

Capturing Marketing Opportunities

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Production vs. Marketing

- ▶ American Farmers are the best producers in the world
- ▶ Historically, the majority of American Farmers sell in the bottom 1/3 of prices that were available to them during the year
- ▶ Some of your best marketing opportunities come well before you even plant the crops let alone before you get it in the bin

In 2012 you will face extraordinary risk

- ▶ Land prices/cash rent are very high
- ▶ Input costs are high: chemicals, seed, water, land etc.
- ▶ Local basis is tight

You can't afford to pay high inputs and then sell crops at cheap prices

Managing your risk by becoming better marketers will be critical to maintaining profit margins

Current Supply and Demand Issues

- ▶ Carryouts for corn, wheat, and soybeans are ample
- ▶ U.S. Soybean carryout is not burdensome, but Brazilian production will add to the carryouts
- ▶ Producers have stored most of the 2011 corn and soybean crop

How can you become a better marketer?

1. Spend more time on marketing by developing a marketing plan
2. Combine effective crop insurance (RA, CRC, Grip) with your marketing plan
3. Use options to manage risk
 - a. We buy put options to protect unsold bushels
 - b. We buy call options to replace the grain we have sold
4. Don't become a speculator

5 Rules to being a Better Marketer

- ▶ 1. Spend more time on marketing
- ▶ 2. Quit Making excuses
- ▶ 3. Don't get emotional, stay focused.
- ▶ 4. Be willing to sell cash grain.
- ▶ 5. Develop a consistent plan and follow it.

Use Options to Manage Risk

- ▶ Options are a relatively new tool. They were not available until the early 1980's.
- ▶ They give you advantages that other marketing techniques do not.
- ▶ You do not ever have a margin call.
- ▶ Your only money at risk is what the premium and commission plus fees are.

Learning about 'put' options...

- ▶ 'Puts' are used to lock in a floor. You pay a premium to set a minimum selling price at a specific time in the future.
- ▶ It gives the buyer of the put the right but not the obligation to sell a particular futures contract at a specified price during the life of the option.
- ▶ A put can be thought of as an Insurance Policy, it protects you if prices go lower but it allows you to "walk away" if prices go higher.

Learning about 'call' options...

- ▶ 'Calls' are used to take advantage of expected higher prices.
- ▶ A call option gives the buyer the right but not the obligation to buy a particular futures contract (go long) at a specific price during the life of the option.

Benefits of using a 'call'...

- ▶ Gives you the courage to sell your cash grain at whatever the price
- ▶ Keeps you "in the game" so you can take advantage of potential upward price movements.
- ▶ You can sell your grain and use the funds to
- ▶ Make your annual loan payments
- ▶ Stop any storage costs
- ▶ Reduces your interest costs

