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THE FARMER'S EDGE

HURLEY & ASSOCIATES
Agri-Marketing Centers

Christmas Blessings

As we head into Christmas, I pray that each of you can focus on and enjoy the true meaning of Christmas; certainly, the love that comes with it. Finding a way to turn off the "noise" of the day is truly a challenge. We have any number of electronic distractions, we have plenty of work distractions, and there are certainly loved ones to worry about as well. I know, for myself, that work is a constant focus of my attention, and I must consciously try to turn it off. When I can do so and truly give thanks, I feel the most rejuvenated.

This fall I have found myself considering everything I am thankful for. Outside of my salvation, the people that have been put into my life are at the top of my list. When I say this, I am looking well beyond my immediate family. I am thinking about our team here and the many colleagues that we work with, as well as the numerous families that we serve throughout the country.

Our family has always felt that we were serving a higher purpose by serving others and I personally have always felt called to do that. I may not get to sit down with each of you, but I am thankful for the opportunity that was given to our extended family to work for and serve you. I hope that the impact we have on those we meet will go beyond business.

May God Bless your family,
Trent Hurley

[13]And suddenly there was with the angel a multitude of the heavenly host praising God, and saying, [14]Glory to God in the highest, and on earth peace, good will toward men. Luke 2:13-14

Serving Agricultural Producers Since 1988
HURLEY & ASSOCIATES

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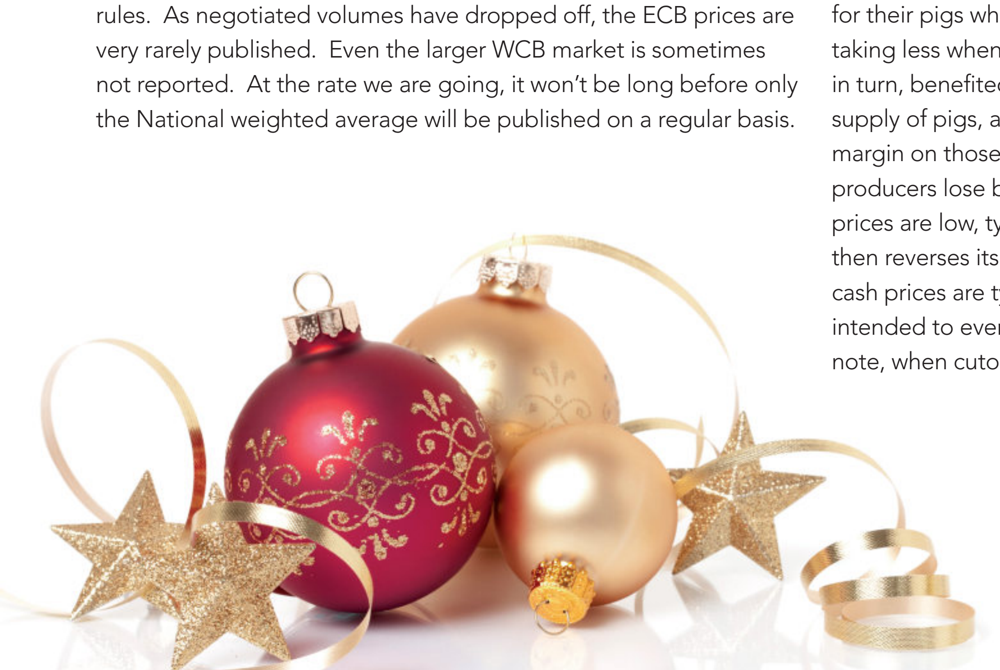
Understanding the Hog Market

By Shane Johnson

If you follow the news in agriculture, chances are you have seen lots of headlines regarding cattle pricing. Terms like "Unfair", "Broken" and "Packer Concentration" get thrown around a lot. Of course, if you're in the cattle business, you're painfully aware of these issues. Congress is investigating. Yup. Sure. That will fix it.

What has not received as much press (or attention from Congress) is the way that pigs are priced in the United States. There are some parallels to cattle pricing, but also some key differences. The purpose of this article is to give you a brief overview of how hogs are priced in the US. Let's start with the futures market and work our way backwards to the barn. The primary risk management tool for hog producers is the lean hog futures contract. Lean hog futures are not a deliverable contract. Instead, they cash settle to the Lean Hog Index.

