



Back to the Future for Risk Management
Top Producer
January 22nd 2015 Chicago, IL by Dave Fogel



The message I hope to deliver today:
To explain the road we have been traveling on price and the emotional and philosophical traps that develop in managing risk.

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There used to be a day when many country elevators did not hedge



Today, nearly every elevator is a hedger. In fact, many states have laws requiring hedging the elevator's risk.



I believe we will see the same type of transition happen to the farm community



Have you ever asked:
Why was corn higher today?
Or
Why are soybeans down today?

If so, you are focusing on the wrong thing

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The number one questions on risk management that doesn't get asked is:



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Once you accept and believe price is **not** predictable, then you can become an effective marketer.

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There are many smart people in our industry
Learn how the fundamentals have put price where it is today from them
Do not expect a crystal ball

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Many believe (or want to believe) ag industry people that have the ability to predict price.
If someone suggests they can predict price, ask them for copies of their last 10 years of trading statements.



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Every year there are events that impact price for commodities you grow or raise. However, it's those events we don't know yet that impact price going forward.
These cannot be predicted

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It's not about predicting;
It's about PROTECTING



This was on the Ag Message Board in Oct '14:

"Bought some December \$3.30 Corn puts today at 6 ¾. I thought it would be a good short term hedge-was talked out of it by my broker. He said the risk/reward was not good enough."



One of the corollaries of Murphy's Law in Business is:

The more profits you make, the less likely you are to hear bad things.



At a recent meeting, the question was asked whether the market understands we are at or near break-even prices.

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Well...

The market may or may not be aware, but it is not a factor if you expect it to increase price.

Does the market react because the end user side/ethanol/plants/livestock/feeders were under pressure with high grain prices?

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Are we heading to an environment where price is not above break-even all year?

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Is it possible, the grain producer may have to grind out a profit/may not be profitable all year?

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It is to be expected, but when we experience high prices, it is very difficult to adjust to managing price at lower levels.

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Here is why it's difficult to adjust to lower price levels.

Imagine you owned a house and it is worth \$800,000

And today, your house is worth \$350,000

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We've had 5 years or so when prices seemed to bail-out those with unsold bushels.



Human beings require very little guidance to support the things they want to believe



Though it is difficult, the best marketers act as though they have no idea what price has done previously.



Solid marketers are also skilled at blocking out "the noise"



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The best Risk Managers
live in a cave

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As a grower, its okay to root for
higher prices as long as downside
risk is managed.
There is risk of getting too bearish.

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Marketing by knee-jerk reaction
does not work

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Marketing is Reactionary:
It always has been, however,
increased volatility has made this a
big problem

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Volatility is an Opportunity

Everyone should welcome
volatility

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For many, marketing has turned into
procrastinating due to adverse weather concerns.

Is this a sustainable plan?



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There is nothing to be gained by disputing government/USDA numbers.

There is, however, much to be gained by:

- learning
- managing risk
- being in control

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At the end of the day, price is determined by supply and demand.



So...if USDA is too high on acres or the crop isn't as good as implied, price will respond as it looks at demand/final carryout.

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Keys to Managing Risk

- Understanding How Marketing Tools work
- Crop Insurance
- Cash Markets/Sales

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You have heard, even before today, about the importance of having a marketing plan.

However, in order to build a solid marketing plan, you must understand all the marketing tools and alternatives.

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Any strategy/risk management plan should be simple enough that it can be explained and understood in a typical conversation.



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Marketing Opportunities

- Do nothing
- Forward Cash Sales
- Futures
- Options

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Options Fit Farmers For Price Risk Management

Those who say options do not work either have limited experience with them or have not managed them properly.



Do you want to risk a long premium, a fixed amount or give away hard earned equity?



Options need a second look if you aren't using them or have a negative impression of them.

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The emotional or psychological part of marketing is real.

Options control Emotions.




Control is key to price risk management.

Options provide control.

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Good risk management does not only help with **shielding** any adversity or catastrophe, it is also **maximizes** the **benefits** during the times when price is good!



Crop insurance is one of the
3 keys to managing risk.

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Crop insurance is a very
important part of your plan.

Adding Crop Insurance to a
well-designed marketing
plan is a great way to
manage risk.

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**Crop Insurance Has Tremendous Benefits but it
Needs to Be Blended with a Marketing Plan**

- What do you plan to do prior to when the
crop insurance average is set?
- What do you plan to do when/if prices rise
above average price level?
- Lastly, what will you do after 2nd averaging
period ends? Typically harvest/post harvest
time period?

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Understanding how cash grain fits
into marketing is a key component-
Store? Sell?



- We may be seeing a transition period where
marketing needs to be more proactive.
- Any business with big margins will see others
enter that space....which leads to smaller
margins.
- There is danger in falling in love with the trend.



Risk cannot be eliminated

It CAN be managed



Who is your trusted advisor?



You have a choice:
Trust some guru with no skin in the game to offer you predictions
or
find a *trusted partner* to defend risk



Many have become all or nothing on marketing/risk tolerance.

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People typically seek out Risk Management when prices are low/down-needs to be a constant in your business



Imagine less uncertainty on marketing
Imagine not feeling like your pricing choices are always wrong
Imagine feeling good about where you have been and where you are going with risk management.
Imagine less stress!



Want to stay informed on the latest market information?

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