10 Rules to Help Control Price Risk

1 *Know your production costs*

You don't know what kind of opportunity the market offers you until you know your costs. Not university figures but your own costs. Develop a regular system to check production costs against available prices to analyze the opportunity to "lock in" profits – then take action.

2 *Set a "Target" marketing objective*

When you make a price move, you should have a good idea what conditions caused you to perform this step. There should be some point at which you would be willing to assume all of the price risk yourself. Having that objective in mind before you start a marketing plan gives you some discipline in deciding when to price your products.

3 *Involve your partner*

Farm wives, partners, parents, sons/daughters are a valuable asset in marketing – as price chartists, market monitors and record keepers. "Two heads are better than one" is applicable to marketing, too.

4 Stick to your guns

If you have entered a marketing plan and begin getting margin calls, don't chicken out. Stick with the plan as it is based on a "profit" goal.

Your Marketing Plan should be used to set target prices and determining which marketing tools to use.

5 *Develop Marketing discipline*

Discipline yourself to a set of rules or conditions under which you place or add to a marketing plan. This reduces the chance of making emotional decisions, which frequently are bad decisions.

6 *Make your own marketing decisions*

Subscribe to the best information sources available. Use your market advisor and broker as a source of facts and as an order taker. But commit your money only on the basis of your own judgment after you yourself have analyzed the facts.

7 *Record your reasons for pricing a commodity*

Emotions play a big role in marketing mistakes. One way to discipline yourself is to write down a list of reasons why you are implementing a market order. This list of reasons helps you when you have the urge to reverse a position. It tends to keep you from making quick decisions based on a recent news item rather than your overall marketing objectives.

8 *Beware of forward contracting/hedging too much production*

Some farmers who sell large portions of their crop during drought years may end up with less crop than they had committed. That's why growers may prefer to cash sell or pre-harvest hedge only a portion of their production until the crop is almost assured.

By committing only 40 to 50% of your irrigated crops or 25 to 40% of dryland crops to a harvest delivery contract or pre-harvest hedge, you reduce the likelihood of having to buy high-priced commodities to cover your contracts. Those with Crop Revenue Coverage (CRC) can pre-harvest sell or hedge up to 95% of the level of coverage they have under this insurance program. The advantage of using options in the futures market rather than using cash contracts or hedges is that in the event of a sudden disaster such as hail, you are at risk for the options premium and commissions only. Look at Option Contracts for up to 100% Pricing Opportunities when you can lock in a profit level net of the option costs.

9 *Don't gun for highs and lows*

One of the most common mistakes made in farm marketing is trying to dump all of your production on the high or trying to buy all of your supplies on the low. It's very difficult to buy on the lows and sell on the highs. That's why averaging your sales over several marketing strategies helps you avoid the trap that many producers fall into.

10 *Remember: if you're not priced or hedged, you're speculating*

Farmers are the biggest speculators in the world. Many commodity speculators have net long positions of 20,000 to 30,000 bushels and then only for short periods of time. But farmers who have not marketed or priced their grain think nothing of being net long 10-50,000 bushels of their own crop for periods of several months.

Marketing gives you an opportunity to ***decide how much price risk you want at any given time***. Even pricing a portion of your production at a "Profit Level" reduces your overall price risk.

Some tools that can help control risk:

- A GOOD Marketing Plan
- Crop Insurance
- Minimum Price Contracts
- Target Orders & Offers to Sell
- Proper use of Hedging and Options

For more information, please contact: **Market Data, Inc.**
at (800) 867-8289.
P.O. Box 90
Oberlin, KS 67749

http://www.marketdatainc.com