

You can and should shape your  
own future.

If you don't someone else  
surely will.

# What types of risk do we have?

- Production
- Price
- Basis
- Relative value
- Substitution

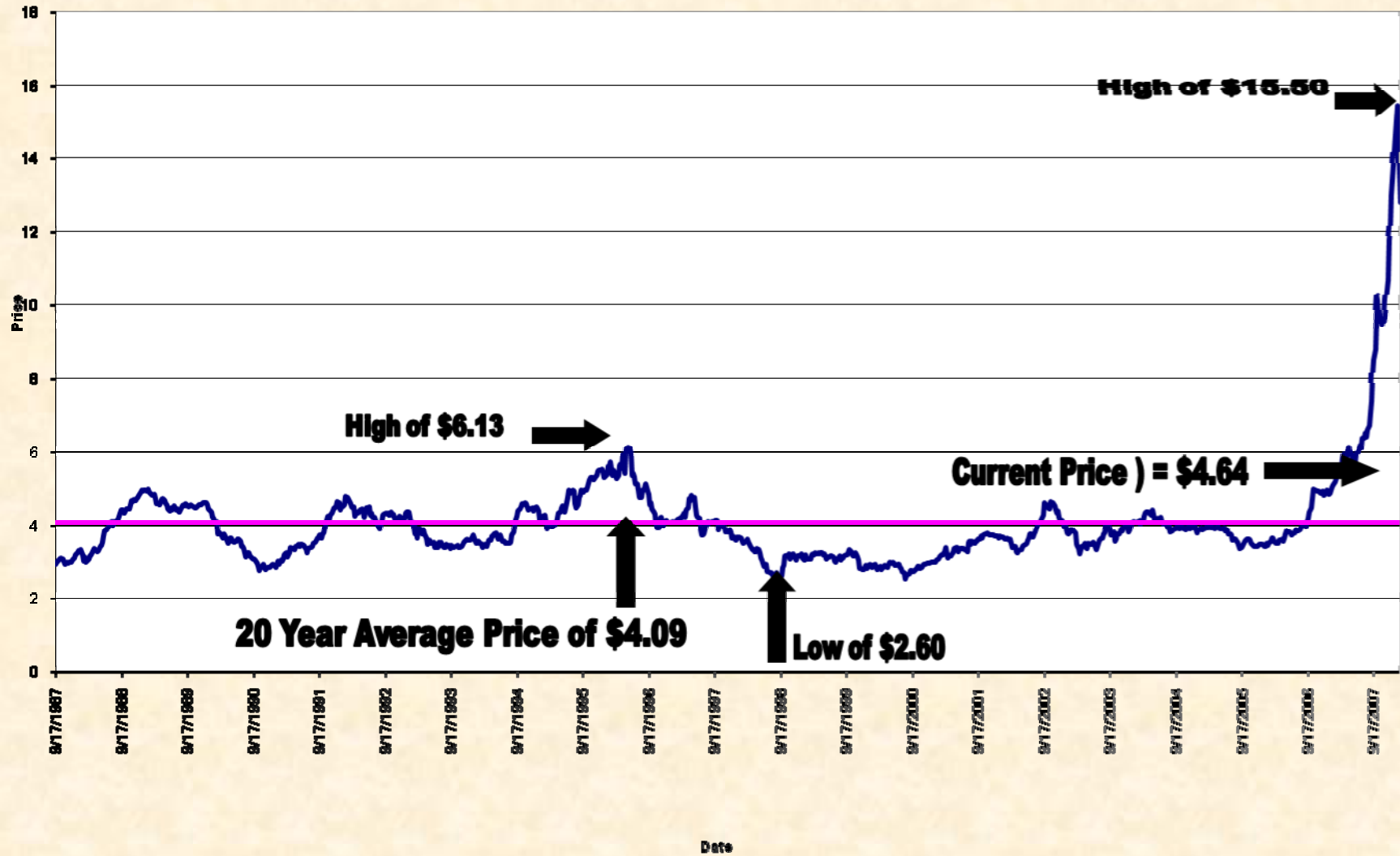
Today's commodity prices are created by supply and demand.

