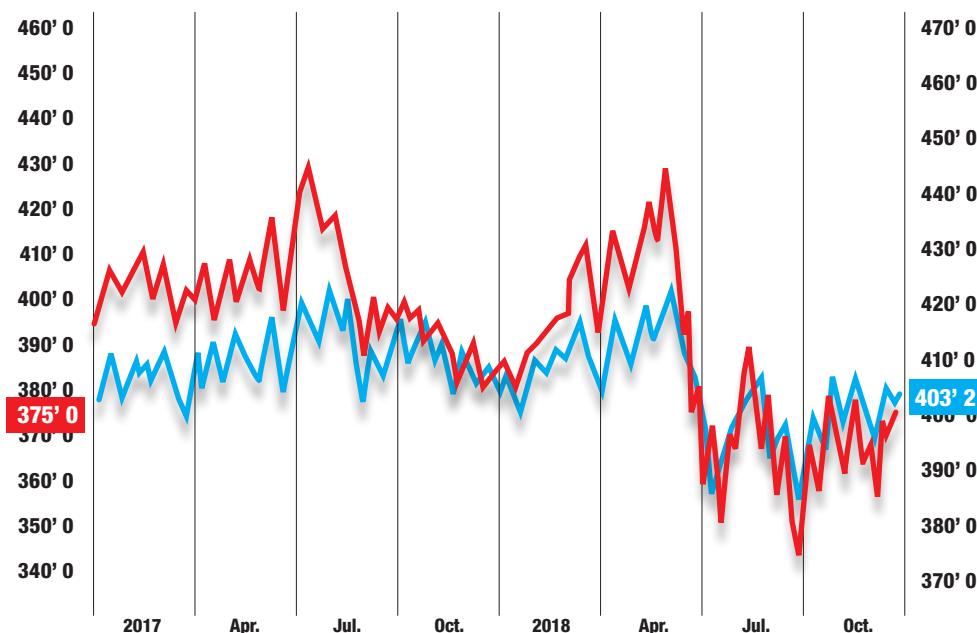


YOUR PROFIT

By Al Kluis

December 2018 Corn December 2019 Corn



This chart of December 2018 and December 2019 corn shows that over the last two years, \$4.20 is a tough chart resistance level. Hedges placed at \$4.10 to \$4.20 have usually been the right financial and marketing decision to make. In only one of the last five years (2017), you have been able to place a new-crop hedge above \$4.20. I think you will get that chance in 2019.

3-STEP PLAN HERE ARE THREE WAYS TO FINE-TUNE YOUR PLAN FOR 2019.

I enjoy teaching my Kluis Grain Trading Academy. The students are farmers from all over the U.S. They are there to learn about charting, grain marketing, options, and the best risk-management tools for their farms.

These students are serious. (Why else would they come to Minnesota in January?) Many are very proficient with spreadsheets. They listen and often look at previous years to back-test whether what I am teaching works. The good news is, the methods we teach have a high probability of working. This is especially true if farmers follow through the entire

year and use my three-step risk-management plan.

REVIEW OF THE PLAN

My basic three-step risk-management plan is as follows.

Step #1: Buy the right Revenue Protection (RP) crop insurance policy. I am not an agent and the only advice I can give is to work with a qualified insurance professional.

Step #2: Get 50% to 100% of your insured bushels hedged ahead on any spring or summer weather-scare rally.

Step #3: Get the new-crop bushels that are not protected with hedges protected with put options.

In the last three years,

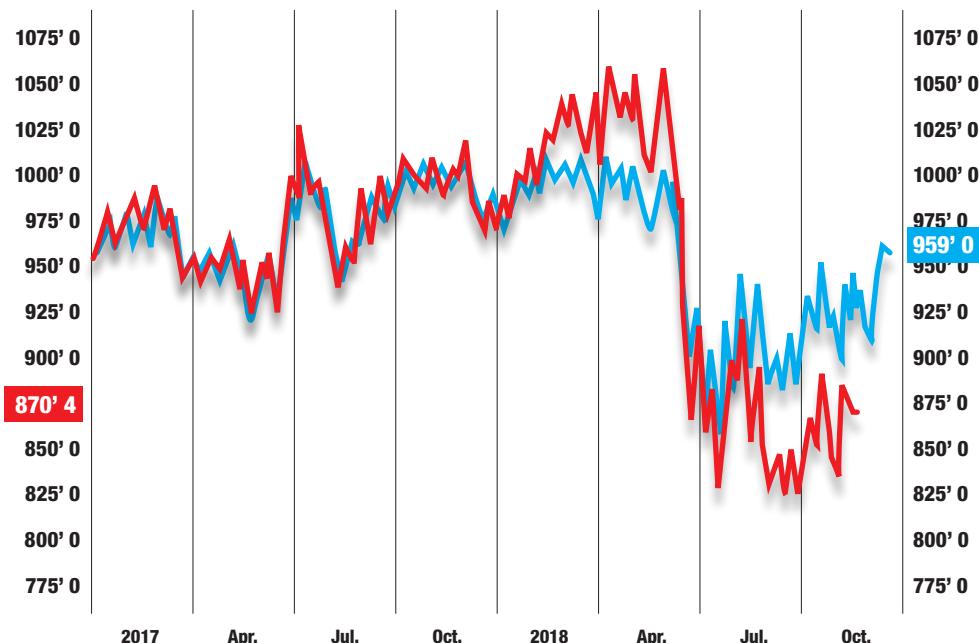
the new-crop hedge and puts have really worked well. That is because in each of the last three years, grain prices have gone much lower from the spring/summer highs to the harvest lows. Many farmers with lower yields in the western and northwestern Corn Belt this year stayed in the black because of the profits on the new-crop hedges, puts, and the RP crop insurance payments.

