Farmer's Corner

"Helping The Producer Sell Better"

July/August 2010 Number 4

Pulling Back the Curtain

Seeing Beyond the Hype from Personal Investing to Farm Marketing

Article written by guest columnist Sherry Lorton, co-author of the Farmer's Edge (A Practical Guide to Farm Marketing) and Profit-on-the-Farm I & II. Views contained herein are the opinion of the author.

Do you remember watching the classic children's movie, The Wizard of Oz? At first, the Wizard is shown to be a mysterious, mystical force – an all-knowing power that is highly revered by the citizens of Oz. But, once the curtain is pulled back we find that the Wizard is not all that we were led to believe.

I think this is the case about many things. As part of the general population we are often taught in school, or are conditioned by the media, to see things in a certain way – but when the curtain is pulled back it is not all that we were led to believe.

I have been thinking a lot about this recently in terms of personal finance. We are encouraged to save for retirement and even given tax breaks to do so by the government with the invention of the 401K. This is very good advice; advice I believe in. But herein lies the problem … what to do with the money? We are told by many smart people that simply collecting compound interest on our savings isn't good enough. You need to invest in the stock market in order for your money to grow. And, because most of us don't have the time nor the talent to do it on our own there are experts who will do the job for you … in the form of mutual funds, index funds, hedge funds, annuities and the like.

It's all a very convincing argument, especially when it comes from people who have superior knowledge of the subject – a banker, financial advisor, broker, author, TV analyst. These are people we admire and who appear successful in their own right. And so, we trust their judgment and hand over our hard earned money to do with what they will.

But … it has been my experience that investing in the stock market is not all that it is cracked up to be. My fortunes aren't growing as I had hoped. On the contrary, it seems I faithfully do my part by putting money into the account only to watch it shrink.

Exhausted with this cycle I have begun my personal quest of "pulling back the curtain." I am trying to understand better what's really happening to my money and taking responsibility for the outcome rather than leaving it to the man behind the curtain. My search has led me to ponder these questions: Who am I entrusting my money to? What's the real cost? And, am I doing what I set out to do … ***save*** money for my retirement?

I have no doubt that the fund managers, advisors and such are very knowledgeable about the workings of the stock market, certainly more so than I am. But I have to wonder is one really any better at growing my money than another? I don't see a lot of evidence of it. Most of the graphs and charts of a single fund seem to follow along with the herd. I haven't been very successful in picking a fund that actually beats the market.

So here I am, willingly turning my money over to someone without knowing anything about their abilities. Who is the fund manager? What makes them the expert? What motivates their actions? The only thing I do know for sure is that they are not nearly as emotionally attached to my money as I am.

Then there is the issue of cost. I have yet to find on any statement a breakdown of what my investing in a particular mutual fund costs me. You can bet they are not managing my money for nothing. Why are the fees hidden in the value of the fund and not stated outright? Is the return worth the cost? Hmmmmm… The only thing I am sure of is that the piper gets paid whether I make money or not.

Then there is the bigger question of whether or not I am accomplishing what I really set out to do … *saving* for retirement. With the approach I am taking I can't say for sure. When the market is up it seems like I am doing okay. When the market is down, I don't think there is much *savings* going on. I guess the proper definition would be "investing" for retirement. Investing, unlike saving, is not a sure thing. Is that something I'm comfortable with?

When I was a kid I would put money away in my piggy bank and it kept its value. I put $1 in, got $1 out. When I got older my parents took me to the real bank to open a savings account and this is where I learned the lesson of compound interest. I liked that a lot. I put $100 in and got $110 out.

Somewhere along the way, however, I was persuaded that just earning interest on my money wasn't good enough … I needed to invest. But I'm beginning to rethink that. After taking a hard look at the facts, I think despite what my friends and the experts say, I can do without the emotional rollercoaster of investing. S*aving* money is good enough for me.

What Does This Have to Do with ***Your*** Marketing?

The purpose of this Farmer's Corner newsletter is to share practical marketing advice. If you have been reading it for long you know that we take a common sense approach to marketing, one that is focused on selling based on profit. In comparison to your personal finances, you could say we promote the compound interest approach to saving. There is not a lot of glitz and glamour to it but it works every time. Calculate a price based on profit … put in a target … sell when it gets there.

