

Sell according to market temperature

Measuring market emotion creates a disciplined approach to timing sales

By John Roach

Marketing is a difficult job for detail-minded people. I firmly believe most farmers are naturally wired to be detail-minded. Successfully managing time and making timely and accurate decisions are necessary parts of managing a farm and raising crops. And the competitive nature of modern agriculture continues to move land into the hands of those who get the details right.

A FRUSTRATING REALITY

Most farmers tell me they find selling crops to be one of the most difficult tasks they face. It is easy to see why. For the farmer looking to make all the right moves, selling crops becomes a very stressful exercise, given the money at stake and inability to find a perfect marketing solution.

As soon as you make a sale, you are certain to learn that you sold too much because prices immediately go higher. Or that you sold too little because prices immediately go lower. It is easy to understand how this reality of marketing would naturally drive any detail-minded person crazy.

During the last few years, the stress of selling grain has multiplied due to fluctuations in price and substantial profit swings. Unfortunately, selling crops in 2009 is likely to be even



Photograph: Courtesy of Roach Ag Marketing

Marketing adviser John Roach grew up on a farm near Carlisle, Iowa.

more stressful than 2008, because sharply increased production costs have multiplied the financial risks of farming. At least we can expect the weather problems of 2009 to be less intense than 2008. We can, can't we?

Despite these factors, you can take away some of the stress and difficulty of selling your crops in 2009 by implementing a simple and successful plan. The plan my firm, Roach Ag Marketing, and I use has worked well

for years and even worked well in the record price-breaking 2007 crop year and, so far, the new price plateau 2008 crop year. I firmly believe our plan will continue to work well in the 2009 crop year and beyond.

SELL ONLY AT OVERHEATED LEVELS

Our approach, in a nutshell, is to make up your mind that you will only make sales when prices are overheated.

You have known for years that

prices cycle up and down several times per year. Each price peak comes as a result of something stimulating traders to a buying crescendo. By this time in your farming career you have learned that the news is always bullish on the peaks, making it difficult to sell. News is dismal when prices are at a low, which makes it easy to give up. Decide today that you will make sales when prices are strong and the news is bullish. Holding tight when everybody is optimistic, then selling out of fear when prices have fallen sharply does not get you above-average prices.

We all need a reliable tool to help us control our natural human emotions as prices and profits fluctuate. Relying on an objective tool to tell us when to make sales will reduce stress and increase the likelihood for success. For many years, we have used successfully a price momentum tool called Slow Stochastic.

WHAT IS THE STOCHASTIC?

In the late 1950s, George C. Lane developed the Stochastic Oscillator to signal when an upward trending stock price was getting near the peak or near the bottom of its current price move. Here is his theory. In an upward-trending market, prices tend to close near their highs. In a downward-trending market, prices tend to close near their lows.

This applies to a daily price chart, weekly, or a longer period. The formula he developed shows where today's close is relative to the high/low range over a set number of periods. The formula is most often seen as a graph with two lines called %K and %D. The range of the graph is from 0 to 100; numbers approaching 100 indicate an overheated market.

There are several ways traders use Slow Stochastic, but most are

SPRING SELL SIGNALS FOR BEANS

	Soybeans	
	<u>2006-07 Crop Year</u>	<u>2007-08 Crop Year</u>
Trading days	252	251
Average crop year price (high, low, and close)	\$7.26	\$12.56
Sell Signal days during Selling Season	43	44
Average price on Sell Signal in Selling Season	\$8.16	\$14.58

Using Sell Signals resulted in average sales worth nearly \$1 a bushel more than the marketing season average for the 2006 crop and more than \$2 better for the 2007 crop. Increasing prices offered more days of overbought markets than normal.

not suitable for selling grain. Most are used for speculative trade. We have set the parameters of our Slow Stochastic to identify the 10 to 12 times per year that prices become overheated. We call them our Roach Ag Sell Signals. We think that number of sales opportunities per year fits most farmers' sales needs.