All prices beyond today are created by speculation value coupled to the speculative value of time.

# HIGH PRICES

- In 78 out of the last 91 yrs. wheat price increase averaged between 10% and 15% AFTER HARVEST.
- IN 11 OF THESE 91 YRS PRICES INCREASED 40% OR MORE.
- “UNPREDICTABLE” DRIVERS WERE WAR, POLITICS, DROUGHT, AND WETNESS.

Historic Prices vs. 20 Year Average



# Marketing is an emotional endeavor

- Marketing rather than price taking requires knowing what you want and preparing the assumptions and action steps.
- Marketing rather than price taking is a very mental endeavor. Strong emotional control and the right set of core beliefs are essential for self-felt and economic success.
- Most Professional traders have a common goal of capital appreciation from marketing decisions--- NOT --speculation on non-trending commodity moves.

# Do you know you?

- **We are a product of our personal belief structure.**

**How will you feel if you contract a portion of next years wheat crop for \$9.50 and the price when harvest arrives is at \$3.00?**

- **How will you feel if the price when harvest arrives is at \$16.00?**

- **What if that portion was 25%**

- **Making profit is seldom the real emotional goal when we sell or at what price.**

- **It is the means to the end, a currency that buys us emotional states (e.g., feeling safe, feeling proud, feeling free, feeling right).**

Has this ever happened to you?

Joe farmer sold 25% of his expected wheat crop for harvest delivery at \$ 7.65 saying it was a great sale.

Did he have a good reason? Sure did , it was a price well above the harvest price for the past several years. He knew it was a good profitable price and knew he would have at least that many bushels.



But - as is always the case with regret syndrome markets, the price went up and up after the sale.

In fact, to Mr. Farmer it almost seemed that the wheat market had become aware that he had sold his wheat and used that information as the catalyst to move up more and more over the next several days and months.

Then something weird happened; He found himself rooting that the market would go lower.

After all, since he still owned 75% of the wheat crop and every move higher was making him money.

But every move up was also a stinging rebuke of his completely arbitrary but financially sound decision to forward sell 25% of the crop at \$7.65.

This resulting conclusion is inescapable; Joe literally found himself wanting to lose money.

- Why would Joe Farmer ever want to do that??  
It's simple. We find ourselves valuing the emotional return as more important even than the financial return.
- **In most cases, our financial emotional self is poorly conditioned.**
- Making profit is seldom the real emotional goal when we sell or at what price.

It is the means to the end, a currency that buys us emotional states (such as, feeling safe, feeling proud, feeling free, feeling right).

Unfortunately, sometimes our emotional goals and financial goals are incompatible

Being aware of our secret reasons for making financial decisions (Emotional Return on Investment) is what helps us overcome our psychology and navigate through the emotional mind field of purchasing and marketing decisions.

Question:

How have the high prices of the past two years impacted the selling of the current years wheat crop?

# Planning for the future

## *Emotional*

- Decisive action happens only if we are mentally positioned to capture assumptions which fit our desired personal outcome. **Paradigms**
- How do we develop an understanding of what makes us act and respond the way we do.
- Mental conditioning (thru strategic planning) makes us more proactive to situations and enables us to more quickly recognized fitting opportunities.
- Listen with the intent to hear what is being said, especially by those who challenges our paradigms.
- **Understand from the other persons viewpoint.**

# Planning for the future

## *Financial*

- Pay yourself a wage monthly.
- Profits only uses should be as tools for measurement, growth, or retirement.
- Understand and measure your use of depreciation dollars for growth.
- Procure inputs and market outputs from a manufacturing perspective.
- Know the markets and what they are telling you.
- Make sure that your Banker, Accountant, and Insurance agent are part of your Strategic Plan and understand the planned action steps

