



Marketing Club Leader Resource Notebook

***"Improving the marketing skills
of Montana producers"***

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Dear Marketing Club Leader:

Congratulations on accepting the challenge of participating in a commodity marketing club!

Whether part of a club for a number of years or just organizing one in your area, you represent a dedication to improving your knowledge of commodity markets and, in turn, improving the profit potential of your farming operation.

Organizing and maintaining a marketing club takes commitment from its leaders and members. The Montana Grain Growers Association, through its Montana MarketManager™ program, is committed to helping you and your club be successful. This club leader resource notebook and the accompanying club leader training represents only the first step of MGGGA support. In the future we will be developing lesson plans, providing speaker contacts, holding workshops, and creating networking opportunities for marketing clubs around the state. Look for updates in the *Montana Grain News* newsletter and on the MarketManager website - www.montanamarketmanager.org.

Before you open the notebook to get started, we would like to know a little about your club. Please take a few minutes to fill out the club information sheet on behind this letter. You will be the first to know about upcoming activities and we will post some basic information about your club on our website.

Good luck, have fun learning and let us know how we can help!

Richard Owen
MGGGA Vice President of Program Development

P.S. - Special thanks to Brian Dennis, a graduate student in Agricultural Education at Montana State University, for his assistance in compiling this resource notebook.



Marketing Club Information*

CLUB NAME/LOCATION: _____

MAIN CONTACT (LEADER) NAME: _____

ADDRESS: _____

PHONE: _____

E-MAIL: _____

WEBSITE: _____

SECRETARY AND/OR TREASURER: _____

ADDRESS: _____

PHONE: _____ **E-MAIL:** _____

OTHER CONTACTS: _____

HOW OFTEN/WHEN DOES YOUR CLUB MEET? _____

NUMBER OF MEMBERS? _____

DO YOU WELCOME GUESTS? _____ **ACCEPTING NEW MEMBERS?** _____

DO YOU TRADE AS A CLUB? _____

IN BRIEF, HOW WOULD YOU LIKE YOUR CLUB DESCRIBED ON THE WEB SITE?

SUGGESTIONS FOR HOW THE MONTANA MARKETMANAGER PROGRAM CAN HELP YOUR CLUB?

Please return form to: Richard Owen, MGGA, P.O. Box 1165, Great Falls, MT 59403
Phone: 406-761-4596 *Fax:* 406-761-4606 *E-mail:* rtowen@mgga.org

* We are collecting this information to keep you informed of upcoming MarketManager™ programs and material. We also plan to include this information on the MarketManager™ website and in the marketing club leader resource notebook. Only contact phone number and e-mail will be listed – no home addresses.

***Montana MarketManager*[™]** **Marketing Club Leader Resource Notebook**

The purpose of this notebook is to provide information that can be used to facilitate the development of marketing clubs across Montana. The Montana Grain Growers Association realizes that each marketing club will be different and the information that is contained in this notebook is only suggestions. We recommend that each club adapt the information to suit their particular situation.

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The authors would like to thank the Montana MarketManager Advisory Committee for their guidance and support:

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Mr. Fran Malecha, General Mills
Mr. Chuck Merja, Producer
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Mr. Dave Phillips, Fergus County Extension
Ms. Lola Raska, Producer
Mr. Leonard Schock, Producer, MT Wheat & Barley Committee

Portions of this manual were adapted from information published by the Kansas Cooperative Extension Service and the Chicago Board of Trade. Other information was adapted from the Marketing Club Cookbook that was developed by the Texas Agricultural Extension Service with support from the Texas Legislature's Risk Management Initiative, Texas Wheat Producer' Board, Texas Corn Producer's Board and the Texas Farm Bureau.

Marketing Clubs: Key to Learning

Brian Dennis & Richard Owen*

To provide Montana Grain Producers with the tools and information necessary to develop and implement marketing plans that will maximize profits from wheat and barley markets.

-Montana Grain Growers Association

Why a Marketing Club?

As profit margins continue to decrease, producers need to find a way to help stabilize their income. The Montana Grain Growers Association feels that the best way to help the producers better manage their price risk is to provide them with educational information that will enhance their use of marketing and price risk management tools to increase their profit margin. Historically, producers have been very hesitant to use the available marketing tools as part of their operation. Two possible reasons for their reluctance may be a lack of understanding of the concepts involved with these tools, and the risk involved with learning to use them.

