

Colorado State University Libraries

CSU Extension

Streaming Media

Monday night marketing - Session 4: Selecting a broker & tying up loose ends

Item Metadata

Collection: Streaming Media (10217/242349)

Creator(s): Brent Young, speaker

Title: Monday night marketing - Session 4: Selecting a broker & tying up loose ends

Date: March 1, 2021

File Name: AEXT\_et\_agmarketsess\_4\_3221.mp4

Date Transcribed: 2026 March

Transcript Provided By: Adobe Premiere Pro 2026

BEGIN TRANSCRIPTION

00:00:10:16 - 00:00:47:16

Unknown

Well, good evening everyone. I think we're going to go ahead and get started. I have 7:00 and so this will be the beginning of session four, which will actually be the ending of the first half of the class. That half being devoted to kind of the, the basics of, of marketing and basics of, of market. So what I want to try to do tonight is a side, talk a little bit about selecting a broker and then tying up a few loose ends as it relates to those five, common mistakes that we make in AG marketing.

00:00:47:18 - 00:01:19:24

Unknown

And then we'll start next week, session five, with the more advanced part of the class where we'll focus on adding some more tools to your, marketing tool box and more sophisticated tools. And then we'll actually start the process of building a marketing plan. And it's my hopes that the last session we have together will actually be able to to put together a marketing plan, one that you can, make modifications to and actually, be able to use in your own operation.

00:01:20:01 - 00:01:46:23

Unknown

So that's a little bit about what we have planned for, tonight. And moving forward. So let's go ahead and get started. I want to take just a minute and take a look at our weekly basis tracking table. And as you can see, we've added some additional information. One addition, I was able to pull a market report from that livestock market auction in Loma, Colorado there, February 8th report.

00:01:46:23 - 00:02:28:11

Unknown

That was a feeder cattle market. So they did report some data, spot capture price at that point at 131 98. And then the futures, closed that day, February 8th at one 3745. So it was a combination of, a little lower, futures contract price, but, strengthening cash market. We saw that the, basis in that market actually narrowed just a bit, looking at,

wheat and corn for February 25th, again, a little bit of a, narrowing of the basis for wheat, that they're all \$0.03.

00:02:28:11 - 00:02:56:08

Unknown

The market also improved a little bit, and so we've got a, spot cash price of 386. Our. Basis with corn and Haxton was unchanged. As you can see, there's not been any movement in that basis. However, we did have an improvement in the futures contract price. And based on that improved price, then we ended up with an improvement in the cash market as well.

00:02:56:10 - 00:03:20:23

Unknown

And again, hopefully you're you know, you're taking a look at a market, of your own choosing and, and, watching the, basis in that market. Again, as I've said on numerous, numbers numerous times. Excuse me. Typically when this class is offered, markets tend to trade pretty sideways. We had some excitement early on, but now those markets seem to be, trading sideways.

00:03:21:04 - 00:03:45:04

Unknown

We did have, market commentary come out late this afternoon. That, seems to indicate that we may have hit the top in the corn market. One of the old sayings that is used by, futures traders is that bull markets have to be fed, the bulls have to be fed. And we've had several weeks now without any substantial, export sales.

00:03:45:04 - 00:04:05:16

Unknown

And so that market is starting to do, maybe top out and might trend lower during the next few weeks. I don't chart the hog market and we haven't talked about it as far as the livestock markets are concerned. It's really got some strength under it continues to be strong. And that's primarily from demand for export to China.

00:04:05:18 - 00:04:29:07

Unknown

The feeder cattle market has maintained some strength. We've seen some weakness in the fed chairman market, and that's primarily due to, weather issues getting cattle to out of feedlots and into packing plants. The last few weeks was that really cold weather we've had? However, a lot of people are expecting has a real rebound in that fed cattle market.

00:04:29:09 - 00:04:53:16

Unknown

There is a pretty strong indication that we may have a real pent up demand for beef, especially beef consumed outside the home at restaurants and a lot of people are, saying that as we start to hopefully open the country up and more and more restaurants are able to open up and increase their capacity. But there's, quite a bit of pent up demand for, beef consumed, through restaurants.

00:04:53:16 - 00:05:30:21

Unknown

So, a lot of people are expecting to see, a rally in the near term with those fed cattle prices. Before we go on to tonight's objectives, I just want to stop for a minute and make sure that we don't have any questions from last week. Regarding primarily the, options markets, how those trade, any questions about using options either to, set a floor, on, prices we received for our commodities or setting a ceiling for prices that we have to pay for commodities.

00:05:30:23 - 00:05:40:04

Unknown

Questions from last week.

00:05:40:06 - 00:06:15:02

Unknown

Okay. So, we're going to go ahead and move on. I do want to spend a little bit of time on that, working with and selecting a broker, a brokerage firm or a broker, as we'll find out, you have to go through a broker in order to, trade futures and options contracts. The, futures exchange limits the number of people who can actually be involved in trading, those contracts, in either businesses or individuals, actually have to hold a membership on the exchange.

00:06:15:04 - 00:06:44:00

Unknown

Those memberships are quite valuable. They don't come up for sale very often. And when they do, they can bring, several hundred thousand dollars very easily. And so you do have to go through a broker, you'll have a local broker that'll go through a clearing firm, and the clearing firm is actually the individual or company who owns a seat on the exchange and has the ability to trade in futures contracts.

00:06:44:02 - 00:07:07:12

Unknown

Want to talk about how to use crop insurance, reduce risk of pre harvest pricing commodities. As I've mentioned before, and especially last, time around, one of the biggest, concerns I have is I introduced this concept of pre harvest pricing commodities with producers as well. First of all you know, how do I market something that I haven't even planted.

00:07:07:14 - 00:07:32:11

Unknown

And so as we go through how futures and options works and they become to understand that that is possible. The other big question is well, what happens if something goes wrong and I'm unable to fulfill a contract? How do I, account for that? So crop insurance is the way we do that. We'll actually go through some examples and, and talk about how that would be the case.

00:07:32:13 - 00:07:57:22

Unknown

We'll talk about cost of production. We've mentioned a number of times that, that's essential to a good marketing plan. Again, it's one of those five mistakes that, people commonly make when they market commodities.

It's not knowing cost to production. And it's very difficult if not impossible to understand if the market is offering you a price, that will end up in a profit for your operation.

00:07:57:22 - 00:08:28:04

Unknown

If you really don't know cost of production, we're going to talk about what happens if we hold and price commodities and storage too long. And again, that's one of the five mistakes that, Anderson outlines that are common to people in their, effort to market commodities. So let's delve right into selecting a brokerage company. So in big general terms, we have two kinds of brokerage companies.

00:08:28:04 - 00:08:56:24

Unknown

We have those that are called full service. And their, commission on a per trade basis typically ranges from 60 to \$100, depending on the types of services that they provide. If you are, working with one of these brokers. Yeah, the, amount you pay, per trade, entitles you to other services not called these free services.

00:08:56:24 - 00:09:19:11

Unknown

That's probably not a good way to to explain them because obviously you do pay for them in those, trades, but they typically have newsletters. They'll provide both fundamental and technical analysis. We haven't talked about the difference between the two at this point. We will talk a little bit more about them as we go into the advanced class.

00:09:19:13 - 00:09:52:21

Unknown

Actually have a speaker lined up talk to Steve Koontz, who will, spend some time with us, I believe the second night in the advanced class. And he'll be talking about, price outlook for cattle, corn and wheat, and he'll talk about fundamental, technical analysis. Fundamental analysis relates to just simply supply and demand. And one of the things that we look at when we're trying to determine the supply and demand of a, of a commodity is what we'd call a balance sheet.

00:09:52:23 - 00:10:20:07

Unknown

And the balance sheet and doctor will show you several of these during his his presentation is basically just an accounting of the production and the use of a particular commodity. And then we look at carryover from one marketing year to the next. So fundamentals are supply and demand. Technical analysis has to do with charts. And we've looked at market charts a little bit.

00:10:20:09 - 00:10:51:16

Unknown

There are people who believe that markets, follow a predictable pattern. And those patterns can be read by charts. The other thing that a technical chart analysis helps us determine is, where the bottom of a, market range may be in terms of price and where the top of the price

range is. And that's really what Doctor Koontz will show you in his technical analysis, is that bottom range, which, we, we tend to call support.

00:10:51:18 - 00:11:17:13

Unknown

And then the upper range, within a market, what which would be, Oh, you know, known as the, the, I'm forgetting the term. It'll come to me, but, resistance, support, resistance. So support is what we think the lower end of that trading range is. And that typically markets have to work pretty hard to go below support.