Now, there are some people who would tell you that such a simple approach to marketing isn't good enough … you need to be more sophisticated in your trading. And, of course, there are many who are more than willing to help …. for a cost. But, before you go down that path to a more complex form of marketing, I would encourage you to take the time to pull back the curtain. Be sure you really know how you're making your money and who is responsible for the outcome – it should be you and not an unknown face behind the curtain. In terms of your marketing, the questions may look something like this:

- Who am I entrusting my marketing to?
  What's their motivation?

- What's the true cost?
  Are the fees and risks clearly laid out?

- And, am I doing what I set out to do …
  sell my crop at a profit?

The last of these questions is probably the most difficult one to answer. Just like the savings vs. investing scenario, there are different interpretations. And, with the invention of ever more complex marketing strategies, the intent is not always clear … are you marketing truly for profit … or is there an element of speculation thrown in?

This is my quirky way of looking at it, but I think the truth of any marketing alternative can be told in terms of where the money comes from … does it come outright from the cash price of the grain or is it the result obtained from other means … a combination of trading strategies that create (if you will allow me to use this term) an "artificial price." Let me explain.

Let's say you have the goal of making $100 profit per acre from your corn crop. You calculate your costs and yield and add your profit goal to determine you need to sell at $4.00 a bushel. You enter a target order with the local elevator to sell your cash grain at that price. Prices move up, your target is executed and when you deliver the grain you're paid the price that equates back to a $100 profit per acre. The money comes entirely from the value of the cash grain … a true price for which that commodity was marketable.

Simple enough. And, it works every time.

Now, look at a different scenario. Let's say you have a goal of making $100 profit per acre and you need a price of $4.00 to achieve that goal. However, you can only sell your cash corn currently for $3.80. To reach your goal, you devise a plan to trade some option contracts to generate an additional .20 in income. Technically, you have created $4.00 in income but it is created through artificial means … not the true value of the cash corn. I think in this case you could say there is a fine line between marketing for profit and speculation.

Strategies that attempt to create artificial prices have gotten quite creative. I heard a new one just today. You could sell out of the money bean calls (via their premium/offer deal) against the upcoming wheat crop and add 40 cents to whatever price you end up selling when the wheat is delivered at harvest. Okay, so now you're trading a bucket full of soybean options to help out the ailing wheat price????? And, on top of it, you don't really know at this point what the price will be. If the price goes down between now and then...you end up with no wheat sold but you get to keep the 40¢. If the price rallies, you have to either buy back your option (i.e. give back the money and possibly more), or have a contract for *beans* sold for less than market price. Did the man behind the curtain explain all that?

And, what does all of this have to do with your ability to sell wheat for a profit? Wouldn't it have been easier to sell wheat back when the cash price was at a profitable level?

Even the popular hedge-to-arrive contract has an artificial element to it. It does not involve options, but it is an attempt to create a price that is not justified at the time. Instead of selling cash grain – which is the real marketable price – you sell futures and hope that you can get the benefit of basis change to create a better, yet still artificial, price.

I always wonder why you would attempt to do something through artificial means when there is an easier and simpler approach (especially knowing that many of them come with hidden costs or risks). If you can reach your profit goals selling grain in the cash grain market, why mess with all the rest?

You may or may not agree with my views here on the different marketing alternatives, but I do know that, regardless of how you view the results, pulling back the curtain on your marketing can help take some of the frustration and confusion out of it.

We live in a world where there is a lot of hype about everything — commodity prices and marketing strategies are not exempt. Many people are eager to offer their advice for various reasons. But, though it may be offered with good intentions, there are times when you need to shut out the noise and decide for yourself …. What are you trying to accomplish … and what approach is right for you?

Despite what the experts say, you may just find that marketing for a profit IS good enough for you!

Let’s Work Together

Why do we offer certain contracts and not others? Why are we so adamant about staying away from certain marketing alternatives, even if your competition is offering them? The answer is simple; it’s because we live here too.

We believe that we have a responsibility to ourselves, to you -- both as a customer and a neighbor --, and to the rest of this community to contribute to the financial strength and stability of this community as best we can. That means staying away from any contract that involves an unnecessary and unacceptable level of risk for either you or us. The best thing that can happen to our community is for all of us to operate profitably over the long term.

We have a simple method of choosing which marketing alternatives we offer; we only use the ones that are good for both of us. If a contract is only good for one of the parties involved, in the long run it isn’t really good for anyone.

Our goal is to create a win/win/win situation -- a win for you, a win for us and a win for the community that we share as business associates, friends and neighbors. Let’s work together to create a profit-based marketing program that works for you.