What is the Lean Hog Index? It is a weighted average price of negotiated and formula priced pigs sold by producers. Similar to cattle, the number of head sold in the negotiated market has declined dramatically. The negotiated volume for hogs is now down to either side of 1% on any given day. Think about that for a second – a daily kill of 480,000 head and only 4,000 to 8,000 head are providing price discovery via the process of negotiation. The daily negotiated prices are published as a National weighted average, as well as regional weighted averages for the Western Corn belt (WCB), the Eastern Corn belt (ECB) and Iowa / Minnesota (IA/MN). The data collection and publishing take place under the Livestock Mandatory Price Reporting act (LMR). Under LMR, all the price reporting that packers are required to do is subject to confidentiality rules. As negotiated volumes have dropped off, the ECB prices are very rarely published. Even the larger WCB market is sometimes not reported. At the rate we are going, it won't be long before only the National weighted average will be published on a regular basis.



Why does the decrease in negotiated pigs' matter? Why does it matter if the price is reported? They matter because the bulk of producer owned pigs are priced on formulas that rely on those negotiated prices – either entirely or in part – to set the formula base price. In the recent cattle hearings, formula prices for cattle were referred to as AMAs (Alternative Marketing Agreements). A typical formula price for hogs might be "National Weighted Average + $2.50". We refer to this type of formula a "cash" formula, as it is based on the negotiated cash market. As with many things in agriculture, the original intent of these agreements made sense. Packing plants wanted to know that they would have a steady, dependable supply of hogs coming to the plant. Producers wanted to know their hogs had a home and that they would be paid a fair price without having to spend a lot of time calling around and checking on bids.

Over time, some producers negotiated formula prices that were based on the pork meat trade, rather than the live hog trade. There were a few different variations, but most often the pork-based formulas were a percentage of the pork cutout. The pork cutout is a composite number reported by USDA that approximates the wholesale value of a hog carcass. A typical example of these formulas would be "PM Cutout X 90%". We refer to this type of formula as a "cutout" formula since it is based on the pork cutout. Once again – the intent of both sides at the start of these agreements was pretty reasonable. Producers wanted to tie the price they received for their pigs to the actual price of pork, so that they could participate in the bounty when pork prices were really high. Or – more accurately – that they would receive a higher price for their pigs when the cash market was really low, in exchange for taking less when the cash market was really high. Packing plants, in turn, benefited from knowing that they would have a steady supply of pigs, and that they would have a more consistent profit margin on those hogs. Historically, packers make big money and producers lose big money when hog supplies are plentiful and cash prices are low, typically in the fall and winter months. The situation then reverses itself in the summer when pig supplies get tight and cash prices are typically their highest. The cutout formulas were intended to even out the results for both parties. It is important to note, when cutout contracts were first negotiated, they were struc-

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Farming Is Our Life

By Julie Loebs

Another harvest has come to a close. As I look back on the past year and think of all the uncertainty we faced, from drought conditions to historic market moves, the one constant we face every year is the growing season. As we get ready to enter the dark winter season, we know that after the new year comes in, the first new calves will be along shortly. We know how hard the farmer will work to nurture and care for their first crop of this new season. Then, as the spring rolls in, we know the planters will roll through the fields. As those little green plants pop up in beautiful, symmetrical rows, whether they struggle or thrive, they will lead us into the long hot days of summer. We know how hard the farmer will work to nurture this next crop of the season. When fall comes around again, and we see those calves go off to the sale barn and those row crops go off to the elevator or into the bin, we know how hard the farmer will work.

Over the years I have always found myself in awe of the life a farmer has chosen. The amount of information alone that they need to know about raising a crop is astounding: Being able to look at a herd of cattle and spot the warning signs; Being able to drive by a field and spot the warning signs. The list of chemicals and fertilizer that ensure the health of their crops and how to use them. The equipment and all the technology needed to use that equipment. Variable rate and crop rotation. The preparation of their ground and equipment. The care of it all. They care for the land. They care for the animals. They care for their families.

Most of the world chooses a profession, they learn that profession and spend their lives earning a living, making a salary, and securing their retirement. The farmer is born to their profession. The birth of the animals and the birth of their crops every year is a new promise. A commitment to themselves and their families of how they will, once again, work alongside Mother Nature and make the best of whatever her mood for the season is. Making hay when the sun is shining and giving thanks for the rain when it falls. Enjoying the view from whichever windshield they happen to be looking out of that day. It is a profession balanced with trial and error, mixed with tried and true. Precision agriculture versus Mother Nature.

When your office is a combine, a semi, or a tractor pulling a grain cart during fall harvest, you have the head seat at the best board of director's table in the land. Just when the rounds start to get long and monotonous, a group of pheasants, thinking you cannot see them, will run stealthily ahead of your machine. Or even the big buck, who thought he had the perfect hiding spot full of snacks, will get up and majestically run off through the field. Farming and ranching are a wonderful life. It has its ups and downs, but the farmer does it because he loves this land, and he loves this life.

I want to take this opportunity to say, "thank you". Thank you for allowing me to be a part of your farm. Thank you for teaching me about production. Thank you for being my customer. Thank you for appreciating what Hurley & Associates does for your business. Thank you for being stewards of the land. Thank you for feeding the world. Thank you!