Marketing clubs provide a good answer to both situations. A study completed by the Indiana Department of Education concluded that individuals learn and retain “10 percent of what they hear, 20 percent of what they see, 40 percent of what they discuss, and 80 percent of what they directly experience.” Producers who participate in marketing clubs are directly involved in both teaching and learning about marketing and price risk management tools and concepts. Involvement in a marketing club will allow producers to retain a larger portion of the concepts presented to them.

As producers begin to understand the concepts associated with using various marketing tools such as; forward contracting, hedge-to-arrive contracts and futures and options, they still have to put their training to work in the commodities market. Trading as a marketing club allows producers to become involved in the market at a fraction of the cost. Actual trading is important for truly understanding how the market operates and its associated risks. Once the club has begun trading, members will have the opportunity to discuss what is going on with the market in a context that actually affects them, which is the best learning tool.

* Graduate Teaching Assistant in Agricultural Education, Montana State University; Vice President of Program Development, Montana Grain Growers Association

What is a Marketing Club

Marketing clubs provide a unique educational experience for Montana producers. Producers learn about various marketing and price risk management techniques and have an opportunity to practice what the members learn in a limited risk environment. Typically, a group of 10 – 20 producers, with the assistance of a facilitator, comprise the membership of a marketing club. Marketing clubs may remain active as long as sufficient interest exists among its members to continue educational programs.

Three Types of Marketing Clubs

Market Information Clubs are informally structured with members meeting periodically to review commodity market issues such as:

- Understanding how the marketplace operates;
- Current commodity prices;
- Recent crop reports and their impact on the market;
- Foreign trade situations and their impact on the market;
- Current market trends; or
- Marketing options available to members.

Market Information Clubs may not necessarily elect officers or have an official set of bylaws. They do not utilize market simulation tools or pool money to trade commodities for educational purposes. These clubs may sponsor marketing or price risk management seminars for club members or the community.

Market Simulation Clubs have a more formal structure and additional member responsibilities. They may elect officers or adopt a specific set of bylaws that could govern the use of a small expense account. Members meet regularly to simulate the use of marketing tools that could include:

- Forward contracting;
- Hedge to arrive contracts;
- Cash trading;
- Basis contracts;
- Hedging with futures; or
- Hedging with options.

The members discuss the results of their simulations and how they can apply what they have learned to their own operations. However, **no money is exchanged** in a market simulation club for the purpose of trading. Market Simulation Clubs have an educational program to help them better understand each marketing tool. They may also sponsor marketing or price risk management seminars for club members or the community. A sample set of bylaws that can be used for a Market Simulation Club can be found in this notebook or on the Montana MarketManager Web-site.

Market Trading & Analysis Clubs* are legal organizations that have a specific set of by-laws and operating procedures that address club trading. The bylaws allow the club to comply with the rules set forth by the Commodity Futures Trading Commission. They also have officers who are elected by the members on a regular basis. Club members pool their money in order to use the various marketing tools available. The money that members pool should be viewed as tuition for having the opportunity to learn how to use these tools in a limited risk environment. The marketing tools that are used might include:

- Forward contracting;
- Hedge to arrive contracts;
- Basis contracts;
- Hedging with futures; or
- Hedging with options.

In addition to trading commodities, Market Trading & Analysis Clubs may have a more rigorous educational program covering more topics in greater detail. The money that the members pool is viewed as tuition for learning how to effectively use various marketing tools. A Market Trading & Analysis club may also sponsor seminars for members or the community. A sample set of bylaws and information concerning the rules that govern trading as a marketing club on the Chicago Board of Trade can be found in this notebook or on the Montana MarketManager Web-site.

What Makes a Successful Marketing Club?

