September 23, 2010

Friends:

The past few days I have received 3 different but similar requests for what to do to manage the "margin pain". So, here is a quick response before climbing back into the big green box to shell down corn.

Managing marketing is never easy. The great news is that we get to do it over and over. Always another chance or another swing.

The questioner is about 50% hedged 2010 c/soy from mid and late June.

**Hello Ken,**
**Have you any advice for this margin call psychologically riddled hedger?**

FIRST, it would be very wise in my view to convert the futures hedges into HTA's for Dec/ Jan delivery. We know the basis will be the best of the year at that time, plus converting to an HTA eliminates all your future margin exposure. So, I would do this immediately on the 2010 stuff.

SECOND, for the 2011 crop it is IMPERATIVE to get the income from those hedges in the correct tax year. So, it is imperative that those positions are not in a futures account. Here again, I would convert those sales to Pacer Ultra, or to cash contracts. You can force the bank to recognize a cash contract for loan approval, where banks do not have to recognize futures positions. Plus they look at Schedule F income after hedge losses are deducted. So, your great business decision for 2011 can come back to bite you with the bank.

THIRD, find a new broker. Trying to talk you in to straight exiting hedges during a bull run is PSYCHOLOGICAL MURDER.

FOURTH, no one ever mentions storage. This is a separate issue that has nothing to do with hedging, but managing it is very important. So leave that for another day.

FIFTH, I still do not expect the high for 2011 corn/soy to occur until 12/10/10. So, IF you cannot do the first two things above, you need to talk to the banker about being able to fund a rally to $6 corn or 12.60 beans.

SIXTH, if you cannot do any of the above, then exit 1/8th of your position on a new daily high and follow those orders down with the market, so today exit 1/8 if we exceed yesterdays high. This is a great technique that would have been good to you back in June as well. Only hedge 1/8th of your 50% on a new low for the move each day when selling on weakness.

SEVENTH, a good strategy on the 2011 would be to sell some July11 puts 2 strikes out of the money and buy some Dec11 corn calls. Both at the money. This requires some margin but it does completely cover up your 2011 sales. And the delta's would work in your favor IF the market moves higher.

LASTLY, I think it very unwise to go back to un-priced at this time for you. Just the sense of the email, you cannot afford to take a loss here, have the market decline and then have to take the net price under $3. SO please IGNORE your brokers advice, convert to HTA's, and live to fight the demon market another day.

BTW....as you probably saw in my last email, we are extending sales out to 2011 just as a good management practice of selling into a firestorm of fear. Don't straight lift the 2011, find somewhere to make it a cash sale IF you can't meet the margin calls.

Your predicament is exactly why we seldom use the futures account for hedging. Too much emotion, too many bad tax issues, and too many bad advisors like your broker involved. Pay the fees for the HTA and enjoy your life again.

Hope this helps, these are hugely profitable prices, don't let them get away.

As I closed my email on Monday, SELLING SOMETHING at this price level is probably very good business management.

Ken