Julie Loebs, Farm Marketing Consultant

Julie grew up "out east" in Pennsylvania. She has grandparents from North Dakota and found out early on that she liked the prairie better than the mountains. Julie figures that God brought her to South Dakota to meet her husband. She has lived in the Britton area since 1993. Julie has a passion for rural living and enjoys the strong farming community that she lives in.

Julie became associated with Hurley & Associates early in 2004 when she started working as an Assistant in the Britton office. In 2006, she moved into a consultant role, working directly with farmers to manage their market risk.

After a brief absence, when Julie tried her hand in a bookkeeping role, she has happily returned to her position as a full-time Farm Marketing Consultant. Julie has a deep appreciation for the farmer and their chosen lifestyle and enjoys working with them one on one to help navigate the sea of marketing.

Julie and her husband, Blair, have 3 children and 1 grandson at this time, and they are anxiously awaiting the arrival of more grandchildren.

Understanding the Hog Market

By Shane Johnson

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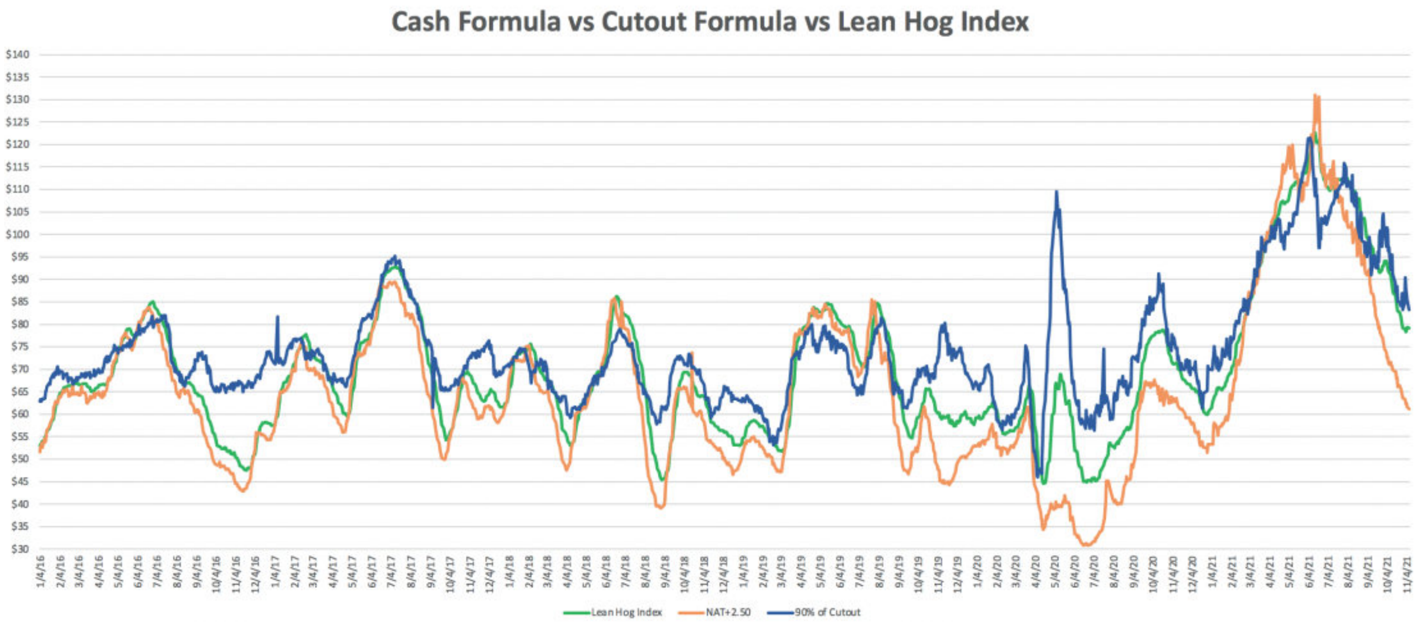

tured to pay out roughly the same as the cash hog formulas over time, based on historic averages.

