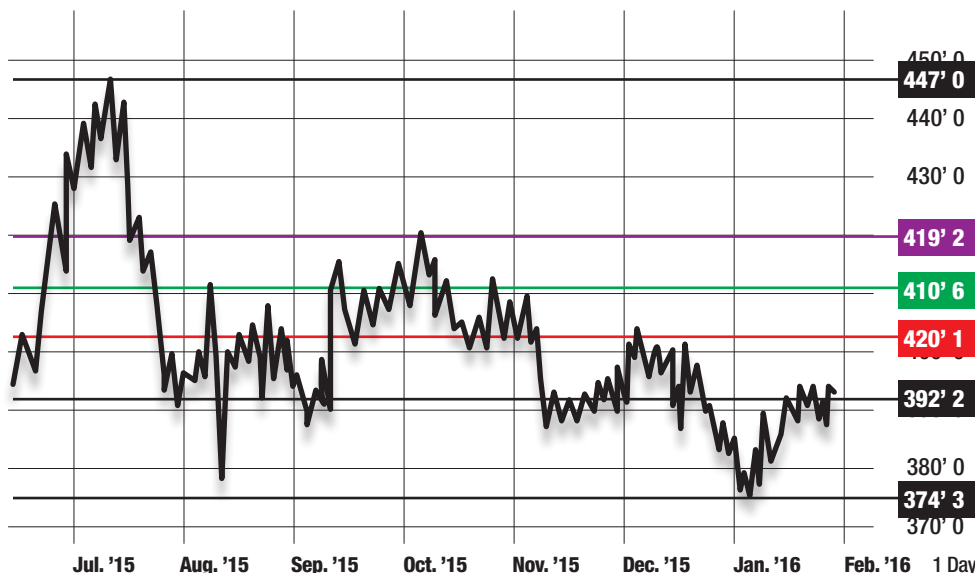


YOUR PROFIT

By Al Kluis

December 2016 CBOT Corn with Fibonacci Retracements



This chart shows the high (\$4.47) for December 2016 corn in July 2015 and the low (\$3.74) in January 2016. A 50% retracement takes prices back to \$4.10; a 62% retracement takes prices back to \$4.19. Those are the two first price targets you'll want to reach before considering hedging or buying puts on the 2016 crop corn.

A RISK-MANAGEMENT PLAN FOR 2016 IN 3 STEPS

LOWER PRICES CHANGE HOW YOU SHOULD POSITION YOURSELF THIS YEAR.

The bank meeting in southern Minnesota had just started. I was not even through my opening comments when a farmer stood up and said in a nervous voice, "Your three-step risk-management plan has worked great for me the last four years, but this year I cannot seem to make anything work. I am cutting all of my input expenses to the bone, and this year I may have to cut out or cut back on my crop insurance purchases. What do you think?"

I told him he was not the only one having trouble projecting a breakeven this year. After three years of lower

grain prices, he may need to change how he makes risk-management decisions. However, cutting out or cutting back on Revenue Protection (RP) crop insurance was not something I recommended.

I am not a crop insurance agent and I do not work in the industry, but crop insurance is an important part of my three-step risk-management plan for farmers. My advice to him was to work with a qualified crop insurance agent.

A PLAN REVIEW

Following is a review of my three-step risk-management plan.

Step One: Buy the right level of RP crop insurance.

I cannot advise which crop insurance company to buy from or what policy level to buy. Work with a professional insurance agent that specializes in crop insurance.

Step Two: Figure out your insured ("A") bushels and your uninsured ("B") bushels. Get 80 to 100% of the "A" bushels hedged.

Step Three: Protect the uninsured ("B") bushels using put options.

Here's an example for 800

acres of corn. Assume 150 bushels per acre APH and 80% RP coverage:

Total production = 800 A x 150 bu/A APH = 120,000 bushels

"A" bushels = 120,000 x 80% RP insurance = 96,000 bushels

"B" bushels = 120,000 - 96,000 = 24,000 bushels

Here's an example for 800 acres of soybeans. Assume 50 bushels per acre APH and 80% RP coverage:

Total production = 800 A x 50 bu/A APH = 40,000 bushels

"A" bushels = 40,000 x 80% RP insurance = 32,000 bushels

"B" bushels = 40,000 - 32,000 = 8,000 bushels

My three-step plan has worked great over the last four years. With lower prices, though, it's time to make some changes, and that means looking a little closer at RP insurance.

SUCCESSFUL MARKETING NEWSLETTER

Start making more money today with a new marketing newsletter by Successful Farming® and Al Kluis. Learn more at Agriculture.com/deal.





November 2016 CBOT Soybeans with Fibonacci Retracements



This chart shows the high for November 2016 soybeans in July of 2015 at \$9.85 and the September 2015 low at \$8.50. A 50% retracement takes prices back to \$9.17; a 62% retracement takes prices back to \$9.35. Those are the two first price targets you'll want to consider before hedging or buying puts on the 2016 crop soybeans.

If you would like to learn more about how to use crop insurance to protect against lower prices, join me for a free Kluis Publishing Special Crop Insurance Webinar on Tuesday March 8, 2016, at 7 p.m. Central time.

To participate, go to www.JoinWebinar.com and enter webinar ID 143577843. (If you are using your iPhone or iPad, first go to the App Store and get the free GoToWebinar App.)

Bring your questions!  

NOTE: Trading of futures and options has substantial financial risk of loss and is not for all investors.

AL KLUIS Commodity Trader

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Price/ Bushel	2012	2013	2014	2015	2016 (very early projections)
Corn	\$5.68	\$5.65	\$4.62	\$4.15	\$3.98
Soybeans	\$12.55	\$12.87	\$11.36	\$9.73	\$9.10

The chart directly above shows the February average prices for December corn and November soybeans since 2012.

Do you see the problem? This year, the estimated prices are so low that they are below most farmers' cost of production.

Unless there is a huge rally, you may not be able to hedge in a price on the "A" bushels that is high enough to lock in even a break-even, even if you get them hedged above the RP price guarantee.

Here are three suggested modifications to your 2016 risk-management plan:

#1: Do not change your purchase of crop insurance.

The RP insurance protects against lower prices and also protects against crop loss. With the subsidies that are in place, crop insurance is still an essential and cost-effective part of your risk-management plan.

#2: Look at a new product that many insurance companies are offering this year. It is commonly referred to as Price Select. This allows you to choose the average monthly price (for December corn and November soybeans) in a month that is different than the average monthly price in the month of February. If you have to pick one month, choose July. Better yet, buy two months and select June and July.

#3: Use puts to get price protection on the "A" bushels in June and July if corn and soybean prices are above your crop insurance guarantee but below your break-even. I know you may lose the put premium if prices go higher, but you need to lock in some type of price floor if the May-June price rally develops.

THERE IS HOPE

After the grower meeting was over, the farmer came up and told me that he felt better. This was the third marketing meeting he had been to this winter, and apparently I was the only person who had any hope for higher prices.

"Your plan has worked great for me the last four years. With these three minor changes, I can see how it might work in 2016," he said.