It's important to review your risk-management plan. It is also very important to review how you think and feel.

Look at the mind-set of how you measure the success of your risk-management plan. The individual farm-specific marketing and risk-management plans my team and I put together do not always create a profit in hedge accounts. In fact, the year when many farmers had large losses in their hedge accounts and ended up spending money on puts that became worthless was 2012. However, 2012 was also one of the most profitable years for most of our farm customers. The risk-management plan worked in 2012. Farmers had 1099 losses in their hedge accounts, but part of the strategy for managing risk is being consistent, year after year, just like you are with fire insurance.

In 2018, the farmers who had on new-crop hedges and those who bought new-crop puts on our recommendations had good results in their hedge accounts. They reported a positive 1099 from their accounts. However, because of the low relative price levels that we locked in (\$10.38 soybeans; \$4.18 corn), the 2018 profits were at some of the lowest per-acre levels that we have had in 10 years. Because the new-crop hedges and puts kept most farmers in the black, ▶

November 2018 Soybeans November 2019 Soybeans



This chart of November 2018 and November 2019 soybeans shows that over the last two years, \$10.20 was a good place to make new-crop soybean hedges. In 2018, you placed scale-up new-crop hedges and bought puts between \$9.98 and \$10.38. In the last five years, you have always had the chance to sell new-crop soybeans ahead of \$10.20. In 2019, that will be a good place to make some new-crop hedges – if prices can rally that high.

I suggest the risk-management plan worked.

This year is going to be a challenging year, however. Following are some of the factors you need to be aware of when you put together your 2019 risk-management and marketing plan.

- Will we get a new trade agreement with China?
- Will U.S. farmers plant more corn and less soybeans like the trade is currently projecting?
- What will the weather be like in 2019? We have a full tank of water, so it will be difficult to get a drought scare rally in 2019.

STEPS FOR 2019

Here are some thoughts about fine-tuning your three-step risk-management plan for 2019.

1. Plan to use more puts

and less hedges. After three years of lower prices from the spring into the fall lows, I question if that will be a slam dunk again in 2019.

2. I put on a lot of new-crop soybean hedges in 2018. It was easy, since the price levels we hedged at were above the RP price guarantee. They were at a modest profit level, and the soybean-to-corn ratio was at 2.45/1. But 2019 doesn't look the same.

3. Be more aggressive on corn than soybeans in 2019. Now, the soybean-to-corn ratio is at 2.3/1 and the new-crop corn profits are better than the new-crop soybean profits. Be more aggressive with corn hedges in 2019. Plan to use a combination of hedges and puts to get new-crop price protection in place.

As I've said many times before, it is important

to have a complete risk-management plan for your grain marketing. That is called long-term thinking, and that leads to long-term farming success.

JOIN ME IN IOWA

I am speaking at a series of research and educational outlook meetings sponsored by the Iowa Soybean Association in February. These are the dates and locations:

- February 5 – Storm Lake
- February 7 – Ames
- February 12 – Cedar Rapids

For more program details, go to iasoybeans.com. 

NOTE: The risk of loss in trading futures and/or options is substantial, and each investor and/or trader must consider whether this is a suitable investment. Past performance – whether actual or indicated

by simulated historical tests of strategies – is not indicative of future results. Trading advice reflects good-faith judgement at a specific time and is subject to change without notice. There is no guarantee that the advice given will result in profitable trades.

AL KLUIS Commodity Trader

Al Kluis has been trading grain futures since 1974. Sign up for a free trial to his daily morning email and weekly "Al Kluis Report" by going to alkluis.com.



Kluis Commodity Advisors
901 - 12 Oaks Center Drive
Suite 907
Wayzata, MN 55391
888/345-2855
kluiscommodities.com