00:11:17:15 - 00:11:44:14

Unknown

The upper end is resistance, meaning resistance to going higher. And again, that helps us get an idea of what range markets are going to trade in. Those full service commissions also provide some marketing advice. They do provide charting services whereby they'll provide the charts and, they will to, draw those support resistance lines. And they do make creating recommendations.

00:11:44:16 - 00:12:09:10

Unknown

You're getting a little bit of, feel for trading recommendations with that, Brok report that I send to you every Friday. And, I actually receive as a subscriber to their service, an opening, morning, email that talks about what the market should overnight, where they're opening, why they're trading the way they are.

00:12:09:12 - 00:12:43:03

Unknown

They'll also have a, middle of the day, a midday report, usually around noontime central time. You know what's happened this morning where markets kind of go this afternoon and then a closing report. What happened during the day and why, throughout the day. They may send, trading recommend recommendations for various commodities. And so if they think something is happening and you ought to act upon it, in terms of, taking a position, they'll make that recommendation.

00:12:43:05 - 00:13:12:12

Unknown

They also offer, brokerage, services. So if a person wanted to, in addition to subscribing for their market information, if you wanted to be able to trade through them, they offer that as well. The other big general type of, brokerage firms are known as discount. And typically they have, very low trades. That 12 to \$35 per trade is pretty common in the commodity markets.

00:13:12:14 - 00:13:36:12

Unknown

And typically they provide no other services. They just simply place the trade, as they are instructed by you, as a person that, would be dealing with them. So that's the options that you have. As you can imagine, most

people who start and futures and options, will make use of a full service brokerage company.

00:13:36:14 - 00:14:03:12

Unknown

You know, they may pick and choose other services, but typically need a little bit more help in, making those trades initially. Once people become accustomed to futures and options and feel comfortable with it, then they tend to migrate from a full service broker or brokerage company into a discount company. So one of the things that's important with selecting a broker is the location.

00:14:03:14 - 00:14:28:09

Unknown

One of the things that that I find with, people in agriculture who are starting out in futures and options trading, they like to try to find someone who is local. And there are a number of, local, commodities brokers, throughout the state, if you are in a, grain producing area, typically they're a little bit easier to find or cattle feeding area.

00:14:28:11 - 00:14:58:06

Unknown

They're typically a little bit easier to find. At one point I'm going to talk about, a internet site that you can go to and, and an association that, commodities brokers and brokerage firms belong to. At one point they had a great directory and you could simply type in your, zip code and they'd give you a whole list of local brokers, for whatever reason, they've discontinued that.

00:14:58:06 - 00:15:39:20

Unknown

So in many cases, you know, a simple lookup in the Yellow Pages, many lenders are aware of local brokers. That's a good source to find, who might be in your area. And certainly asking other people in agriculture is is another good way. But because we're very accustomed to working with, local service providers and many people like to, put a name with a face, we see, a lot of people in agriculture start off with a local broker who they can actually go into an office, meet, sit down with and talk about, setting up an account.

00:15:39:22 - 00:16:05:18

Unknown

There are, currently brokers that are out of area, as I mentioned, just Brock and Associates, although they have personnel after us, their, headquarters is in, Illinois. And so certainly they would qualify as an out of area broker. You can find brokers on the internet. You can, certainly deal with internet based brokers.

00:16:05:20 - 00:16:38:06

Unknown

That's very common. For a discount broker to be an internet based, firm. One of the things that is important, regardless of, the location of your broker, would be their speed of executing trades. One thing about the internet platforms, in many cases, you can go on the internet, you can

place an order, and it's traded fairly quickly, if market conditions, allow for that, maybe a little different situation with a situation with a local broker.

00:16:38:08 - 00:17:02:24

Unknown

And as we'll talk in a few minutes, when the market is actively trading, sometimes it can be difficult, for your local broker to pick up the phone because, there's a lot going on. So that speed of executing trades would certainly be one of the considerations you would have in selecting a broker and what you might look at as you consider their location.

00:17:03:01 - 00:17:31:03

Unknown

So one of the things that I mentioned is that there is, a control over, the number of brokerage firms that work through the, the exchange, through their clearinghouse. These tend to be fairly large firms. And even though you may work with a local broker who has their local, a local firm, they have to clear through a brokerage firm, a firm that has, a seat on the exchange.

00:17:31:05 - 00:17:54:05

Unknown

And so one of the things that's important is to have an idea of the financial strength of that company. And so certainly, one of the things that I would look for in selecting, a broker or a brokerage firm is I would want to know that that, firm is it's got some financial strength behind it that they have some liquid assets.

00:17:54:07 - 00:18:31:18

Unknown

It's a lot. I would, I would, say this is a lot like selecting an insurance company. You want an insurance company that's got enough, financial wherewithal to be able to pay claims. You want a, brokerage company that has enough financial wherewithal, to be able to, keep those those accounts active and trading and, to make sure that that you are not taken out of a position, because of an issue with margin, for example, by law, trading accounts must be segregated from the company accounts and the trading accounts.

00:18:31:18 - 00:19:03:03

Unknown

That's the funds that the individual, clients hold. You as a, as a, person in agriculture, if you set up a trading account with a broker, regardless of their level, in those, your, your brokerage fees are checked in with this, brokerage firm. By law, those accounts have to be your your funds have to be segregated from the company accounts.

00:19:03:03 - 00:19:31:00

Unknown

They can't, commingle those accounts. The reason behind that is we don't want to get into a situation where the firm, might be on shaky ground financially, and that those firms that they are, those funds that they have held on your behalf, could be at jeopardy. So this is one of the

things that's, again, by law, has to be set up with these brokerage firms.

00:19:31:02 - 00:19:55:13

Unknown

Certainly, as with any, business that you might do, company you might do business with, reputation is very important. Certainly talking to current clients is a great way to, find out more about a particular brokerage company or a broker. I would check to see if your work, if you're working with a local broker, are they a member of the Chamber of Commerce?

00:19:55:15 - 00:20:27:07

Unknown

I might do a, better business search. Better business bureau, search the business to see if they've had any complaints. There are two groups that do, police, commodity brokers. One is, a government entity, the Commodity Futures Trading Commission, or CFTC. I've included their web address, with the, PowerPoint and with your, notes for the evening.

00:20:27:09 - 00:20:58:11

Unknown

Basically, if, there has been an issue with a brokerage firm or a broker, the, Commodity Futures Trading Commission is the federal group that oversees, making sure that, those issues are handled, they provide the licensing, structure for, brokers and, again, police that, industry, the group itself has their own trade association, the National Futures Association.

00:20:58:13 - 00:21:34:21

Unknown

And, they also, police their own membership. And so both of these organizations on their website have a function whereby you can type in the name of a broker. And if there have been any, complaints posted about that broker or brokerage company, you'll be able to find those in a search. So a couple of good ways for you to confirm, the reputation of a broker or brokerage company or broker, through those two, associations.

00:21:34:23 - 00:21:55:06

Unknown

So what are the account requirements? Let's say that you've decided, after taking this class and maybe we go through, the last 5 or 4 weeks, and you've developed your marketing plan, and, and you think, you know, maybe I'm going to start off and, do some work with options. Those are are pretty understandable. And I don't have margin requirements.

00:21:55:06 - 00:22:20:07

Unknown

And maybe the market gets to the point where either an at the money or slightly out of the money option looks good. And so you're ready to go. So the first thing you're going to to have to go through is an application process. And these can be lengthy. These are, applications that are, basically put together by the, the brokerage clearing firm.

00:22:20:09 - 00:22:50:08

Unknown

And so, they're going to require quite a bit of personal information, business information. I can tell you from my own personal experience, our farm is an LLC. So if you are an LLC or some kind of a corporation, the business information you've got to provide and the applications are a little bit more complex. Because trading futures and options, has an inherent risk that you can lose money.

00:22:50:10 - 00:23:17:12

Unknown

The application, that's the best. It can explain that. And, and, ensure that you understand it. So it takes a little while to go through these, fortunately, most of the brokerage firms have the ag commodities, have an online system where you actually can complete the application online. You're going to have to provide information about your, farmer ranch.

00:23:17:14 - 00:23:46:00

Unknown

Business. There's, lots of risk disclosure statement saying, I want to make sure that without a doubt as to the the degree they can to ensure you understand the inherent risk in trading futures and options contracts. And then once you have completed the application, that brokerage firm or clearing firm has accepted it, then you're ready to set up your in your, account.