All of this sounds really good in theory. But real-world results have turned out quite a bit differently. The relationship between the cash hog market and the pork cutout has not played out the way historical averages said it would. Check out the price chart. Over the last several years, cutout-based formulas have paid out significantly higher than cash-based formulas. The average difference for the nearly 6 years represented in this chart is $8.89 / cwt, or nearly $18 / head on a 200 lb carcass. Let that sink in for a moment. Two producers raising the same quality of pig, delivering to the same packing plant on the same day, on those two different formula prices, were paid roughly $18 / head differently. For an industry that historically has tried to make $10 to $20 / head, that is quite a difference. Bear in mind that these two formulas are meant to serve as "middle of the pack" examples. There were (and are) contracts that were better and worse than these. The most extreme difference came in May of 2020 when the spread between those two example formula prices was $70 / cwt ($140 / head). This happened during the height of COVID when several plants had to slow down and even shut down for a time. There were far more hogs needing to be harvested than what the packing plants could handle. That drove the negotiated cash market sharply lower, pulling the cash-based formulas down. At the same time, with fewer hogs being harvested, the available pork supply tightened up, sending the pork price – and the formulas based on it – sharply higher.

The stark differences in these two types of formula prices created an environment of the "haves" and the "have nots". Pigs priced on cash-based formulas suffered heavy losses, while pigs priced on cutout formulas were profitable. Contrary to popular opinion, the distribution of which producers had these contracts was NOT necessarily related to the size of the operation. There were a number of smaller producers that had good cutout formulas and some very large producers who were entirely on cash formulas. Most of the time it was a matter of being in the right place at the right time and knowing what questions to ask. Bear in mind – the original intent was that the different formulas would actually pay out roughly the same over time, so there was an element of luck to it as well.

That brings us to the matter of basis. To say that basis risk for hog producers is different than almost any other commodity would be an understatement. This is mostly due to lean hog futures not being a deliverable contract and cash settling to the Lean Hog Index. That only happens 8 days per year. So, the bulk of the year, lean hog futures do not have to reflect where the Lean Hog Index is at. And, depending on what type of pricing formula you are on, the Lean Hog Index might not reflect what you are getting paid for your pigs anyway. There is nothing worse than hedging what you

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thought was a good price, only to lose money on the hedge AND get paid less than that.

President Teddy Roosevelt once said, "Complaining about a problem without posing a solution is called whining." Rather than whine, what can be done to fix some of these problems? The lack of negotiated volume is a serious problem. There does not seem to be a viable solution. Most of the formulas out there are based on getting more than the weighted average of the negotiated prices. So, by definition, participating in the negotiated market means you will be paid less for your pigs, even though you are providing the entire industry the valuable service of price discovery. And when packing capacity gets tight, it is the contract pigs that have a home before the negotiated pigs. Talk about a lose-lose proposition. The government is looking at mandating that a certain percentage of cattle get bought on the negotiated or "open" market. I do not think anybody is exactly excited about more government regulation. But, barring that, I do not see a clear-cut method to get more negotiated volume.

The CME rolled out a new pork cutout futures contract. That did not do a thing to help the producers that needed the most help – those on cash-based formulas. Even those producers who are on cutout-based formulas tend to hedge using the lean hog futures, because of the lack of liquidity in the cutout futures. But things are starting to change. Most of the formula prices were negotiated as part of three-to-five-year contracts. As those contracts are coming up for renewal – or occasionally even before renewal – many of the agreements are being renegotiated to a blend between cash and cutout. That takes out some of the widest of the price differences. As more pigs are priced on the cutout, the Lean Hog Index is automatically taking that into account, making the lean hog futures a combination of both cash and cutout. If your pricing formula is a blend of cash and cutout – or based on the Lean Hog Index, you will end up much closer to the average of the industry, rather than being way out of whack. This helps reduce the basis risk.

Bottom line, the industry itself has serious issues with price discovery that the individual producer is not going to be able to solve. The crazy price variability of the last several years seems likely to tighten up as formulas get renegotiated. Producers need to make sure they understand what sort of pricing agreements are available, and how those agreements might perform in various market conditions before signing new agreements.

Shane Johnson, Hog Market Plan Advisor

Shane grew up on the Minnesota - South Dakota border near Browns Valley, MN. He attended the University of Minnesota - Morris. Shane's career in the pork industry started as a hog buyer in 1994. Since that time, he has gained a wide variety of experience including procurement, risk management, genetics, meat quality, international sales, and financial management. Shane joined Hurley & Associates in 2008. He was impressed by Hurley's approach to risk management as well as the high level of service they provide their clients. Shane enjoys aligning marketing strategies with each individual producer's needs and protecting profits through disciplined marketing. His past experience fits well in helping hog producers understand and manage their risk. Shane and his wife Angie live near Glenwood, Minnesota and have one grown daughter.

"Want to keep Christ in Christmas? Feed the hungry, clothe the naked, forgive the guilty, welcome the unwanted, care for the ill, love your enemies, and do unto others as you would have done unto you."

– Steve Maraboli

U.S. Stock Market Buoyed by Strong Earnings Reports

By John A. Johnson

In our domestic economy, a generally favorable spate of reports for the current earnings season has fostered a generally positive period for U.S. stocks. They have continued their upward climb into record territory. Currently all signs are pointing to a very strong holiday season for retailers. That news should be able to keep the rally alive for at least a couple of more months, after which the economy will begin to look toward spring.

