

August 4, 2010

Friends:

More to follow on corn and beans, but just wait for the date is my best plan for today.

As you might expect, I am receiving a lot of questions in the email account. So, I picked one and will attempt a reply that might answer some of all the questions.

When we talked about the 8/10 date at our July 6th meeting, I thought wheat would rally strongly, BUT not this strongly! So, we are few cents away (\$7.50 WN2011) from what I think/thought the high of the rally would be in December 2010. I am sticking with the plan for better or worse. We would have IMPLEMENTED SELLING TRIGGERS to get sold 25% of the 2011 crop at 6.50 WN2011, and would stick with selling 50% at \$7.50 WN 2011.

VERY FEW selling triggers would have been hit on the \$6.50 target, so those triggers need to be rolled up under the market! For example, the only selling trigger that could have been hit was selling a break of the previous day's low after the market touched 6.50. All other triggers would not be hit yet, SO, IF you were lucky enough to approach it that way, make sure you are ALERT this week. August 10th is basically here.

A more detailed strategy for wheat: The question was asked, "I have sold 2011 wheat at \$7 and want to take advantage of the rally to \$11 or \$14 that I think is likely, what should I do?"

FIRST, I think we are possibly 4 days away from the end of this bull advance, SO buying any call option right now is virtual suicide, but that wasn't your question, sorry for injecting an opinion.

SECOND, for this to be successful, we should IMPLEMENT the strategy in advance. When I was bullish back in early June, this was easy to do with very limited risk. NOW, with everything super charged emotionally, there is just a very low probability of success. The premiums and volatility are so high that the only real chance for success lies in selling options, and then only calls which creates risk instead of reducing it.

SO, my recommendation is to fold the money you are willing to invest in this, and put it back in your pocket and then get PTP'd (poised to pounce) for when a high odds chance to enhance the selling price presents itself later in the year.

Sorry to be so negative but I've been doing this a long time and it is tough work to do well.

STRATEGY: Since you have sold some wheat at \$7, and now you want to end up with a way to capture the upside to some extent with a limited capital exposure. So that would be the goal. You mentioned your concern (I won't use the F word as it insults people (fear)) that wheat for next July is going to \$11 to \$14.

So, this morning, to follow up on the sell a put and buy a call strategy: You could sell an OCT 2010 Wheat 640 PUT for 18 cents. (note you could have sold this in early June for over \$1.50)

Be aware that a normal retracement of this move will expose this short put to substantial margin exposure. That is why I never sell puts during a weather spike higher. But that is the first half of the strategy. You could easily just not do this and be better off probably.

Second half of the strategy would be to buy a call of some sort. IF you are concerned about missing out on \$14 wheat then ways to capture that would be to:

BUY an JULY 2011 Wheat 600 Call for 1.70

BUY an JULY 2011 Wheat 700 Call for 1.15

BUY an JULY 2011 Wheat 900 Call for .50

For hedging purposes, I would buy the 600 call and capture almost 100% of the upside. It benefits from the inverse delta effect. OF course, it also will decline steeply in value on a retracement. IF wheat tops as I expect and you subtract the \$1.70 from your \$7 sale, the net price is NOT GOOD!

Many advisors shun that approach and would sell you the 900 call for 50 cents because it is relatively CHEAP. Editorially, I would mention that you get cheap merchandise if you buy cheap. Odds of this option expiring in the money by 50 cents (meaning it breaks even for you) are EXTREMELY LOW, maybe 1 in 30.

Bottom line is that this is the wrong time to try and play this game. You are playing by a rigged market's set of rules. Far better to wait for a better time to initiate a plan to fulfill your desired goal. Maybe in October during harvest pressure after the specs have run out of money to throw at wheat, for example.

Again, sorry to be negative, just trying to help explain how difficult it is to accomplish this goal with wheat being 41 tdays into a vertical weather advance. Weather advances seldom last longer than 22 btw. Very strong ones go to 44 to 46, and a very few go to 90 tdays, but that is quite exceptional (twice in 150 years).

