February 9, 2010

Friends:

PLAN IMP: Some interesting bits of knowledge

Just back from attending the annual AAPEX meeting  (alumni meeting for those who have attended the TEPAP program put on by Klinefelter of Texas A&M)  TEPAP is a must for anyone who wants to survive the next few decades in production ag. I give a strong endorsement for TEPAP.

A few things struck me at the AAPEX meeting (To put this in perspective, it is wise to understand that our farm is roughly barely at the Median in size for the attendees, frankly we are just not at their level in some areas. Of course, they are not at our level in some areas either.) Well, back to a few observations:

1.The difficulty in obtaining capital that I have warned about for some time now is beginning to become a reality. Excellent case study on how a farm with millions in equity might not get an operating loan approved because of the small deviation in free cash flow created by increasing interest rates by a mere 2% in the face of sales price declining 10%. It really is amazing how fast this stuff can roll over on a big entity with lots of gains in market value. Kind of the ultimate wealth effect, I suppose. Many farmers buying new machinery and cars, etc. just because their land has tripled in value. Sure this year they created a mountain of cash, but what about next year? As banks implement more normalized earnings streams into the pro-forma cash flows, it is pretty easy to not be able to cover principal payments in the future. I guess the takeaway for me was just to reinforce what we already know: capital to take advantage of growth opportunities will become more scarce…which means what? Value of those opportunities will decline and therefore make them even more appealing IF you can access the capital. This requires some good financial planning indeed.

2.The divergence of financial outcomes based upon which side of the grain bin you operate on is pretty amazing. When this reverses, it seems to me that the lesson of hogs and dairy should be instructive…the lows take forever to occur. Grain responds at about ½ the rate of grain users, so the next low in grains could easily take 6 years of negative earnings to create, versus the 3 it has taken for hogs and dairy. This is also twice the period it took in the mid 80’s. So the concept of period doubling from fractal theory raises its ugly head again. Always to the detriment of our industry it seems, the highs come twice as fast and the lows take twice as long.a pure function of fixed costs. Just ask the airlines, same problem.

3.In the past the government has always supplied support payments to keep grain farms profitable. LDP’s etc…pick the poison but it has ALWAYS been there since 1933. With the current government (actually all of western civilization) having borrowed themselves into oblivion, it seems a terrible business strategy to rely on this in the future, if you ask me. There is no government safety net anymore and the extremely high fixed cost of western agriculture makes it terribly vulnerable to capital constraints. Bottom line is that we are within a few years of it being time to REDUCE SIZE.  Not so sure, just ask a hog or dairy farmer! OR an E plant that is now owned by some oil company.

Anyway, these facts of life, the complete bankrupting of western civilization, et al, have to become cornerstone core values in our business and marketing plan for 2010.

More to follow on that. I do think we will have major rallies this fall/winter similar to 80, but from what level is unsure yet. Lows not due for a few more weeks.

IMPORTANTLY, beans are walking the tightrope of Quiglleys Eclipse. It is a formation that I place an extreme amount of confidence in, so beans really need to suck it up here and recover. IF not, just take off another $1.80 minimum by late spring.

Take care,
Ken