We have proven that our Sell Signal indicator is an excellent digital thermometer of market prices. Farmers watch the graph in our Daily Grain Plan to see when a cold market is beginning to warm, when it gets hot, and when it is overheated, which is the time to pull the trigger.

We make sales each day for several days trying to get a good average sales price during the overheated period. Following this system takes away much of the stress of marketing decisions. By planning specific percentages or bushels to be sold on each Sell Signal, a simple and easy-to-follow marketing plan is born.

Unless prices are overheated, we refuse to make a sale. This drastically reduces the number of days a pro-

ducer needs to pay serious attention to the markets or even think about making a decision. But, you mustn't forget that overheated markets don't last long, and you have to be willing to make sales when the news, your neighbor, and your emotions might make you want to buy instead of sell.

FRONT-LOAD MARCH THROUGH JUNE

You have likely kept track of your first and last planting days for years. Just as there is a right time to plant, there are also right times of the year to sell, and we have been keeping track of those dates for years.

The market believes the greatest crop-production risks occur during those critical, early-season production months, and prices peak on the greatest risk. The months that most frequently have the year's highest prices are March through June. It only makes sense to focus many of your sales during those months. We call these months our Selling Season.

As you can see from the tables on this and the next pages, sales made following Roach Ag Sell Signals during the Selling Season have worked

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SPRING SELL SIGNALS FOR CORN

	Corn	
	<u>2006-07 Crop Year</u>	<u>2007-08 Crop Year</u>
Trading days	252	251
Average crop year price (high, low, and close)	\$3.53	\$5.13
Sell Signal days during Selling Season	14	38
Average price on Sell Signal in Selling Season	\$4.13	\$6.24

For the 2006 corn crop, the markets offered 14 sell signals, fewer than the overheated market for corn grown in 2007. Using Sell Signals to trigger sales is part of using a systematic approach that front-loads sales during spring and early summer.

► very well for both corn and beans during each of the past two years. You should only focus on marketing your crops when prices are overheated, especially during the Selling Season. You don't think about planting every day of the year, and you needn't think of marketing every day either. You will notice marketing and planting should occur at the same time for farmers in the central Corn Belt.

CHANGING BEAN SEASONALITY

Do be alert for a changing price pattern for beans. With Brazil and Argentina raising 113 million tons of soybeans in the 2008-09 crop year and U.S. bean production estimated a bit under 80 million tons, there is reason for traders to believe the greatest production risk now occurs during the South American spring planting season. We'll be sure to make at least small sales when weather threatens the South American crop enough to drive U.S. bean prices to a Sell Signal.

Each year, a weather problem

occurs somewhere with the only difference from year to year being the size and location of the problem. The market is very good at determining actual size of losses, but normally prices go too high as traders anticipate weeks of ever-increasing damage, causing buyers to shift into greed mode and sellers to move into fear mode. Then the weather problem passes, and some of the damaged area recovers or is found to be less damaged than anticipated. Bullish traders bail out and prices fall.

You have witnessed this spring-to-fall cycle many times in your farming career. When markets are overheated during the Selling Season, your plan should be to make sales. In most years, there are three to four Sell Signals during the Selling Season. Divide the bushels of old and new crop you want to get sold into four increments and sell one increment on each Sell Signal.

STORAGE IS A FACTOR IN TIMING

Many farmers stress over the number of bushels they should sell before harvest. Our advice is to contract or

hedge about the same percentage of your crops ahead of harvest each year during the Selling Season.

The amount of your crop sold ahead should at least equal the bushels you don't want to store. Failure to sell enough during the Selling Season often will result in sales during the fall, which are usually the lowest priced months of the year.

Since you will likely never want to sell all your crop by early July, there will be bushels that are at price risk from July until harvest. Plain vanilla put options should be purchased to protect the price of the unsold bushels from the normal price drop from spring until fall. We buy one fourth of the total number of puts you need on each Sell Signal.