00:23:46:02 - 00:24:18:23

Unknown

These can range initially from 1000 to \$10,000. It's probably unlikely that, your initial account would require you to set up an account with a \$10,000 deposit. \$1,000 is fairly common. And, typically, that first installment, would be your first margin call or your margin, excuse me, your first deposit into your margin account. And we'll talk about that, in a little detail later.

00:24:19:00 - 00:24:46:24

Unknown

I would ask if those accounts pay interest. Many do. Typically that's no better than you're going to get for, savings account, a local bank, which right now is pretty low, but, they should pay interest, depending on the number of contracts you might, trade and also the commodity you're interested in trading in. Typically the, livestock accounts require more margin.

00:24:47:01 - 00:25:12:17

Unknown

And so your margin account could, start off being a little bit bigger and a little bit more of a requirement if you're going to trade, the livestock contracts. The other thing I can tell you about these accounts is in a situation where you make money, because of your futures position. And we showed you how that works when we were talking about futures in, evening two, session two.

00:25:12:19 - 00:25:35:02

Unknown

That money is deposited in this account every day that the market closed when the market closes. And so, you could have an account, again, based on the commodities you trade, the number of contracts that could have a pretty sizable amount of money in it. And so certainly, if the firm won't pay interest you, you would like for them to do that.

00:25:35:02 - 00:26:07:21

Unknown

So, a very good question to ask is you're shopping for brokers and brokerage firms. So let's talk about margin. Now, we've, shown you how as the market changes based on your position, whether you have a long position or a short position, what that does to the value of your position day to day. But what we haven't talked about is margin requirements in order to, be able to trade contracts.

00:26:07:23 - 00:26:31:13

Unknown

So when we talk about margin, we talk about it in two terms. I talk first of all about initial margin. And, the initial margin is what's required for you to trade a contract typically that set up by the exchange, it's set up at a minimum level. Brokerage firm, can require your initial margin to be higher.

00:26:31:13 - 00:27:00:21

Unknown

That can't go lower than the minimum, but they could require it to be higher. And then this the second term that we use as maintenance margin, and that's margin required to maintain your position. And basically that's in place so that, if, for some reason, your broker couldn't get hold of you the day that, the market traded, went against your position, and you need to have margin put into the account to maintain your position.

00:27:00:23 - 00:27:24:10

Unknown

That maintenance margin ensures that, your broker has a little bit of, a little bit of cushion there, because if if you can't fulfill your margin requirement, then you're automatically, your contract is off set. And as we explain what's happening when you get margin calls, you don't want that to happen. That's not a good thing.

00:27:24:12 - 00:27:59:07

Unknown

So here's an example. With a corn contract. And, this, may be a little old. I think the exchange has actually recently increased margin requirements. And so, your initial, requirement that you'd have to have, on, your, deposit with your brokerage firm would be \$12,000 or \$1200 contract. Excuse me. And then in order to maintain that, you're going to have to have \$700 per contract.

00:27:59:09 - 00:28:32:18

Unknown

So initially, you're going to make a deposit of \$1,900. The initial and the maintenance. And that way that gives you, enough, flex that if the,

contract goes against you, you can stay in that position for a day or two until you, if need be, the, you can replenish your, your margin account. Some brokers refer firms will require a requirement that's, higher than what the exchange requires.

00:28:32:20 - 00:28:58:00

Unknown

And that depends on, the ability for them to get in touch with you, and to replenish that margin account because, again, they do have to make sure that you maintain that margin account in order to keep you in the market. And so your individual brokerage firm may start you out at a higher amount. But again, the exchange will set the bare minimum levels.

00:28:58:02 - 00:29:32:23

Unknown

One of the things we haven't talked about, margin and why that's important, let's think about, a corn, that corn contract. And so we've got a corn contract that is 5000 bushels. And just for the sake of easy math, let's say that contract is trading at \$4 a bushel. So in reality, that 5000 bushel contract trading at \$4 a bushel is worth \$20,000.

00:29:33:00 - 00:29:58:21

Unknown

In order to provide liquidity in the market, to have a lot of buyers and sellers, we have a system in, futures and options trading, our futures trading specifically. We're rather than having to put up the total value of that contract, that \$20,000, you only have to put up a portion or a margin amount of that contract to be able to control it.

00:29:58:23 - 00:30:34:06

Unknown

And so again, what that does is it allows for more liquidity in the market. You can control a number of contracts, by putting up just a portion of the value of the contract. So that's pretty important. The other thing I would mention, we've talked briefly about speculators and hedgers. We've said in the past that, from a tax, law standpoint and the general, definition, a hedger is a person or a business that either produces commodity or uses that commodity.

00:30:34:08 - 00:31:00:15

Unknown

So if you're a corn producer and you use, futures and options market, you're a hedger. If you're a cattle feeder and you buy corn, you're a hedger, a speculator, on the other hand, as a person or a firm or a business that, will never own the commodity and will never use it, they make their money or lose money on the value change of the contract.

00:31:00:17 - 00:31:28:20

Unknown

And typically because they don't have an interest in the physical commodity, their margin requirements are higher than that of a hedge or so just a little bit about margin and how that works. So one of the other things that you need to consider would be, your level of experience and

knowledge. So, what experience knowledge do you have with, futures and options?

00:31:28:20 - 00:31:34:09

Unknown

And as I, mentioned,

00:31:34:11 - 00:31:56:23

Unknown

Most, people start off with the options. Just a little easier to understand, a little less risky. Most brokers will have a very good working knowledge of both futures and options. So typically that's not an issue for a broker standpoint. Commodities can be an issue. Certainly brokers will tend to specialize in one market over the other.

00:31:57:00 - 00:32:25:17

Unknown

I know in northeastern Colorado, I would say that a number of commodity brokers really specialize in the livestock, commodities. And more especially cattle. We have a lot of commodity brokers in the area that that almost, exclusively their clients trade cattle contracts, either feeder feeder or fed cattle contracts. Now, that's not to say that they don't, or wouldn't trade the crops.

00:32:25:23 - 00:32:49:07

Unknown

It's just they know the livestock side a little better. We have a few that are are more crops related? Typically as we move to the Midwest and even though, Brock and associates, again, as an example, trade both livestock and crops, contracts, I think they probably do a little bit better job analyzing and understanding crops.

00:32:49:09 - 00:33:14:19

Unknown

And that's one of the reasons why I provided you with their marketing information. In addition to, cattle facts, because I think you get a pretty good feel for, crops markets with Brock and then cattle facts. Those are, I think a better job with livestock and especially, the, the cattle side. Some, brokers will help you develop a marketing plan.

00:33:14:21 - 00:33:41:09

Unknown

And so that may be another service that you might ask as you, develop a relationship with them. Now, one of the things I can tell you honestly about a marketing plan, that's developed by a broker, they're going to encourage you to use futures and options as the tools in your toolbox, your primary tools, because obviously they make money when you buy and sell or trade futures and options contracts.

00:33:41:11 - 00:34:08:21

Unknown

So that's one of the things you have to just take into account. Is that you're going to have, if you ask that broker or a brokerage firm, help in developing a marketing plan, they're probably going to encourage you to

use, those specific tools in that marketing toolbox. Communication is a very important topic when you're selecting that, broker brokerage firm.

00:34:08:23 - 00:34:33:11

Unknown

Can you talk with that broker? That's very important. Obviously, if it's a discount broker, you're not going to talk with anyone. And so, again, that's the reason why when I see people in agriculture get into futures and options trading, they tend to prefer more of a full service broker. And if, if one is available in their local community, they tend to work with a local person.

00:34:33:13 - 00:34:58:22

Unknown

It's important that you understand market terminology because they're going to talk that language. And, through this class, you you will have been introduced most of the basic, market terminology that a brokerage is going to use as. And we'll start bringing some more of that in as we go through the next few weeks. The other thing it's important is, this a broker have the ability and aptitude to explain things.

00:34:58:22 - 00:35:20:19

Unknown

You, some brokers don't. They really know the market quite well, but, they would have a very difficult time explaining it to you. On the other hand, others are very, knowledgeable and also are great teachers. And, I find that, typically people are able to determine that through a, interview with a potential broker.

00:35:20:19 - 00:36:05:21

Unknown

If it's, they're able to explain, kind of their, their philosophy, and they should be asking you questions about your business, and questions about your knowledge of terminology. So pretty important that starting off, you have someone that, has that ability to explain things to you. So what are things a broker can't do? And this is pretty important because most of the, situations that I've seen where where a broker and a client have had problems is really been the client not understanding really what a broker can do and asking a broker to do, or expecting a broker to do more than they can.