One main stumbling block remains, the proverbial fly in the ointment. Health experts are expecting and warning us of a new wave of Covid infections for this winter season. They build their case on the facts that we will obviously be entering more conducive weather for respiratory infections of all kinds and will be moving our activities back indoors into more crowded venues with less ventilation. Our crowding together will involve contact with many unvaccinated people, and people who are subject to re-infection.

Meanwhile, Americans are beginning to travel with a vengeance, crowding highways, air terminals and shopping centers all over the country. News outlets are replete with stories and pictures of overwhelming circumstances involving short-staffed air facilities, increasing highway traffic and crowded airplanes.

Retail goods are moving well too. Retail sales numbers for the U.S., indicate that much of the Covid relief money passed out earlier this year is still in consumers' hands and there is pent-up demand for a wide variety of goods and services. In too many instances this unprecedented demand is remaining unmet due to the continued stockpiles of merchandise in West Coast warehouses instead of being on merchants' shelves. There are also ship loads of merchandise still floating in the harbors at Long Beach and San Francisco that were scheduled for delivery weeks, if not months, ago. This backlog costs extra shipping costs as ships have to be paid to be idle. This backup on the West coast is causing many incoming ships to opt for alternate U.S. Ports located in the Southern and Southeastern U.S. as freight costs are increased and consumers will be forced to bear the burden of that increased cost.

A final note on the freight bottleneck, a television pundit recently noted that it was a shame that there was a case in which a South Jersey truck driver defeated a sitting New York State Senator in the recent November election. In fact, the defeated candidate was the presiding officer of the Senate. The commentator remarked," in the midst of this shipping bottleneck, it's a shame that a trucker got elected, it seems like we need truck drivers a lot worse than we need another Senator! "

One other important economic note for the U.S. economy is that President Biden has re-nominated the present Chairman of the Federal Reserve Board for the next term. There were only two viable candidates for the position, given the fact that only one other possible candidate had been fully vetted. The other candidate was Lael Brainard, who is currently serving as Vice Chair of the Federal Reserve under Jack Powell.

Given the re-appointment of Chairman Powell, with the same Vice Chairman and same administration, can we expect anything other than a general continuation of the policies that have seen large government spending programs? Higher prices as inflation and the Fed's easy money policies are fixed for at least another term?

China dominates the international economic news as they continue their quest to become the number one economic and military power in the world. After a "soft invasion" of Hong Kong, they have fixed their sights on Taiwan as their next goal for domination. Taiwan is the last bastion of democracy in their sphere, and the CCP (Chinese Communist Party) is determined to control it. As this plays out, our administration struggles to find a tenable position regarding their aggression. in October, President Biden, stated flatly that we would defend Taiwan's independence from China. In November, he has backtracked to a much less aggressive position.

Reliable economic news out of China is hard to come by. One would have to think that with an announced number of 5 million deaths from Covid 19, and the difficulty of slower delivery and disposition of goods to the U.S., that the Chinese economy is in some stage of slowing down. In the famous words of Dennis Gartman, "Time only shall tell."

In November a two-way summit was held between Chairman Xi of the CCP and President Biden by zoom conference. Several topics were discussed, but more topics were left out. Some of

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those that were not mentioned that we would have considered pertinent were 1) the status and defense of Taiwan, 2) origin of the Covid 19 virus, and the refusal of the Chinese to participate in any meaningful investigation of that origin, 3) the continued theft of intellectual property by the Chinese, 4) the continued refusal of the CCP to participate in any remediation of atmospheric CO2 levels through reduction in the use of coal-fired electrical power plants, and 5) the continued use of slave labor for the production of export goods. None of these items were on the agenda, and as far as we can tell, none of them were mentioned by either participant.

On a final note, the 2022 Olympics are scheduled for Beijing, and President Biden has announced that the U.S. will not send an official diplomatic representation for the games. Not that it matters much, but President Xi has indicated that they are not encouraging any outside visitors to attend the games.

John A. Johnson has worked for Hurley & Associates since 2000. John is semi-retired now living the life of chasing grandkids. John is based in Sikeston, MO.

Consultant Spotlight: KAYLA SMITH

What do you most enjoy about your job?
I enjoy learning about all of the things that make each producer unique. No two operations are the same, and it's fun to learn about. Operations can do things differently because it works for them. It is also interesting to learn the history of an operation. How things were started, when, and who was around and how it has adapted to where they are today.