### ***Return on investment***

<b>Cost of production per acre</b>	<b>\$ 400.00</b>
<b>yield per acre (Bu)</b>	<b>75 Bu</b>
<b>Cost per bu produced</b>	<b>\$ 5.33</b>
<b>Desired return on investment</b>	<b>50%</b>
<b>needed price per bu to get desired return</b>	<b>\$ 8.00</b>
<b>Current price at Portland for pricing period</b>	<b>\$ 9.65</b>
<b>Your Location differential(Basis) to portland</b>	<b>\$ 0.61</b>
<b>Your location price</b>	<b>\$ 9.04</b>
<b>Improvement over cost of production (acre)</b>	<b>\$ 278.00</b>
<b>Improvement over cost of production (Bu)</b>	<b>\$ 3.71</b>
<b>Rate of return over investment cost</b>	<b>69.5%</b>
<b>Bushels per acre to sell to cover cost of production</b>	<b>44.25</b>



There is no crystal ball BUT there is  
**Predictive Intelligence**

**Predictive Intelligence** = Mapping the future based on defined possibilities and probabilities of what will happen and your needed actions (bets) to capture positive results of predefined goals .

- Define the potentials of the future then define what risks you are willing to take on and which risks you will be passing to others?
- Identify the necessary action steps, constraints and time lines to accomplish the predetermined goal.
- Have the Back up Plan so you can be proactive to missed assumptions.

# Keys to successful marketing

- **You must have a vision of what you wish to accomplish over a long period of time.**
- Understand yourself. Why do think the way you do. What were your past decision making pitfalls and shortcomings. **WRITE IT DOWN. Refer to this list when making your marketing decisions .**
- Plan and write down your short and long term marketing strategies with ---if, when, and then statements. These can then put in a simple Excel spreadsheet for execution.
- **Include Government Programs and Insurance products in your marketing strategies.**

# Equip yourself with Knowledge

- How do insurance programs work ?
- What is driving short term market trend (1 month to 3 year)?
- What may happen to change long term trends ( beyond 1 year)?
- What are the current world commodity competitive force trends Country, weather, commodity mix , relative value (Corn, Barley, wheat, Soybeans, Rice)?
- What do the market experts think? (Not the Coffee Shop crowd.)
- What price will return you the percent return on investment that you want each of the next four years?
- Mark your unsold inventory to market daily. This will help you equate dollars and strategy to inventory.

# USE THE FSA PROGRAMS

- Loan
- Years of low price always use carry coupled with Govt. loan/697 buy back program tools even in forward contracts
- Understand and use Govt. backed CRC insurance product to the maximum percentage. It is about revenue guarantee not production guarantee. **This is the closest to a free Put that you will ever get!!!!**

# E-S-C-A-L-A-T-I-O-N

- Because we missed the boat doesn't mean it will come back.
- The goal should be to make a greater than average return on investment– Not to top the market.
- Write down an exposure limit
- Prepare yourself in case extreme event happens.

# GIVE YOURSELF A BREAK

- NO ONE CAN PREDICT THE TOP OR THE BOTTOM OF A MARKET
- FOCUS ON PRICE TARGETS THAT RETURNS A DESIRED RATE OF RETURN OVER TIME
- BE THE LOW COST PRODUCER PER BUSHEL

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# price 9-12-09

## Futures price highs vs. current price

<b>Chicago wheat</b>	<b>Current price</b>	<b>Contract high</b>	<b>Minn. wheat</b>	<b>Current price</b>	<b>Contract high</b>
September-09	4.41	10.60	September-09	4.75	11.25
December-09	4.67	11.21	December-09	4.94	11.42
July-10	5.10	11.13	July-10	5.33	8.51
December-10	5.48	10.28	December-10	5.62	8.26
July-11	5.89	10.36			
December-11	6.03	6.71			
July-12	6.59	6.24			

<b>Chicago Corn</b>	<b>Current price</b>	<b>Contract high</b>	<b>Chicago Soy Beans</b>	<b>Current price</b>	<b>Contract high</b>
September-09	3.140	7.640	September-09	9.84	15.68
December-09	3.190	7.070	November-09	9.03	15.57
July-10	3.510	7.140	September-10	10.30	10.30
December-10	3.700	7.050	November-10	8.99	15.55
December-11	3.860	6.600	November-11	9.14	15.50





2008-2009!?!

Now what

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