00:36:05:23 - 00:36:31:00

Unknown

One thing is they're not going to be able to provide you a perfect price forecast. I guarantee you, if they could do that, they wouldn't be a broker and they would have been able to make money on their own trading. Contracts and probably would own a private, island in the Caribbean. So, they're not any better suited to do this than than, you know, anyone else?

00:36:31:02 - 00:36:55:20

Unknown

There's no way they can know your cost of production. And so, asking them if a particular trade is, in your best, you know, and, and your best,

benefit would be difficult for them to be able to tell you if they don't know your cost of production. They typically will not help you with cash marketing decisions.

00:36:55:22 - 00:37:24:16

Unknown

And please remember, as we've mentioned, with futures and options trading, very few contracts, on the future side are never delivered. They're almost always, always offset. You know, somewhere in the neighborhood of, 85 to 90% of all of the futures contracts are offset or never delivered. And so what that means is you're going to have to deliver that commodity to a cash market.

00:37:24:18 - 00:37:50:20

Unknown

And, again, this is just not anything that they deal with. And, typically will, you know, if you ask questions about cash markets, they won't have an answer. They cannot make decisions for you. That's against the law. You have to make your own decisions. They have no idea when the market's going to move against you, and, they don't have the ability to get you out of a bad trade.

00:37:50:22 - 00:38:20:01

Unknown

They can certainly provide advice, but it's up to you to take that advice. And then finally, there are a number of rules and regulations. Laws, excuse me, that are important, and regulate futures and options trading and they cannot break those. If they do, they certainly risk losing their license. And, they could, have some pretty hefty financial fines and, and actually do jail time.

00:38:20:03 - 00:38:26:14

Unknown

There have been, commodities brokers that have, done jail time.

00:38:26:16 - 00:38:46:17

Unknown

So what are some things that brokers are going to expect of you? Well, first of all, to be responsible for your decisions, they're certainly not going to take the blame for poor decisions on your part. Again, don't ask her to break the rules or laws. You can't do that. Be honest. Stand behind your words and actions.

00:38:46:19 - 00:39:08:17

Unknown

I've had number brokers tell me probably one of the most important expectations they have a view is return phone calls. Typically, when they're calling you, it's it may be a margin issue and they need you to get back to them immediately. And so, with today's technology, with our smartphones, you'd want to be sure that, you know, your broker's phone number is going to be in your phone anyway.

00:39:08:19 - 00:39:30:09

Unknown

It's going to be identified. And so when you see a call, then it's from your broker. Answer the call. Usually they they need to talk to you, meet margin calls in a timely manner. This really causes issues with, a broker if, if, you know, you have a margin call and you don't take care of it, it puts them in a really, really bad spot.

00:39:30:11 - 00:39:53:21

Unknown

Typically the last thing they want to do is to have to get you out of that position, because if you're getting a margin call, the last thing you want to do is get out of your futures position. As we've seen before, typically a margin call, if you are, long in the commodity, you're a producer, you're short in futures means that the cash market is going up.

00:39:53:21 - 00:40:24:09

Unknown

That's a good thing. And so you want to be able to keep that trade in place until you're ready to cash market to commodity. And even if you have margin calls, as we showed you, if it's a, you're losing money on the futures side, you're making money on the cash side. So once you finally sell those that commodity on the the cash side, basis expected, things will work out.

00:40:24:11 - 00:40:45:16

Unknown

Another very important thing is don't engage in idle conversation during trading hours. If you need to call them during trading hours, it should be in order to, put it in a position to, make an order, buy or sell order. And so it's basically a call, I want to do this at this price. And that's it.

00:40:45:18 - 00:41:07:09

Unknown

Because they're getting, calls from other clients, that's where they make their, their money. And so, you don't shoot the ball during, trading hours. The other thing. And this will become a little bit more apparent as we move on when we talk about actually how to place an order. Don't enter an order that you plan to cancel when the market gets close.

00:41:07:11 - 00:41:41:24

Unknown

And so the issue there is that, you know, you need to take a position, have your conviction of that position and stay with it. The problem with that is, if you enter an order and then you call back and cancel that order right as the market gets close. That way, your, broker's time, and by entering an order, what we mean is you give the broker, the, the order could be if the market gets to a certain point, I want you to buy or sell.

00:41:42:01 - 00:42:01:18

Unknown

And so that's a market order. Your broker is watching the market. When that order gets to to that point, and then that order is is executed, if you place that order, and then when the market gets close, you call back

and say, no, that's not what I want to do. That waste, a lot of time for you in the broker.

00:42:01:20 - 00:42:14:21

Unknown

So when you place a market order, be sure that's what you want to do and have the conviction of your decision to follow it through.

00:42:14:23 - 00:42:42:14

Unknown

Any questions about working with a broker? Again? If you decide that you want to use futures and options, that's, a this will be a process you'll have to go through. You don't need to, locate, a broker brokerage firm if, it's a local person that you can interview, if you feel good about it and you want to do business with them, you've got that application process.

00:42:42:16 - 00:43:00:02

Unknown

Once the application has been accepted, then you're going to develop a trading account and actually put some some money up to do that. So questions about brokers working with brokers.

00:43:00:04 - 00:43:31:21

Unknown

Okay. Another very, very important person in this, idea and concept of, protecting prices and pre harvest pricing commodities with futures and options is actually working with your lender. And excuse me.

00:43:31:23 - 00:43:53:05

Unknown

Many producers.

00:43:53:07 - 00:44:31:24

Unknown

Sorry about that. Many producers who decide to trade futures and options, need to have their Act lender involved. Unless you have, a source of funds, your own funds to maintain that, hedging account, many times, you'll involve your lender and actually have, borrowed money to establish and maintain that that hedging account. So if you're going to do that, it's important that your lender, understand and is comfortable with futures and options hedging.

00:44:32:01 - 00:45:06:08

Unknown

There may be some that, don't have any clients that, that do this. And so again, options may be a little easier way for them to, to look at this. The other thing that we recommend is if you're going to use, excuse me, borrowed funds to establish your hedging account and into to be able to buy and sell futures and options that you set up on account that separate from, your operating account, you should have a separate, trading account, hedging account.

00:45:06:10 - 00:45:42:00

Unknown

And the reason behind that is you don't want to be in a position, especially where you've made some, futures, establishing futures positions. And you could get in a position where you have margin calls that could jeopardize the, amount of, of money you have available for your operating note. You wouldn't want to have that, account that was both operating and hedging and being a situation where margin calls have depleted that account to the point that you don't have enough money to operate on.

00:45:42:02 - 00:46:08:10

Unknown

And so, I would highly recommend that you have separate accounts, typically a bank that works with clients that utilize futures and options, will set that account up for you and the security for the account, is your hedging positions. And so that's why it's important that the last bullet here point, you keep your lender informed and all of the trading plans and positions you have.

00:46:08:12 - 00:46:39:20

Unknown

Because again, that's the security they have for the the trading account is the position that you have in those, futures and options contracts. So they, they want to know where you're at with that.

00:46:39:22 - 00:47:11:12

Unknown

Okay. And a lot of this information came from, the authors you see here, an economist from Texas A&M University. And some personal experience I've had working with, brokers and brokerage firms. Before we leave it again, one last opportunity. Questions regarding brokers, brokerage firms, working with ag lenders as it relates to setting up, hedging and trading accounts.

00:47:11:14 - 00:47:43:15

Unknown

Okay. Again, reviewing those five, common mistakes in commodity marketing. And we're going to spend a little bit more time on item number two. Reluctance to pre harvest price commodities. And so as I alluded to before a couple of questions come out when I first start talking about this concept of pre harvest pricing commodities. And although I'm going to talk about this as it relates to grains.

00:47:43:15 - 00:48:14:21

Unknown

And you can see bushels are pounds. It works with both grains and livestock. And we're going to look at a couple of different ways to that. You can make this work. So one of the big concerns is, well, what if I don't produce enough bushels for payments to cover my contracts? And we're going to go through an example here in a minute, where we use revenue protection, crop insurance and whole farm revenue protection, commodity insurance to make sure that we have, a way to cover any shortfalls that we might have.

00:48:14:23 - 00:48:47:09

Unknown

The other question is, well, what if I sell and price goes higher? And, again, that's, a common concern from producers. So, a couple different things we can do as we get into marketing plans. We're going to, talk about a process known as skill in selling. And then also we've talked about how you can use options or minimum price contracts and even using call options once you've sold a commodity, if the price goes up to capture some of that upward movement in the market.