This year some of our customers bought the first and second round of puts, but they got scared out of their plan on the third or fourth Sell Signals. Marketing, however, is a lot like production; you can't do half the job and expect the best results. Failing to fully implement their marketing plan cost farmers a lot of money in 2008.

AVOIDING PARALYSIS

Because we deal with so many farmers, we have the opportunity to see patterns of marketing decisions. In 2007 and again in 2008, most farmers sold a larger percentage of their crops unusually early because profits were far beyond record levels. Farmers who made sales early to secure their family's welfare then found that they'd left a lot of money on the table when prices rallied.

After making additional sales and seeing prices move higher again, many farmers were psychologically unable to get all planned sales made and all their planned puts bought. Sometimes this was a result of crop

losses on the farm. More often it was the fear of making a mistake that kept farmers from making the last round or two of sales.

We noticed a substantial difference again this year in how a small percentage of top farmers handled the markets. Not only did they get

July peak is likely again in 2009, making those sales important.

The only solution for outguessing weather and demand issues is to sell some bushels on each price peak. We anticipate that there will be four price peaks during the March through June Selling Season in 2009.

were the most profitable investment class. The peak of 2008 was a classic scenario. Textbooks should be written about it.

If the peak of the new price plateau has just occurred, it makes sense to me that the valley of this new price plateau could be seen as soon as harvest 2009.

Demand is being hurt by high prices, while production is being stimulated. There is capital flowing into every inefficient agricultural area in the world, and we know production technology has progressed everywhere. We need only good weather to show how large yields can be. Since that will happen unless weather stops it, I encourage farmers to be aggressive on early spring sales and put purchases in 2009. ■

‘Because early sales in 2008 were cheap compared to prices in late June, many farmers may be tempted to wait until June to sell in 2009.’ JOHN ROACH

all the sales made that they planned, but also they added more sales and puts in late June. They sold a greater percentage of their crops than ever before and owned more puts than they had ever owned. Farm profits were so large they ignored all the predictions of higher prices and kept selling. If you were able to do that in 2008, then congratulate yourself.

MARKETING 2008 AND 2009 CROPS

Because sales made early in 2008 were cheap compared to the high prices in late June, many farmers may be tempted to wait until June to sell in 2009. I believe that would be a mistake. The fight for acreage and concerns about planting a good crop on time likely will give us strong prices in February and March. If we have good weather, crop-production worries will dissipate by late June and traders will be talking about record yields. However, if the weather becomes problematic, a June or early

Plan on selling 25% of the bushels you have on hand and 25% of the total bushels you want to sell ahead of harvest on each price peak. Use our Sell Signals (or your own objective technical program) to tell you when prices are overheated.

If you think I am too optimistic, cut your anticipated peaks and sale increments to three. Or if you think I am too negative, then increase your expected number of price peaks and sale increments to five.

THE NEW PRICE PLATEAU PEAK

Farmers should strongly consider that the peak of prices in 2008 was likely the peak of the new price plateau. The peak occurred when the rains wouldn't stop, crops weren't planted, and news coverage of Midwestern floods blew their impact out of proportion. Also, the U.S. dollar was trading at a record modern-time low value, oil prices were shocking, and commodities

FIRM HAS IOWA ROOTS

John Roach is best known as the senior market analyst for the award-winning Public Broadcasting Service program, *Market to Market*, on which he has appeared since 1978.

Roach grew up on a grain and livestock farm near Carlisle in south-central Iowa. His career in commodities began with Lincoln Grain Company in 1973, at the beginning of a new era of grain prices when Russian demand changed price structure. In 1974 he moved to Farmer's Grain and Livestock and began teaching farmers how markets work. He founded Roach Ag Marketing in 1978 at Perry, Iowa, to help farmers sell their products.

Roach Ag Marketing, now based in Boca Raton, Florida, is an independent consulting and full-service commodity brokerage company working with over 8,000 agribusiness customers in 32 states and two foreign countries. ■

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