1st – **Match crop year with the marketing year if pricing beyond the current crop year. Do not hedge the crop for one year in another marketing year.** This is a dangerous practice that caused massive HTA problems in 1995-1996 when the inverted market didn't allow rolls to the out years without a large financial penalty. We would suggest being willing to accept a slightly lower price for years further out as a much safer alternative.

2nd – If hedging using the futures, know your financial ability to withstand your hedge position if market moves against you beyond what you think possible. We have had bankers ask their farmer customers to find a new lender after large margin calls have been met and this was done during the month of August in 2008 by the bank giving only 30 days notice.

3rd – Consider using elevator HTA for the nearby year and hedging on the CBOT for the further out years. This preserves capital and also allows you to manage the out years positions. For example, you could potentially lift the hedge if the market drops to a significantly lower price.

4th – Understand how basis and carry can impact getting a price fixed for the crop and date for delivery.

5th – Have your land under control, either through ownership or under lease. Do not assume that family or others will continue to rent you land for years not under lease.

6th – Know your costs and control those that you can. Lock in fertilizer if possible for the next year and look at what is available to do for beyond the next crop year. Spreading P&K a year early may be a way to accomplish price control, however, you may then need to evaluate your soybean variety selection for planting into high fertility soils.

7th – Do a sensitivity analysis to help you understand what the financial implications are for you as you consider sales.

8th – Be open to using put options or put option spreads on a portion of that crop that you wish to place a floor price on or call options or call spreads.

9th – This type of demand driven market is new territory and is likely to be much more volatile for years to come. For the 3rd year in a row it appears that we have a demand equal to or greater than what we have been able to produce and this is with the 3 of the 4 highest national corn yields ever. A hiccup resulting lower in production could change the game in ways we don't foresee.

10th – Consider a Crop Insurance Umbrella policy that works with your Multi-Peril Policy to insure 2 years worth of crop. Not all company's offer this product and it requires that the company write BOTH the Multi-Peril Yield or Revenue Policy and Umbrella policy. We would suggest that you take a serious look at this type of plan if selling for 2-3 years at a time as it offers some interesting flexibility. Contact us for details.

11th – Be willing to live with your decisions. Understand that it is very likely that at some point a producer can have decision remorse that could impact your other decisions.

12th – Continue to use others as sounding boards as you go through the decision process. Some of my best clients have a large base of sounding boards.

13th – Follow through with the financial analysis of your decisions. This practice both reaffirms what and why the decisions were made and often helps to clear the head of decision remorse that can lead to paralysis down the road.

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