00:48:47:11 - 00:49:31:06

Unknown

So there are a number of tools that you can use in order to, take advantage of higher prices. So hopefully that second big bullet will not be a reason you don't consider, pre harvest pricing a commodity, the fear that the prices will go up and you'll miss out on those better prices. So let's take a look specifically now about using revenue protection crop insurance as a way to, determine, how many bushels of grain I can pre harvest price, and at a level that I'm comfortable with it, in case I had a total loss, I would be able to fulfill those contracts.

00:49:31:08 - 00:50:00:13

Unknown

So if you're not familiar with it, revenue protection, crop insurance provides a revenue guarantee, percentage of your actual production history. Any time you see revenue in the term when we're looking at risk management in agriculture, immediately, you should think, price protection and yield protection. Some of you, maybe be trying to make the decision right now between now and the 15th of March.

00:50:00:15 - 00:50:39:01

Unknown

Do I want to sign up for price loss coverage or, agriculture risk coverage? For my title one crop insurance program? Well, RC or it's agricultural revenue coverage. Excuse me. Again, being a writer for new product covers changes in both prices and yields. And so, if we use revenue protection or revenue protection with harvest price exclusion, we're guaranteeing both a yield and a price using the farm level, actual production history.

00:50:39:03 - 00:51:00:20

Unknown

One of the processes we have to go through in using any kind of a revenue protection crop insurance is we've got to determine that price. And although the yield is determined on your farm, the price is a national price. We do that because there's so much variation in cash prices from one part of the country to the next.

00:51:00:22 - 00:51:22:06

Unknown

It would cause a pretty unfair, it could cost an unfair situation. And and the other thing it would be make it almost impossible to do would be to set a premium for any kind of a revenue crop insurance. So in order to

set that national price, we go through what's known as a discovery period, for corn.

00:51:22:08 - 00:51:48:17

Unknown

We, track the December futures contract, through the month of February. We can we do the harvest price the month of October, but it's again, that December futures contract for soybeans. We use the November soybean contract again. We, average surprise for the month of February, we determine the harvest price of October wheat. This would be winter wheat.

00:51:48:19 - 00:52:13:11

Unknown

So we look at that September Kansas City hard red winter wheat futures contract from August 15th to September 14th. And then we look at our house price in July. And so using those discovery periods, we can see this is a map looking at, the percent of acres that are insured with revenue protection in corn in 2016.

00:52:13:13 - 00:52:43:13

Unknown

I can tell you that this map only, gets darker over time. In the the Corn Belt, probably 95%, 90 to 95% of all of the crop insurance that sold for, corn production is revenue protection. And even if you look in northeastern Colorado, that's Weld County. That's in that 80 degree, 85 to 90% area, work here in Logan County, 75 to 70%.

00:52:43:13 - 00:53:15:23

Unknown

So, this is a very popular, crop insurance product, especially in corn. So we have just completed the price discovery period for, corn. Last month, when I was putting together slides for you so that could get them to you last week, we were still in discovery. And, at that point, the projected price was 456 bushel for corn.

00:53:16:00 - 00:53:45:12

Unknown

The final price ended up being 458 was a volatility figure of 0.23. The volatility figure, relates to, how much that market moved within. I think the last week it traded and the higher the volatility figure, the more expensive the premiums are. Last year I think we were looking at a voluntarily figure in corn at 4.11.

00:53:45:14 - 00:54:15:09

Unknown

And so, we anticipate that premiums for revenue protection crop insurance on both corn and soybeans are going to be considerably higher, for two reasons. One, that discovery prices higher. Corn last year was 388 a bushel. Think soybeans was less than \$10. And so prices have gone up and volatility has gone up as well. So the 458 and the 1187 represent the final projected prices for corn and soybeans.

00:54:15:11 - 00:54:47:20

Unknown

Wheat. That price was determined last fall. And the wheat, projected price is at 498. As a producer, you have the opportunity to select. But, from 50 all the way to 85% coverage levels. And that's based on your, proven yield or your AP. So let's go through an example of how this might work. Let's say we have a farm here in north eastern Colorado with an AP of 180 bushels per acre, which is a fairly common AP age.

00:54:47:22 - 00:55:13:20

Unknown

And we want to, insure 500 acres of corn. We select or elect 75% coverage. And again, using the best price I had last week of 456. So how many bushels could we guarantee when we take our 180 AP, multiply it by 75% coverage, and that would be 135 bushels per. We also have a revenue guarantee.

00:55:13:20 - 00:55:44:14

Unknown

Remember, it's both yield and price. So 456 times 135 bushels. The acre. We have a revenue guarantee of \$615.60 an acre. So when we're developing our marketing plan, once we've determined the level of crop insurance that we want to use, we plug our AP h into that. We plug the number of acres we're going to cover. We can get a feel for, how many bushels we could pre harvest price.

00:55:44:16 - 00:56:21:16

Unknown

So if we take our 500 acres times 135 bushel, which is our bushel guarantee, we come up with 67,500 or about 13, 5000 bushel contracts. So in this example, the maximum number of contracts that we could pre harvest price would be 13. And by only going to no more than 13 if we had some kind of a production issue, we would be able to make good on our contracts.

00:56:21:18 - 00:56:48:24

Unknown

So let's look at an example where we have a shortfall in harvest health. Let's say we had a substantial hail event or maybe several during the growing season. And we only produced 100 bushels per acre. We did did not utilize the harvest price exclusion. So we can also, either take the, or we can take that harvest price to determine our revenue.

00:56:49:01 - 00:57:18:07

Unknown

And so our guarantee was six, 1560 an acre. Our actual revenue was \$435 an acre, which would be our yield times that harvest price. And so if you subtract, 16 1660 minus four, 35 and then I've got a math or imagine that. So she got 1660 -435. We would get an A payment. We're off a dime.

00:57:18:07 - 00:57:49:03

Unknown

It should be 1860. And so a couple things we could do if we had to. We could take that, payment, go into the, cash market by cash grain and fulfill those contracts. Most grain merchandizers would not require us to

do that. Typically, there's a buyback, and we have to pay a fee for the bushels we didn't deliver.

00:57:49:05 - 00:58:18:12

Unknown

Typically, that's between 10 to \$0.20 a bushel. And it really depends on what happened was that, with futures contract, from the time we pre harvest price and to what futures were trading for at harvest typically and in most years the futures are trading lower and that contract has value. If the contract has value, we may not have to buy back those bushels.

00:58:18:14 - 00:58:46:06

Unknown

If we marketed through a cooperative and we're a member of the cooperative, in many cases, a cooperative will share the wealth with us, so to speak. And it's a contract made money. They will, share some of that, that money with us in a situation where the, harvest price is higher than the futures price. When we, for contracted, the grain, we may have to make up the difference.

00:58:46:12 - 00:59:34:14

Unknown

This happened to us this year, and I think we had to make a 23 cent per bushel buy back payment because of how the the futures, had changed. So the the point in this example is, using revenue, protection insurance, we can guarantee a certain, price level, a certain level, and we can pre harvest price, commodities, with a, a level of comfort that if we have an issue and we're not able to fulfill the contract, we're going to be able to take that, that payment from the insurance and be either able to take care of that buyback, which is the most common, situation, or if we

00:59:34:14 - 00:59:53:10

Unknown

had to go buy those bushels and make it good, we could do that. Questions about, revenue, insurance and again, how that works into, marketing plan.

00:59:53:12 - 01:00:19:16

Unknown

Okay. Well, if you're on the livestock side right now, you're thinking, well, that's all well and good for the crops, but I can't buy revenue protection. Insurance for livestock. Well, that's not exactly right. We do have, a program that allows us to do this. This was a pilot program up until the 2014 farm bill. It became a, part of the 2014 farm bill.

01:00:19:18 - 01:00:46:22

Unknown

And, was extended and reauthorized in a 2018 bill. And it's available, today. If you were interested in taking this out, I do need to mention one, change here was a 2018 farm bill. We change that coverage, travel on livestock. It was increased to \$2 million. So basically, this is a revenue protection program for your whole farmer ranch.

01:00:46:24 - 01:01:11:02

Unknown

And so it deals with, the total amount of revenue that that farm is expected, a ranch is expected to generate. And it's an insurance policy to protect that total level of revenue. And so, you can protect up to \$8.5 million worth of insured revenue, 2 million for the livestock side. It can be used for both crops and livestock.

01:01:11:04 - 01:01:50:14

Unknown

Can be used for organic as well as conventional production. So how does it work? Well, first of all, again, it's a product where you are able to, guarantee a certain amount of your revenue. And so to determine how much revenue you could cover, you go through, a process whereby you submit five years of your schedule F and from that information, you determine over those that five year period of time, what was the average, revenue for the farmer ranch?

