January 6, 2011

Friends:

I have received a number of questions about the Africa trip, which I will answer after I get caught up on the finances, etc.

Also, I received a number of questions, similar to these below. Since we all learn from each other, I'll take a shot at answering these and hope that it helps.

"Ken, can you expand a little more about 3 things ....

1. What type of contracts are you using to hedge?

- This of course depends upon how close you think we are to the ultimate highs. Earlier, we our first 33% sales for 2011 using Cargill Pacer Ultra's. The fee at that time was only 30 cents for a 12 cent in the money floor. Those were established at around $4.40 and finished averaging in Dec with a final net average of around 5.20. So, we net 5.20-.30 or $4.90, versus the $4.30 we could have taken for an NBE (4.40-.10 nbe fee).

- NOW, that prices and volatility has sky-rocketed, the cost for Pacer is around 50 cents, whereas the NBE is still only a dime. So, with CZ at 5.45, and the starting price being almost a dollar higher, it is a personal decision you have to make about how much upside is left.

- For our farm, we see NO way CZ11 gets above $6. So, with only 50 cents upside, and the cost being 50 cents, we are doing all the current sales using the Cargill NBE plus contracts. (if wrong and prices are higher, we get the fee back), so we are basically just doing old school HTA's.

- I think we will net over $5.50 after we roll the Dec hedges out to March. WE ARE NOT DOING ANYTHING IN OUR HEDGING ACCOUNTS. We do not wish to take the margin exposure YET. We will, just not YET.

- Our plan is take pretty big short positions in April and early June. We have roughly $1 mil set aside for margin that we will deploy at that time, just not yet, BECAUSE the market has given few signals that the top is in. It is running out of time, but it can run some more. Just like June 2008, we can be early and be VERY profitable if we use the right tools.

- BTW....I HAVE DISCUSSED THIS WITH CARGILL...ANYONE IN THE MIDWEST CAN WORK WITH CARGILL TO USE THEIR PRODUCTS. YOU JUST HAVE TO DEVELOP A RELATIONSHIP WITH YOUR CLOSEST MERCHANT (even if he is 250 miles away) AND THEN THEY WILL WORK WITH DELIVERY POINTS FOR YOU. SO, with a little work, everyone can avoid exposing themselves to margin pressures.

- VERY IMPORTANTLY, by using Cargill Contracts, we STILL have unlimited flexibility. We can buy options, do a focal point etc., this is very important to our plan and one of the reasons we can be so aggressive selling.

- ALSO, we have done some other small contracts with other buyers but they are not worth our time here.

- For seed beans, we just have to sell the Jan 2012 bid. Terrible basis, but the 90 cent premium more than compensates for that issue.

2. What triggers you are using for corn and soybeans?

- I thought I put those on the charts. Maybe not.....So, for us (YOUR farm should be some trigger that you mentally like) anyway for us:

CORN CZ2011:
1) Epiphany Trigger - 5% when the low of the day following the Epiphany isbroken by 2 cents. So this was: Low of Jan 3rd @ 5.5175 - .02, so we sold this at 5.4975.
2) Breaking the lowest low of the prior 3 trading sessions: 5.475 - .01= 5.465
3) Parabolic Stop: Happened to be at 5.50 - .01 = 5.49

Note, it is pretty unusual for them to all hit at the same price exactly.

BEANS SX2011:
1) Epiphany Trigger - 5% when the low of the day following the Epiphany is broken by 2 cents. So this was: Low of Jan 3rd @ 12.91 - .02, so we sold this at 12.89.
2) Breaking the lowest low of the prior 3 trading sessions: 12.685 THIS STOP HAS NOT YET BEEN HIT.
3) Parabolic Stop: Happened to be at 12.77 - .01 = 12.76

3. Do you have get-outs? i.e. if it goes above X price, I'm out.

NO, our plan does not have any get-out points at this time in the year. We only plan to get out of hedges on weakness, just like we did in June, 2010. So, at this point, the higher she goes, the more we sell and the farther into the future we sell.

I see no reason that our expectations for price direction will not continue to be met. YES, the government did exactly what it did in 1993 in 2010. We discussed that likelihood at the meeting in July. So, now that 2010 is a short crop year for corn, the year following is normally very seasonal and easily anticipated. Yes, we should of delayed re-pricing the 2010 a little longer I suppose, but adding the gain from June onto the prices from 2008, we are very pleased with the outcome financially. 2010 was our best year ever by many thousands. So, our goal is see if we can do that again in 2011. To do so, requires selling everything pretty high as you can imagine.

Back to the hedging account, we really don't think we will need anywhere close to a million to fund it. The plan is to sell timing or gaps down in April and again in June. On those hedges, which will be putting us more than 100% sold, i.e. Texas short you might say, THEN we will DEFINATELY have EXIT points. But for now, we are just selling the crop and will deliver it if we have too! We want to have 100% of average sold this way to C. The hedges would be to cover bushels of the bumper crop we expect.

LASTLY, I think it very important to keep sales in the proper growing season. This cannot be done with futures hedges. They all count towards this year, 2011. If we sell 2012 corn in the futures, it hits the 2011 tax issues. By using C's products, we keep income in the proper production year for taxes. This is very important to financial health if our hedges are way too soon.

Please recall our discussion about "period doubling" in July. Basically, the length of a cycle is cut exactly in half. From 1974 to 1980 was 6 years. From 2008 to 2011 is 3 years. Exactly half. This may, or may not be very important, but until proven otherwise, that is what we expect and plan for.

Note: the next implication is that the decline from 1980 to 1986 will ALSO be cut in half, making things very tough by as early as 2014. Very few are thinking about that outcome.

Hope this helps.

Be safe,
Ken