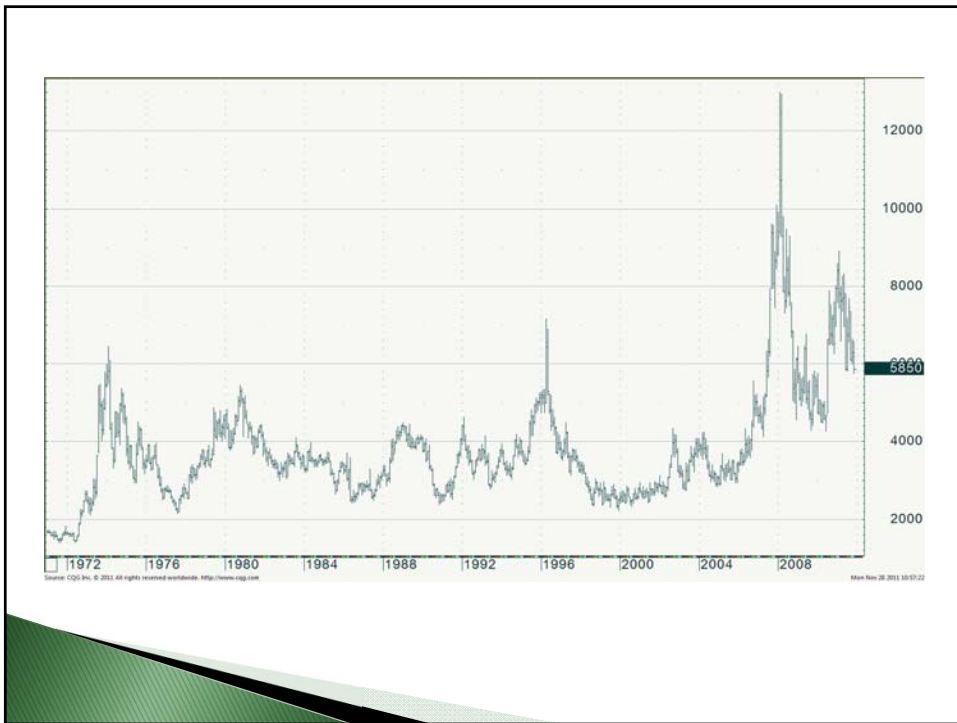
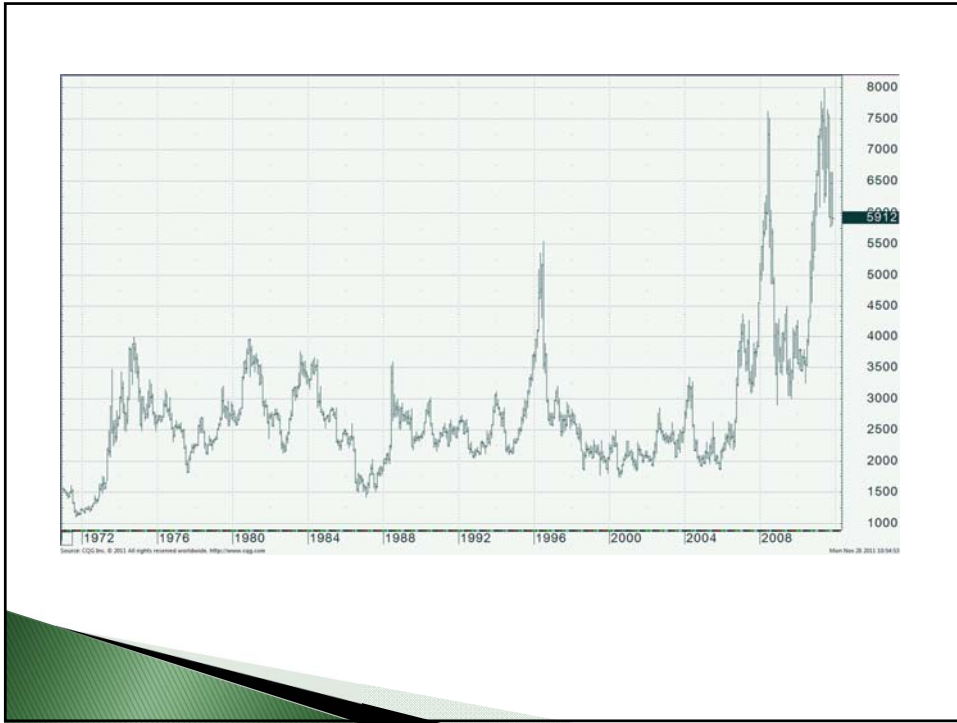
Disadvantages of Using Options

- ▶ Up to 85 % of all options expire worthless. In reality you really want your Put to expire worthless. That means you were able to get a higher cash price.
- ▶ There may also be times where the market becomes stagnant and there is not enough price movement where you can gain an advantage with options. That of course is a scenario where there is not Market Volatility.

The Number One Factor in Determining If An Option Has Worth:

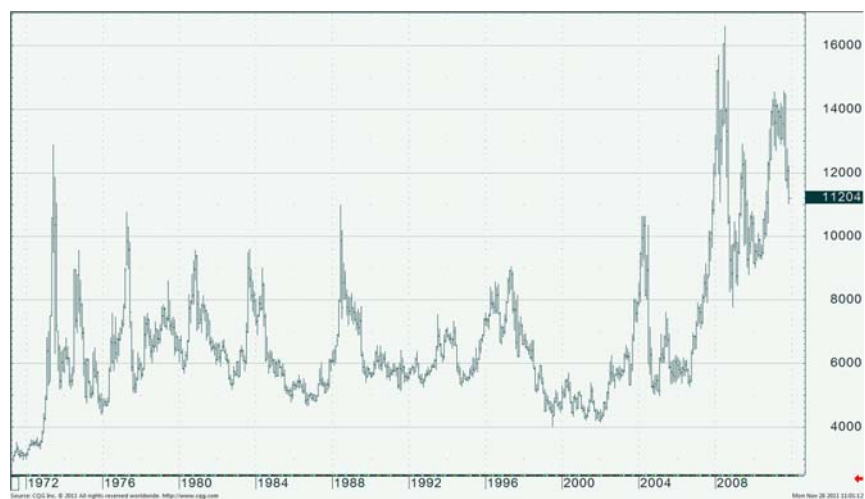
Where are prices historically?

The Upper Third
The Middle Third
The Lower Third



What have we learned?

- ▶ Take Control
- ▶ Be pro-active not reactive
- ▶ Put a plan in writing
- ▶ Follow your plan not your emotions



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