How did you get started in your career?
I knew I wanted to have a career in agriculture, but I didn't know specifically what I wanted to do. I went to college at Iowa State University for Agricultural Studies which allowed me to broaden my scope of education related to the Ag sector. I grew up a row crop and livestock farm, so I have been around and in it my whole life. I have a passion for the people in the agricultural industry and wanted to help producers in some way.

What are you most passionate about when it comes to serving your clients?
A focus of mine is to help take the emotions out of marketing. I enjoy guiding my clients toward the business minded approach. I have learned that when my clients fully embrace the business minded approach, they have less stress about the markets and focus more on what they enjoy about farming.

What would be your ideal vacation?
Anywhere with a warm sandy beach. Going somewhere warm during the winter months here in Iowa would be ideal!

Kayla grew up and has always worked on a family farm in central Iowa where they raised corn, soybeans, and hogs. She attended Iowa State University majoring in Agricultural Studies. During college, she interned with Iowa Falls State Bank where she took on a variety of duties. Kayla first heard of Hurley & Associates while she was in high school and, when she saw that Hurley attended the ISU Career Fair, she started researching the firm in detail. With a full appreciation and understanding for how hard farmers work to succeed and to continue to improve what they do, Kayla was intrigued with the marketing piece of the equation that Hurley handles. She realizes how complex creating a strong marketing plan is to the overall success of the family farm. Kayla was hired on full-time as a Farm Marketing Consultant in June of 2017 to work out of the Grundy Center, IA office. Her favorite part of the job is applying personalized marketing plans to each individual producer, as well as furthering clients' education in the marketing tools available. In her spare time, Kayla enjoys spending time with her family, coaching volleyball and helping out at the family farm when she can.

“Reflecting on Change”

By Ed Case

As I approach my retirement, I find myself looking back over the past 45 plus years of working in some capacity within the grain industry and reflecting on the change that has transpired during that time. How different things are today than they were 45 years ago. I remember fresh out of college accepting a position as assistant manager with Farm Bureau Coop in Saratoga, Indiana. The elevator name was FABUCO Services and was a sub-division of a larger terminal facility in Redkey, Indiana that pelletized whole feed for turkeys and hogs. FABUCO Services handled grain, grind and mix feed for local livestock producers, sold general livestock and pet supplies and managed grower contracts with local farmers who contracted to raise turkeys on open range and / or finished hogs in confinement units.

We used to weigh trucks in and out manually when receiving grain by recording the weight from a digital scale onto a scale ticket. Then at settlement time we would use a calculator to calculate the amount the producer was to be paid and hand write the check. There was a lot of trust involved in doing business between the client and the company. Your integrity and service to your clients is what separated you from the competition and gave you an advantage toward earning new client’s business and keeping existing clients.

It seemed that everything was done manually so labor was a high cost to overhead and it was difficult to find good hard working, willing and dependable people who were willing to give of themselves for the benefit of the company and the clients being served. Some things have NOT changed over time! Most people were happy to have a job and they knew that the harder they worked the more appreciated they would be and that they would stand a better chance of keeping their job when and if the company decided to downsize. They were usually willing to work overtime if the company needed them to because they stood to make time and a half and they needed the extra money to cover cost of living. Back then an average work week was at least 60 hours. Thank goodness worker wages have gone up over time to help maintain pace with ever increasing cost of living.

Over time, technological advancements, and the demand for improved efficiencies within corporate America has caused a labor transformation. We are now able to do more with fewer people as machines and computers reduce manual labor in the workforce. We still need workers, but now the need is for more skilled workers who know their way around the internet and are very savvy when it comes to effective operations of a computer.

On the farm things have also changed. Farms have become smaller in number and larger in size. Bigger equipment has increased efficiencies tremendously so that we can get so much more done in a single day and usually with fewer people. More time is spent on planning how things will get done with a goal of maximizing results from timely application. Decisions are made in advance about tillage practices, fertility, seed selection, plant population, weed control, insect control, fungicides, moisture preservation, land preservation, financing and a multitude of other things all aimed at a goal of maximizing results. Survival often depends on a willingness to adapt to change that holds the promise of a more favorable result. Keeping up with changing technology is a part of the process but accessing whether the new technology is practical for your individual operation is also a key part of the process. Land has become an invaluable commodity and the competition for land has become fierce. This makes it very difficult for any individual farming operation to fulfill a desire to expand their operation to include more acres of farmland.

Let’s look at how marketing approaches have changed over the years and what has contributed to altering the way we approach marketing to try to achieve better results. Back in the 70’s and 80’s farm operations were more in number and smaller in size. They were more diversified than today’s standard. It was not uncommon for a grain and livestock operation to feed a lot of the corn they raised. They had storage to be able to hold corn supply from one harvest to the next. Their concern was making sure they had enough corn to feed to their livestock throughout the year and often held a larger supply in storage than what they needed for feed as some assurance against the risk of a weather shortened crop growing in the field. Marketing the excess corn was postponed until they felt comfortable with production prospects of the new corn harvest. Then they would just sell the excess corn at whatever price the market was paying at the time. From a seasonal standpoint it wasn’t so bad as cash pipeline supplies would usually get tight in late summer waiting for new crop harvest providing price support. And market volatility wasn’t nearly as extreme as it is today unless there was a weather threat present that would cause price premiums that supported their marketing.