01:01:50:16 - 01:02:19:21

Unknown

Then you submit a farm operations report, the intended report for the years that you want coverage. So let's say I was looking at using a whole farm revenue protection for the 2021 production year. So I would submit five years to schedule F for 2020 at five years. Then I would put together this intended report. I would list the commodities I expect to grow, what I expect my yields to be, and what I expect the the prices to be.

01:02:19:23 - 01:02:54:03

Unknown

And so by doing that, I'm going to determine what I expect the income to be. For the farm in 2020, the year of, coverage. And then you're able to cover the lesser of your five year average or what you expect, your revenue to be in the year of coverage. It works the same, in, as revenue protection for crops in that you can select coverage from 50 to 85% of your expected revenue.

01:02:54:05 - 01:03:17:20

Unknown

One thing that's really important here, if you do have a loss, we determine that after you file your schedule F for the production year. So if you use toll farm revenue protection insurance for 2021, you wouldn't know that you had lost. Until you file your 2021 schedule F. And for most people, that would be spring 2022.

01:03:17:22 - 01:03:49:00

Unknown

Unlike crop insurance, we would be able to determine a loss after harvest. And you're going to get a payment probably before the end of the production year. And so it's important that you understand the difference that differentiates whole farm revenue. It's quite a little bit of recordkeeping, again, that five years of schedule F, if you are a beginning farmer, rancher, if you qualify, you may only have to submit three years.

01:03:49:02 - 01:04:14:00

Unknown

This farm operations report, we talked about it earlier. Commodities grow on expected yields, expected prices. You do an intended report in order to, buying the coverage. If you make any major changes, either to crop mix or expected yields, then you do a revised. And then once the, crops have been harvested, you've received payment.

01:04:14:00 - 01:04:45:04

Unknown

Then you do a final report. If you have other crop insurance policies, you've got to summarize those. If you do get a, payment on another crop insurance policy that counts against a potential whole farm revenue payment, if you do direct marketing, you've got to have, marketing, information marketing records. And if you, carry, inventory of crops or livestock between one tax year and the next, you've got to record those inventory changes.

01:04:45:06 - 01:05:41:18

Unknown

Also, if you have accounts payable or receivable at the end of your coverage year, you've got to be able to, have records, outlining those amounts. One of the, things that makes whole farm revenue protection insurance, attractive to producers is it has the highest level of, percentage premium paid by the government. The, crop insurance, federally insured crop insurance program, a large portion, a significant portion of the premium is paid by the government reducing the premium costs for, the farmer, rancher, kind of the average premium subsidy for various types of crop insurance is about that 50 to 55, percent range.

01:05:41:20 - 01:06:19:06

Unknown

If you have, two or more qualifying commodities, based on the level of coverage, you select this policy, up to 80% of your premium, is subsidized. And so it makes for very, very reasonable, insurance premiums for producers. As you can imagine, the reason that that and some cases, this policy, is subsidized at the 80% level is this is a program that, the federal government would like to incentivize producers to use.

01:06:19:08 - 01:06:43:01

Unknown

That's kind of the ultimate, risk management coverage. So there's a lot of, incentive for producers to look at whole farm revenue. So let's go through a couple of quick examples. Again, I want to do this because it's important for those of you that are on the livestock side, maybe especially cow calf or federal feeders, feedlots to see how this would work.

01:06:43:03 - 01:07:18:10

Unknown

Any of these, federally insured, products, the risk management agency, the agency from the USDA that handles, federally insured crop insurance, they have a cost estimator. You can go online and plug in some data and get an estimate not only of, what the premium cost would be for you, how

much the premium is actually being, subsidized by the federal government, and also how much total coverage that, you would have.

01:07:18:12 - 01:07:49:12

Unknown

And so here we have an example. This is from 2017. We've included, whole farm revenue is the type of insurance, for Colorado Kit Carson. We're a calendar year filer. We don't have any specific, changes in practice. What we have here is our allowable revenue for five years. So, again, that came off of our schedule F, and in this case, we're just looking at, a cow calf operation.

01:07:49:14 - 01:08:20:23

Unknown

There are other types of, insurance. Commodity insurance for cow calf operators. But this is, usually a pretty simple, simple way to go. And again, it's, premium that a lot of people have looked at and will work. So we put the information in and here we can see that, we have a cow, cow, calf herd of 300 cows, and we can see various coverage levels from 50 to 75%, the total amount of coverage we could get.

01:08:21:00 - 01:08:57:10

Unknown

And then, that coverage on a per head basis. So at a 75% coverage level, we're covering \$489.70 worth of revenue per cow. Premiums. Again, you can see those that 75% coverage is is a little pricey. That works out to \$27. And \$0.33 per cow. We can see that, the federal government at that level subsidizes, a bigger portion of that premium.

01:08:57:11 - 01:09:28:24

Unknown

And so that kind of gives us an idea of especially as we look at the liability amount, what we might be able to do with whole farm revenue. Again, if we wanted to look at a situation where we want to forego, harvest price, some of our calves, this would be a way that we would have, risk, management insurance in case we had, just, a problem with, maybe we end up with, things dry up and we have a a drought.

01:09:28:24 - 01:09:56:18

Unknown

We've got to sell calves early, or we have some issues. Again, we've been able to cover, a large percentage of the income potential. Let's look at a little different example. This is a, a diversified example. We've got a young farmer here with 100, brood cows. He actually sells 70 finished steers. He feeds about self, he produces 75 acres of corn silage.

01:09:56:20 - 01:10:40:20

Unknown

18, tons per acre. Feeds 850 tons, sells 500 tons, has 75 acres of alfalfa hay, feeds to 20 tons, sells 130 tons, and also has 60 acres of pasture. So in this example, our young farmer lives in Morgan County. Again, it's included in the revenue information from the, schedule. F 2011, 2012, 2013, 2014 and 2015, and then the total projected sales for alfalfa hay, cattle and the feedlot and corn silage.

01:10:40:22 - 01:10:50:21

Unknown

Notice that we don't have, pasture listed there because that's not a covered commodity.

01:10:50:23 - 01:11:11:11

Unknown

Because we have three commodities, we can go up to 85% coverage. So given the information we've provided, this particular example could cover a total of 100 or, excuse me, \$130,305 worth of revenue at that 85% level.

01:11:11:13 - 01:11:36:14

Unknown

Premium would be 12,000, \$327 at 80% notice when we bumped that down to 75. The premium is is, about a fourth that amount. So there could be an, certainly a case for selecting a lower premium amount. And it's a 75% level. We're getting an 80% subsidy.

01:11:36:16 - 01:11:53:19

Unknown

And again, the premium subsidy amount, the actual dollar amount that's being subsidized. So we can say that when we get to that 75% level, by far and away the majority of it obviously is it's covered by the federal government.

01:11:53:21 - 01:12:24:10

Unknown

So again, whole farm revenue could be a, possible way to, take out some of the risk of, price risk and also, production risk, yield risk for cow calf producers or diversified operators with both, livestock and crop enterprises. One of the things you have to be a little concerned with is, when you have a claim, you've got a doctor document qualified expenses and rate of 70% of income.

01:12:24:12 - 01:12:47:24

Unknown

Typically that's not an issue. That's basically saying, there's a 30% margin there. And typically most of our operations don't have that. The only place I've seen this is an issue was some dry land crop producers. But again, it's not much of an issue. As I mentioned, if you do have a loss from other crop insurance policies, those are deducted from any payment you might get.

01:12:48:01 - 01:13:25:21

Unknown

Also, if you've got several qualifying commodities, you can have a total loss of one or more commodities before a whole farm revenue loss would be triggered. And that's a reason some people will take on some additional, types of crop insurance just to make sure they've covered that potential problem. This product was actually designed for organic producers, and one of the issues with organic producers is if we use, the futures market to determine that, starting price for revenue product that really doesn't, take into account the additional value of organic production.

01:13:25:23 - 01:14:04:17

Unknown

And so, where whole farm revenue uses the revenue of the farmer branch to determine the coverage level. If you're an organic producer and you're able to get a higher premium for that crop, or livestock, that figures into the program. Again, that's the premium subsidy. I think is still worth looking into if if you're a commercial operation producing three or more commodities, and the other two livestock related insurance programs, livestock gross margin and livestock revenue protection, there can be some issues with premium cost and availability for those coverages.

01:14:04:17 - 01:14:28:10

Unknown

So a whole farm might be a way that, you as a livestock producer could take some risk out of both yield and price movements. Questions about utilizing crop insurance as a way to develop that marketing plan. And again, as we move forward and put together actual marketing plans, that's one of the things we're going to look at.