There are several key factors that go into a successful marketing club:

- 1) Producers who have a desire to learn about crop marketing and price risk management;
- 2) A facilitator with the ability to effectively communicate their experience and skills to club members; and
- 3) A leader who is both willing and capable of giving their time to help other members learn about the available marketing and price risk management tools.
- 4) Access to current and pertinent information

A good leader has the greatest impact on the success of a marketing club

Leader

A marketing club leader should be a producer with good leadership skills and at least a basic understanding of price risk management tools that will be discussed in the club meetings. It may be necessary for a club member who is not a producer to be the club leader; however, a producer who is facing the same decisions as the other members makes the most effective leaders. The leader keeps the educational process moving and encourages members to take an active part in the meetings.

*Market Trading & Analysis Club by-laws state the process for which trades are implemented, the by-laws also define accountability of the club and its members

Anyone considering organizing a club should seek a willing and capable leader before making any other preparations. A marketing club should not expect more than one year of service from a leader.

Facilitator

Examples of someone who might make an effective facilitator for the group would be the county Extension agent, a banker, elevator manager, agricultural education teacher or even a commodity broker. A facilitator should be responsible for items like:

- Maintaining the mailing lists;
- Arranging a meeting place and mailing out meeting reminders;
- Securing a *DTN* or other information resources for the meeting room;
- Locating nearby internet access;
- Securing equipment such as a speaker phone, projector, and VCR; and
- Arranging for refreshments.

The facilitator's job is to provide the setting for an outstanding meeting, but not to run the meeting.

Starting a Marketing Club

There are two ways to determine if producers are interested in starting a marketing club. One way to determine if there is interest in starting a marketing club is by having several producers approach a local leader such as the county agent, local banker or the elevator manager to act as a facilitator for a new marketing club. Another method for starting a marketing club is to hold an informational meeting to introduce the concept of a marketing club to producers. Producers may also contact the Montana Grain Growers Association for help in organizing a club in their area.

Interested Group of Producers

A group of local producers may approach the MGGGA, county agent, local banker, elevator manager or other community leader wanting to know more about the marketing club concept. With guidance from a facilitator, the group of interested producers (2 or more) can start their own marketing club. They may choose to advertise the formation of their new group to get more members or they can keep the group small.

Informational Meeting

Having a public meeting to introduce the idea of a marketing club to producers is another way to determine the level of interest for starting a marketing club. The informational meeting should be widely publicized and provide a brief description of the purpose of a marketing club. A sample news release to announce the meeting is included in this notebook or can be found on the Montana MarketManager Web-site.

The primary objectives of the first meeting should be:

- 1) To determine if adequate interest exists to sustain a marketing club;
- 2) To obtain addresses and phone numbers from interested producers;
- 3) To determine the level of each participant's general marketing knowledge;
- 4) To gather ideas on a meeting place and time; and
- 5) To determine interest level for: dues, whether the club should trade, what tools or concepts the members desire to learn more about.
- 6) To determine interest level as per dues, trading and legal partnership

A survey might be a good way to gather information from producers concerning such topics as when they would like to meet and their knowledge of marketing and price risk management concepts and tools. A sample survey can be found in this notebook or on the Montana MarketManager Web-site. A facilitator normally conducts the club's initial meeting unless a club leader has volunteered.

Local Advisory Committee

Prior to the club's organizational meeting, the facilitator should identify approximately three producers who would be willing to act as an advisory committee for the new marketing club. The advisory committee will assist the facilitator in developing a set of goals and objectives for the new club and its educational activities. The group may also provide feedback to the facilitator on how well the educational material is meeting the expectations and needs of the club members.

Organizational Meeting

The organizational meeting may be the most important step in the life of the marketing club, and should be carefully planned by the club leader or facilitator. One of the first orders of business should be selecting officers for the new club; i.e., chairman, secretary, and treasurer. By-laws and other legal arrangements may not be necessary until the members decide which type of club to start or whether or not they want to trade.

Items that should be discussed at the organizational meeting include:

- 1) Selection of officers (temporary officers may be elected until the club's by-laws have been approved);
- 2) Name of the club;
- 3) Club goals;
- 4) Possible educational topics and speakers;
- 5) Location, time and length of meetings;
- 6) Topic for the next meeting;
- 7) Commodity subcommittees;
- 8) Access to market information and the internet;
- 9) Legal responsibilities; partnership or paper trade
- 10) Associated costs; and
- 11) Access to a phone line and speakerphone.