Most grain sold back then was sold in the manner of when the

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"Reflecting on Change"

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producer decided to sell, he called the elevator of his choice and sold at the price the elevator was bidding at that time. The timing on sales was often tied to the need to generate cash to cover cash flow needs. There was no sense of urgency to sell because in a normal year the price never fluctuated that much unless an unforeseen event, like a full-blown drought, developed and had a strong influence on prices.

So, what has changed over the years?

More pricing flexibility from the commercial industry. The components of the cash price are futures price plus basis value equal cash price. You can market the cash price components separately if you desire. You can fix basis for a particular delivery period before fixing the futures price (basis only contract). You can fix futures before fixing the basis (Hedge-to-arrive or HTA contract). You can then roll the HTA contract forward, before fixing basis, to lock in carry premium against storage cost if you desire. Fixing basis establishes the delivery period and usually prevents you from being able to roll a contract forward after the basis is established. There are occasional exceptions under certain circumstances, but it is the sole discretion of the elevator whether to allow this or not. There is usually advantage to pricing the cash price components separately, but not always. Basis and futures prices both have seasonal tendencies. Usually when futures prices are high basis values are weak and when basis values are strong futures prices are low. The idea is to fix futures prices when they are high and fix basis values when they are strong.

Another positive change has been the introduction of Options. Options provide risk management protection against production and price uncertainty. Uncertainty is the primary reason for lack of execution when profitable market opportunities are present. Production uncertainty creates fear of not having enough crop to cover a contract delivery obligation. Price uncertainty creates fear of missed opportunity if you contract at a certain price level and then the market goes higher. Options are tools that can be used to temper the fear and give the producer confidence to execute when a profitable opportunity is present.

A PUT option is protection against downside price risk. It's a great tool to use for protection against production uncertainty that keeps a producer from committing to a deliverable cash contract with the elevator. It protects against futures value collapse while waiting for better production assurance on a growing crop.

A CALL option is protection against upside price risk. When a producer possesses a high degree of production assurance that makes him comfortable with committing to a deliverable cash contract with the elevator, his fear is with prices going higher after he has executed the sell. A call option provides protection against price risk by re-opening upside price opportunity after a producer has executed a sell.

Example of using a Put or Call when CZ22 (December 2022) futures are trading at $5.50 per bushel;

PUT – Buy a $5.50 strike put @ $0.50 / bu. This locks in a $5.00 futures price floor ($5.50 - $0.50 = $5.00). The $0.50 premium investment is all time value that will erode over time. The idea is to convert this position to a cash contract as soon as production assurance allows to retain as much of the initial $0.50 investment as possible. The $5.00 futures price floor is increased by how much premium investment is retained. To retain the salvageable premium investment, you would simple sell the PUT at market value at the same time you convert a like bushel amount to a cash contract.

CALL – For the producer who possesses a higher degree of production assurance, he would commit to a $5.50 futures price (HTA) cash contract with the elevator. This producer is more concerned about protecting downside price risk than adding value after the sell, but he doesn't want to be disappointed if the market moves higher for whatever reason, so he buys a slightly out of the money $5.70 call for $0.40. This locks in a $5.10 futures price floor ($5.50 - $0.40 = $5.10). This is a $0.10 better futures price floor than the Put provided. The producer needs to have a goal for his Call option investment and be prepared to sell the Call at market value when his goal is reached.

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Other changes that have taken place, to only name a few.

1. Overall market structure – Back in the 70's and 80's the market attention was mostly about what happened in the United States. Today the market scope is very much global in nature. Market participation draws in investors from all around the world. Attention is given to all global events and assessment of their impact on the market, bullish or bearish, is debated. It's hard to know from one day to the next which World story will have the most influence in the market on that day. No knows for sure, but the collective opinions of market participants are reflected in the market reaction to the positions taken. Market commentary assessment is usually after the fact. Trading on the Chicago Board of Trade use to happen on the floor by open outcry. There could be a significant time delay from the time an order was placed until the fill was reported back to the participant. Today everything is trade electronically. Trade happens almost instantaneously from the time an order is placed until the fill is reported back to the participant. This has created more liquidity and transparency for the market which has attracted expanded participation.
2. A new market participant has surfaced in the past couple decades in the form of Managed Money Fund traders. Hedge Fund traders are drawn to the commodity market to buy hard assets on paper as a hedge against inflation risk. Theory being that inflation drives commodity prices higher. Their participation has helped to create additional market volatility because of the size of positions being traded, very bullish when buying in volume and very bearish when unwinding or selling those positions.
3. "Black Swan" events – Example; real estate bubble bust in 2008, Covid – 19 pandemic.
4. Politics – How the market is impacted by World government involvement and policy implementation. Enough said!