01:14:28:10 - 01:14:59:10

Unknown

We're going to look at, you know, based on your APA or your revenue, if we're looking at whole farm revenue, how much of that commodity can we, comfortably pre harvest price without worrying about having a price or yield disaster and being able to make that contract whole? If we needed to.

01:14:59:12 - 01:15:24:20

Unknown

Okay. Getting back to our list, you can see that we have, not knowing your cost of production highlighted. And we'll take a look specifically at that issue. Moving forward. So, first question is what is cost of production? And basically the Dollar Valley value of all the inputs for growing a specific commodity, livestock or crop. It really doesn't matter.

01:15:24:22 - 01:15:47:17

Unknown

Two major components of cost production are your fixed costs and your variable cost. And what I find is when I ask producers, crop producers, livestock producers, that really doesn't matter. Tell me what your cost to production is. What does it cost you to produce a bushel of corn? What does it cost you to produce 100 pounds of, of, feeder cattle?

01:15:47:19 - 01:16:17:07

Unknown

Or to, produce a 100 pounds of, of fed cattle? Most of the, producers can tell me, within just a few cents what their variable cost are. Typically we do a great job, a variable cost, and we know those pretty well. Where people get in trouble is when it comes to fixed cost. And in order for us to truly know what our cost to production is, we need to be able to calculate both the fixed cost and the variable cost.

01:16:17:09 - 01:16:47:14

Unknown

And so when we take a look at some examples of fixed costs, land taxes, insurance, several other things to be fixed cost. Sometimes we talk about refer to those as overhead. And another way to look at is these costs are fixed, meaning that regardless of, of, how much we produce, we're still going to pay these cost, we're still going to pay a land, either rental rate or, a mortgage.

01:16:47:16 - 01:17:10:08

Unknown

Whether we produce 50 bushels of corn or 50 million bushels of corn, we're going to pay property taxes whether we farm or ranch or not. There's a level of basic insurance that we're going to pay again, regardless of our level of production, variable or sometimes called direct cost, are those things that do vary with level of production.

01:17:10:10 - 01:17:36:04

Unknown

Obviously, the more, acres, we farm, the more seed we're going to have to purchase, the more animals we feed. We're going to have to purchase more feed, fertilizer, fuel. Those are in proportion to, the level of production. So those are vary. And again, most producers are really pretty good at being able to calculate those variable costs.

01:17:36:06 - 01:18:13:20

Unknown

The primary problem we have with fixed cost is how do we allocate those among several enterprises. You know, we make that one land payment. But on that land we produce corn and we produce soybeans and we produce, calves. How do we allocate that mortgage equitably among those various enterprises? One method that some people use is, they will, allocate based on acreage, and then they'll also allocate based on, head of female livestock.

01:18:13:22 - 01:18:41:10

Unknown

And I know a lot of irrigated farmers that think, well, the potential income I can receive on an irrigated acre is equivalent to the income I receive, from one cow when I said that cows calf. And so an acre is going to be a unit, and one cow is going to be a unit. So if I have 500 acres and 500 cows, then I'm going to take that land cost and I'm going to divide it by a thousand.

01:18:41:16 - 01:19:08:20

Unknown

And that's how I allocate it per acre or per head. Some people are very sophisticated and, they actually, do this on a, revenue basis. You know, the total amount of revenue generated by each enterprise and by a percentage, then that enterprise will pay for the fixed costs. So that's usually the biggest problem is determined how we allocate those fixed costs.

01:19:08:22 - 01:19:23:01

Unknown

Fast ways to do it. Bottom line for me is select a method that makes sense to you and then be consistent. Use that method year in and year out.

01:19:23:03 - 01:19:57:19

Unknown

Cost production is important for a couple of reasons. One enterprise selection. I've actually had an opportunity a number of times to sit down with farm and ranch families and look through their financial records. And if we look at the, financial records on a whole farm or whole ranch basis, we may be in a situation where the farmer ranch is profitable, but if we're able to drill down and look at each enterprise individually, it's very common that we'll find that we may have an enterprise, that's not been profitable.

01:19:57:19 - 01:20:19:11

Unknown

It's not profitable. It's not been profitable for a number of years. But if we look at on a whole farm basis only and not by enterprise, we never pull that out. And so knowing our cost of production by enterprise can help us determine the best mix of enterprises to maximize the profit on that farmer ranch. Very commonly we'll find enterprises.

01:20:19:11 - 01:20:51:18

Unknown

I mentioned that, it's losing money. Maybe it's lost money for a number of years. And by knowing that, maybe we can make some changes in that enterprise to make it profitable, or maybe sometimes we find out we're better off to discontinue that enterprise and take those assets and use them for something else. And as we mentioned, for central for for developing a marketing plan, it's, impossible to know if the market is offering us a price that's at a profit if we don't know our cost of production.

01:20:51:20 - 01:21:30:05

Unknown

So what I like to do in the next few slides, just talk quickly about one way that you can, determine cost of production. And there's basically two ways to do it. One way is through looking back and primarily looking back, and analyzing, your farmer accounting system or ranch accounting system. The other way is to look forward and to come up with cost production on a projection basis, looking at, your cash flow or projected cash flow, probably the more accurate way to do this is to look backward and look at actual production records, actual history.

01:21:30:07 - 01:21:54:03

Unknown

And so the point I like to make with producers is if your record keeping system that you currently use will not allow you to determine cost of production, you probably need to be looking at a different recordkeeping system. And I'm going to give you an example of how to do this, using quicken. And the reason I do this is working with farm and ranch families in northeastern Colorado.

01:21:54:05 - 01:22:23:04

Unknown

I find that probably half or better, utilize quicken for the farm accounting system. The reasons behind this, quicken is it's very easy to, get Ahold of, I mean, you can get a, subscription online. It's very inexpensive. And, it's pretty easy to understand. The basic issue with quicken is that it was developed to track your personal accounts.

01:22:23:06 - 01:22:45:22

Unknown

That's why the you know, the the basic view in quicken looks like a checkbook. And so what we have to do in agriculture is take quicken, which was designed for personal accounting, and manipulate it or trick it to make it a good ag accounting software package. And, there's a great resource out there for you to use to do this.

01:22:45:24 - 01:23:12:17

Unknown

Oklahoma State University actually has a, quicken, website. Agriculture permits at Oklahoma State, I think for the last 25 years have, been quick, tricking quicken, to make it work well for agriculture. So I've listed the website here. You can simply Google or use, a search engine if you'll just Google. Okay.

01:23:12:17 - 01:23:37:13

Unknown

State quick and you'll get to this site. The site has two really important things. First of all, it has a quick and for ag manual, and this is free. It's a PDF file. You can download it. We use quicken for our farm accounting package. This manual is about 80 pages. I downloaded it, I printed it out.

01:23:37:15 - 01:23:55:21

Unknown

I three hole punch it, and I've got it in a notebook, and it sits right by the computer. We used to do our farm and ranch. Recordkeeping. It's just a great resource. If I have a question or maybe I want to do something in quicken that I don't do on a regular basis, I can find the information in the manual.

01:23:55:23 - 01:24:33:13

Unknown

So, at, at a minimum, if you use quicken, I would highly recommend that you download the manual. The other thing that this, website provides, which is really value valuable, is a set of sample files. And so the value with these sample files is if you're just learning quicken, or maybe you've used it for a while and you've downloaded the manual and you want to learn some of these new techniques rather than jeopardize your data, and run the risk of making a, an issue or losing something or messing something up.

01:24:33:15 - 01:25:02:17

Unknown

You can download the sample files and manipulate them and learn how to use, the, the techniques using the sample files where your data is not at risk. I tell people who maybe are thinking about using quicken, by, an inexpensive version of quicken. Download these files and play around with it, learn how to use it, and then if you like it, then start keeping your own farm and ranch records on it.

01:25:02:19 - 01:25:28:14

Unknown

So one of the things you can do with quicken is it has a function called a tag function. And so any of you that use quicken, you know that, when you're making an entry in quicken, one of the things that you can do is you can, designate a category, a type of, of, income or expense item that you want to categorize that expense.

01:25:28:16 - 01:26:03:13

Unknown

And so here we have an example. This was a check written to the co-op, and the check was written in amount of \$4,571.40. So, \$571.40 of that were fencing materials that were categorized as a farm supply, 4000 of that or chemicals for wheat enterprise. So if you're familiar with quicken, you probably know how to split a transaction and you know how to make the categories and the memo function work.