Typical Meeting

Each new marketing club should establish an agenda or format that allows them to cover the necessary material at each meeting in both an efficient and comfortable manner. Club meetings should be kept as short as possible with new business being covered promptly.

Sample agenda items may include:

- 1) Informal time to visit (distribute handouts, share newsletters, get current market information);
- 2) Educational program (15-20 minutes);
- 3) Report on current market situation by commodity subcommittees;
- 4) Discussion of what members are hearing from their brokers;
- 5) Discussion of the club's current market position;
- 6) Discussion of possible changes needed in the club's marketing plan; and
- 7) Selection of the topic for the next meeting;

The leader and the facilitator should handle any routine details that arise between meetings. If the group decides to pool their money and trade as a group, the use of those funds should be carefully monitored and documented by the secretary. Club trading decisions need to comply with club by-laws.

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Key Factors to a Successful Marketing Club

The following are some factors that successful marketing clubs have in common.

- 1) Commitment to success
 - Members have a common goal
 - Define member expectations
 - Set long term goals
- 2) A good leader
 - Helps to stimulate discussion, not control it
 - Involves as many members as possible in the discussions
 - Assigns members to commodity sub-committees and has them report on their area of responsibility
 - Keeps the meeting on schedule by utilizing proper parliamentary procedure
- 3) A good facilitator
 - Handles routine details to free up the leader to concentrate on the meeting
 - Provides guidance to the club if needed
- 4) Developing clear and concise by-laws
 - Helps to eliminate conflicts and confusion
 - Provides members with an understanding of how the group will function, allowing members to feel more comfortable with their risk exposure
- 5) Group trading in a controlled and applicable manner
 - Trade commodities that relate to the crops the group produces
 - Ensure that the group is in favor of all trading decisions
 - Use a variety of marketing tools that could benefit club members
 - Trade “mini” contracts if available, reduced cost and risk
 - Trade options in order to limit the group’s potential loss to the premium paid.
 - Appoint a subcommittee to watch contracts between meetings
- 6) Reliable and conscientious treasurer
 - Should possess basic knowledge of commodity trading and bookkeeping skills
 - Should have time to attend most if not all club meetings
- 7) A quality educational program
 - Utilize the proper person to deliver the given topic
 - Topics should be of educational value to the members
 - Utilize outside speakers with a speakerphone or in person

- 8) Regular meetings
 - Each meeting should be at the same time
 - Set a standard agenda and meeting length
 - Try to find a private meeting place to reduce distractions during the meeting
- 9) Group flexibility
 - If the group wishes to speculate, let them
 - Keep the sessions as informal and without rigid structure as possible
 - Other topics are allowed
 - Have fun

What Doesn't Work

According to states that have organized a marketing club program before, the following are a few things that should be avoided.

- 1) Poor leadership
 - Leader does not get members involved in the meeting
 - A facilitator acting as the leader, it is a producer organization and a producer should be the leader.
- 2) Initially being too aggressive in the club's trading activities
 - You need to crawl before you walk and run.
 - Asking producers for money to cover a margin call will damage the member's trust in the club.
 - Consider dues or other cash inputs as "tuition"
- 3) Attempting to keep a club going when it is no longer useful
 - When the club has served its purpose and the members have gotten all they can out of it, then it is time to disband.
- 4) Poor meeting format
 - Meetings get too long
 - Meetings that do not have planned activities



Marketing Club Information Survey*

Please complete this survey to help organize a marketing club that would provide the maximum benefit to the most participants.

County _____
Name _____
Address _____
Town _____
State _____ Zip Code _____
Telephone Number _____ Fax Number _____
Email Address _____

1. How often would you like for the marketing club to meet?

Once a week ___ Every two weeks ___ Once a month ___ Other _____

2. Please place a check by the time and day of the week that you feel would best fit your schedule.

| | |
|----------------------------|--------------------|
| a. Meeting Time | b. Day of the Week |
| ___ 7:00 ___ a.m. ___ p.m. | ___ Monday |
| ___ 7:30 ___ a.m. ___ p.m. | ___ Tuesday |
| ___ 8:00 ___ a.m. ___ p.m. | ___ Wednesday |
| ___ 8:30 ___ a.m. ___ p.m. | ___ Thursday |
| | ___ Friday |

3. Have you ever traded any type of futures?

Yes ___ No ___

Have you ever traded any options on futures?