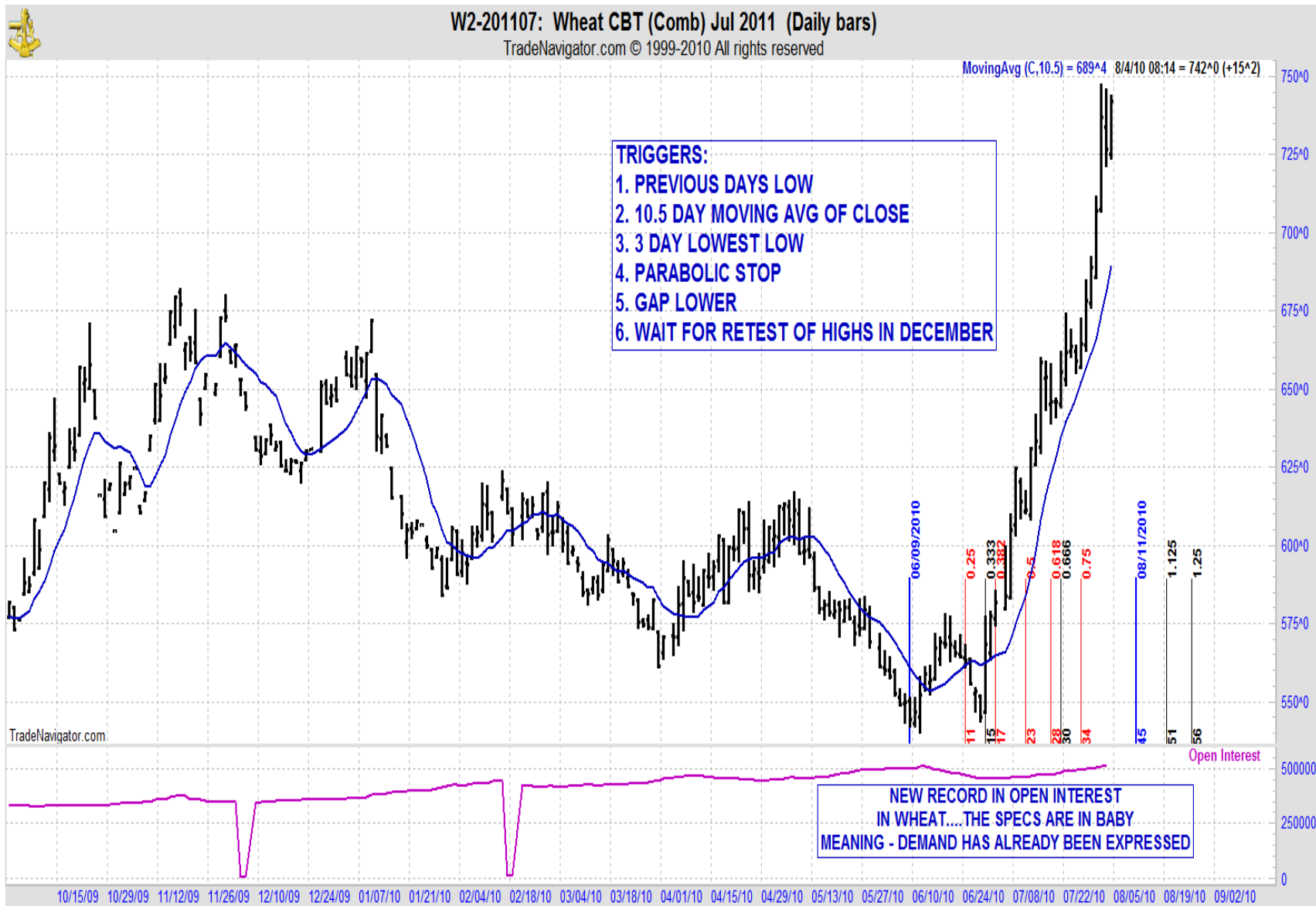
If you really want to make some money, I would be looking to sell more of the 2011 wheat in the next few days, and then defend that with a call on a normal market retracement.

It is a time to pull the wheat selling triggers up to right underneath the market.

I like a parabolic stop, or a 3 day low trigger, or a gap lower trigger, or a 10 day moving average of the lows, or after Thursday, just selling the low of the previous day.

NOTE: since a high is not confirmed by any stretch, I will be early BUT quite profitable. Another leg higher is possible. That leg higher would be used to sell the final 1/4 of 2011 wheat, and then 100% of the 2012 crop.

Hope this helps more than it hurts my credibility, just trying to be honest.
Ken



WAIT FOR THE TRIGGERS TO BE HIT!!!!!!!!!!

IT IS HARD, AND IT IS OK TO JUST MAKE A PROFIT SALE IF YOU WANT! SELL SOMETHING IS OK!



W2-057: Wheat CBT (Comb) Cont Liq (Weekly bars)

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MovingAvg (C,72) = 520^0 8/6/10 08:14 = 706^4 (+48^4)