01:26:03:15 - 01:26:36:18

Unknown

The tag function refers to that tag column. And you can designate, certain number of tags. And in our case, we're using tags to determine, enterprises. So in this example we have a cow calf enterprise and a wheat enterprise. So when we make a transaction or report a transaction, either an expense or income, in addition to breaking it down by category, we can also say what enterprise we want to charge that to in the form of a tag.

01:26:36:20 - 01:27:11:23

Unknown

So if we do a good job of this and we include these tags with all of our transactions, we can produce what's known as a tag report. And so this is an itemized tag report. And it lists all the income and expenses separated by tags. And as you notice here we have a cow calf enterprise. We're also we are, taking a look at our farm of living expense, and we have a wheat enterprise, and then quicken automatically calculates an untagged category.

01:27:12:00 - 01:27:36:09

Unknown

So any, income or expense item that we don't, designate a tag for and ends up in that untagged category. The nice thing about that is, if I it's the middle of the summer, and and I'm, we're busy farming and ranching and, I make entries maybe once or twice a month just to make sure I'm not overdrawn in my, my, operating account.

01:27:36:11 - 01:28:07:18

Unknown

And maybe I don't have time to tag things. I can go back and pull that tag, report up and find out what was untagged, and then print that out, go back and and go through those, those entries and put a tag toward those. But the the big thing I'm looking at here is, if we had use this tag function throughout the whole year and let's take a look at those, we'd expenses we've got, \$6,512 and we'd expenses.

01:28:07:20 - 01:28:32:16

Unknown

If I produced a thousand bushels of wheat, I could take that \$6,512 divided by a thousand bushels of wheat, and have my cost of production per bushel of wheat. And if I did a good job, and separated out not only that fixed, but also the, the variable and fixed expenses, then that would be a very, very accurate number.

01:28:32:18 - 01:28:58:12

Unknown

So again, the point here was twofold. Number one, to show you, if you do use quick or you're thinking about using it, it has a function that does a great job in helping you determine your cost of production. If you've got an accounting system now, you need to find out if you can somehow separate income expense items out by enterprise so that you can do cost of production.

01:28:58:14 - 01:29:21:01

Unknown

If you can't do it, I'd be looking for another accounting package. Questions about determining your cost of production. Really a function of, in my mind, your, farm and rancher accounting software. But a pretty important function.

01:29:21:03 - 01:29:54:21

Unknown

Okay, to reiterate, I've talked a lot, talk some about cost of production, why it's important. And some methods you can use to determine it. It's been a lot of time on reluctance to pre harvest price commodities. Why it's important to do it. How to do it. How to overlook or overcome a couple of basic issues, guaranteeing that you're able to fulfill contracts through use of insurance, methods to capture higher prices if markets move higher.

01:29:54:23 - 01:30:23:05

Unknown

We've talked about basis throughout why it's important, why you should be able to track local basis. And also to predict what, basis in the future would be essential for determining if a futures or options position is going to offer you a final price that's above cost, production and offers of profit, a pricing strategy that's going to be a big, big part of developing a marketing plan.

01:30:23:07 - 01:30:53:02

Unknown

And we're going to spend some time, in the next four weeks and in going through how to develop an effective pricing strategy. And then the final

problem are five common, the common marketing commodity market mistakes is holding on price, grain and storage too long? Certainly this is not an issue with, with, livestock. But it is our can be an issue with grain.

01:30:53:04 - 01:31:18:06

Unknown

So advantages to storing grain. Probably the two biggest ones if you are a large producer, certainly it speeds up harvest by avoiding long lines at the elevator. If you're the only one obviously filling your storage facility, you're not waiting in line. It's first come, first serve. And there are a number of large producers who, that is a big reason they've developed on farm storage.

01:31:18:08 - 01:31:43:06

Unknown

Was to get that crop out as quickly as possible. In many cases, their grain bins are located, much closer to their fields than a, local elevator would be. So obviously there's some, benefits and reduced transportation costs. The other advantage is to avoid harvest price lows. There's another several other ways we can do this.

01:31:43:08 - 01:32:15:04

Unknown

We can actually use marketing assistance loans. We can sell at harvest and buyback calls. We've talked about this, but, if we are, if we have storage facilities, any way again, we can hold that grain in and sell it when prices are better. Typically after harvest. One of the problems we have, though, is if we hold the grain in storage too long, we have some things that typically happen in the market that cause some problems.

01:32:15:06 - 01:32:48:19

Unknown

Kind of the rule of thumb in, winter wheat is, we like to have, that, crop, priced, no later than about the middle of May and hopefully priced in out of the bins, by, middle of or out of the bins by middle of June, on, corn. Typically again, we want it priced by 1st of October and probably out of the bins by, middle October, 1st November.

01:32:48:21 - 01:33:13:02

Unknown

The problem we have is our new crop futures prices are usually become strong in the spring about planting time. That's when we start to have issues with, getting the crop in, and. And, if it's too wet or too dry, it planting time. So our new crop futures are rising, but the old crop in the bean, we start to see those prices decline.

01:33:13:04 - 01:33:45:04

Unknown

The other issue we have is by early summer, the basis starts to adjust to what we think the harvest price lows will be. So we have weakening basis and the value of the old crop is going down. And so we have kind of this double whammy. Old crop futures decline local basis widens. And so the value of that crop in the bean at a certain point loses value day after day after day.

01:33:45:06 - 01:34:18:00

Unknown

Okay. We're going to stop at that point. And, time for any questions you might have. This evening again, we want to try to tie up a few loose ends. I wanted to be able to, address all five of the, issues with, those common mistakes and commodity marketing, with exception. And number four, which, again, will be a really, really big part of what we do moving forward.

01:34:18:02 - 01:34:43:00

Unknown

I got one, on your cost of production is your fallow ground covered on the future crop or the past crop? Are you figuring that in for your past crop? How do you do fallow ground? Okay, a couple of different ways you can do it, or you can do it. Either way, you could, include the fallow is part of the the value of the growing crop.

01:34:43:02 - 01:35:06:13

Unknown

Or you could, you could include it in the year that that field actually raises a crop. The issue is to be consistent. What I see most people doing, we're fallow is an issue. It's typically you're in a winter wheat, situation. Situation. You know, wheat fallow or maybe some other, dry land crop and fallow.

01:35:06:13 - 01:35:54:06

Unknown

And so what most people will do to account for that is when they set up their tags, as an example, in, quicken, they'll actually, indicate, the year of that wheat crop. So, let's say that's a 21 wheat crop. And so in essence, they're calculating, they, they will start including expenses of that 21 wheat crop the fall of 20, because that's when that crop is, planted and so any expenses that are incurred from when that crop is planted and to when it's harvested, including silo expenses, are designated to the 21 wheat crop.

01:35:54:08 - 01:36:25:06

Unknown

And so that's the most common way that I see it is they try to, calculate silo expenses, against the crop that is being produced. And so, any expense from, you know, the date you start planting wheat. And so the, the day that wheat is, crop is harvested, go into the cost production of that year's wheat crop.

01:36:25:08 - 01:36:30:09

Unknown

Good question.

01:36:30:11 - 01:36:58:15

Unknown

I also see, that year designation with, feeder cattle or if you retain, some calves and feed them and sell them as feeders because again, those calves are born and sold into different calendar years. Those calves are

being born now in 2021, if I'm going to retain ownership and sell them as feeders, I'm probably going to market those calves in 2022.

01:36:58:17 - 01:37:36:01

Unknown

And so I will associate all of the expenses with that 2021 calf crop from the time they're born till the time I market them. And so I will actually have, expenses across that calendar year. And by adding a year designation to the, the, you know, the tag, I'm able to track that, occasionally we raise sugar beets in rotation, and, we do not receive all of our sugar beet revenue in the year that we, that we harvest the beets.

01:37:36:03 - 01:37:56:11

Unknown

And so any time we raise sugar beets, we always put a year designation along with the tag, because we'll be getting payment for that beet crop. The next calendar year. So to really get a true, idea of the cost of production for sugar beets, we need to include all the income and all the expenses.

01:37:56:17 - 01:38:18:05

Unknown

And again, it crosses a calendar year. Other questions.

01:38:18:07 - 01:38:41:23

Unknown

Okay, well, as I mentioned, next week, we, start kind of the second half of the class. We're going to focus on developing a marketing plan and adding more tools to your toolbox. Between now and then, if you have questions, please feel free to drop me an email. I'll be happy to, respond to those and, look forward to meeting with you again.

01:38:42:00 - 01:38:45:11

Unknown

Next week, between now and then. Have a great weekend.

END TRANSCRIPTION