The point I'm trying to make is "nobody knows what this market is going to do". The best approach to marketing is to not try to pick the top by outguessing the market and risk the farm on being wrong. Risk management marketing has proven consistently successful time and time again. Do your homework and determine what it is you need out of the market to be profitable. Use the tools available, Puts and Calls, to help manage the risk of uncertainty and add value as the market allows. Most importantly, be proactive at executing a well thought out plan for acceptable profitability. Pull the trigger when opportunity is present!

I would like to thank Hurley & Associates for the opportunity they provided for me to be a marketing consultant for them over the past 26 years. This is a relationship business that we are involved in, and I treasure all the friendships created over my years of service. The true reward I have experienced is the joy I have felt working with fellow employees and clients over the years and knowing in my heart that I have made a difference. Thank you so much!

Sincerely, Ed

Ed Case
Farm Marketing Consultant

Ed Case was born and raised on a small grain and livestock farm in Southern Illinois. He remains active in that same family farm operation today. Ed graduated from Southern Illinois University in Carbondale, Illinois, in 1974 with a bachelor's degree in Agricultural Business and a secondary degree in General Agriculture.

Upon graduation, Ed took a job as Assistant Manager with the Farm Bureau Co-op grain and feed elevator in Saratoga, Indiana. After two months, Ed was promoted to manager and stayed there until the fall of 1975 when an opportunity to move back to Southern Illinois presented itself.

continued on page 11

"Reflecting on Change"

By Ed Case
Continued from page 10

In February 1976, Ed took a position with Behimer and Kissner, which later became Consolidated Grain & Barge in Wayne City, Illinois. Over the next two years, he managed several different areas including a truck in - truck out grain handling facility and the seed division.

In 1985, Consolidated Grain and Barge transferred Ed to a grain handling facility on the Ohio River in Mt. Vernon, Indiana. This was a regional office for a network of interior grain origination and handling facilities, most with rail capabilities. Ed assumed the responsibilities of trading the rail position for these facilities, as well as purchasing the input ingredients and managing logistics for a pellet mill operation at the Mt. Vernon, Indiana facility.

In 1986 Ed transferred to a managerial position with Consolidated Grain & Barge's at a grain handling facility on the Mississippi River in Cape Girardeau. In 1987, he transferred to his last position with Consolidated Grain & Barge at a grain handling and product transfer facility on the Ohio River in Mound City, Illinois. This was also a regional office for a network of ten other grain handling facilities which marketed over 40 million bushels of grain per year, as well as handling an additional 1 million tons of terminal business. Ed stayed in this position as the Regional Operations Manager until 1994.

Ed joined the team of Hurley & Associates in 1995 as a Marketing Consultant and has become one of our leading consultants. Ed now lives in Cape Girardeau, Missouri, with his wife Sue. They have raised two daughters and also have three granddaughters and a grandson.

HA Portal Highlight

Current Asset Value Report

By: Mindy Whitehill

The Hurley portal now provides crucial information to aid in the loan renewal process. The **Current Asset Value** report provides clear data to clients and lenders to populate current asset values in their balance sheet. The summary page includes:

1. Hedge Account – provides current liquidating value for any brokerage account(s)
2. Inventory – displays, by crop, the current inventory and value of that inventory. Detailed information on undelivered contracts and unset units can be found on page 2.
3. Growing Crop – displays, by crop, the projected inventory and current value for crops still in the ground or future planting. A detailed breakdown of contracts, unset bushels, and planned production are provided.

2022 Summary

Hurley & Associates
Agri-Marketing Centers

11/16/2021

Brokerage Account Liquidating Value

	Account	Total
	HUR	$142,316
Total Liquidating Value		**$142,316**

Crop Inventory

Crop	Inventory	Avg Price	Total
Corn	411,400	$5.07	$2,085,440
Soybeans	66,943	$12.14	$812,855
Total Crop Inventory			**$2,898,295**

To access these reports in your portal, go to the Reports menu and select Current Asset Value.

"Blessed is the season which engages the whole world in a conspiracy of love."

– Hamilton Wright Mabie

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Trent Hurley, Chief Executive Officer
David Hurley, President of Hurley & Associates, Inc.
Ida V. Hurley, Founder
Dennis E. Hurley, Chairman of the Board

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