Yes ___ No ___

* To help us develop future educational components of the Montana MarketManager program, we would ask that club leaders provide MGGGA with a copy of this completed survey. The information will be compiled in aggregate and no names or individual answers will be released.

4. Have you ever forward-priced any of your production?

Yes ___ No ___

Please explain how:

5. On a scale of one to five, with five being the highest level of comprehension, please rate your understanding of each of the following topics:

- _____ Basis
- _____ Hedging with Futures
- _____ Forward Contracts
- _____ Minimum Price Contracts
- _____ Crop Insurance
- _____ Hedging with Options
- _____ Basis Contracts
- _____ Hedge to Arrive Contracts

6. Please check any of the following topics you would like to cover in the club:

- | | |
|------------------------------------|-------------------------------|
| _____ Basis | _____ Hedging with Futures |
| _____ Forward Contracts | _____ Minimum Price Contracts |
| _____ Budgeting, Break-even prices | _____ Crop Insurance |
| _____ Hedging on Options | _____ Basis Contracts |
| _____ Hedge to Arrive Contracts | _____ Other: |

7. Do you have access to the World Wide Web?

Yes ___ No ___

8. Would you be interested in helping to start a marketing club?

Yes___ No___

9. Would you be interested in being a club leader?

Yes___ No___

Marketing Club Pretest

The following questions are designed to evaluate your general knowledge about futures and options. Choose the best answer for each question.

- 1. What is the purpose of price risk management?**
 - a. to ensure that producers always sell at a peak price in the market
 - b. to better manage your income
 - c. a means to guarantee that no losses can occur
 - d. to ensure that market prices of agricultural commodities don't fluctuate

- 2. Futures prices on the Chicago Board of Trade are determined by**
 - a. brokers
 - b. open outcry of bids and offers
 - c. officers of the exchange
 - d. written and sealed bids
 - e. both a and c

- 3. What is the importance of price forecasting to a producer?**
 - a. helps the producer determine which marketing options might be effective
 - b. gives the producer an idea of the type and quantity of a crop to produce
 - c. provides information on what the local elevator's cash price will be
 - d. both a and c
 - e. all of the above

- 4. The USDA expects the hard red winter wheat crop yield to be above average; however, demand for hard red winter wheat is expected to be weak. How would you expect the market to react?**
 - a. the futures price will increase
 - b. the futures price will drop
 - c. the local cash price will increase
 - d. the local cash price will drop
 - e. both a and c
 - f. both b and d

- 5. The USDA expects the spring wheat crop yield to be average; however, Japan has committed to buying one third more grain this year than last. How would you expect the market to react?**
- the futures price will increase
 - the futures price will drop
 - the local cash price will increase
 - the local cash price will drop
 - both a and c
 - both b and d
- 6. What does “basis” mean in the commodity market?**
- The base price received by a producer for their crop
 - the transportation cost from the farm to the local elevator
 - difference in price at a local market and a futures exchange
 - the difference in transportation cost from Portland to Japan and the Gulf Port to Japan
- 7. A producer would enter a forward basis contract if**
- he/she expects the market price to increase before harvest
 - he/she expects the market price to decrease before harvest
 - he/she expects the basis to increase at harvest time
 - he/she expects the basis to decrease at harvest time
- 8. A producer has the opportunity to sign a forward price contract in May while prices are relatively high for spring wheat. What would cause the producer to sign a forward contract for all or part of his/her crop with delivery due in September?**
- the USDA anticipates lower wheat yields this year
 - the producer anticipates harvest time prices to be lower than those currently offered
 - the producer anticipates harvest time prices to be higher than those currently offered
 - both a and c
- 9. Producers who use minimum price contracts are**
- subject to a futures price decrease
 - able to take advantage of a cash price increase
 - protected from a cash price decrease
 - both a and c
 - both b and c
- 10. When producers use a hedge-to-arrive contract they**
- lock in a futures price with the elevator
 - lock in a basis
 - must deliver a specified amount of grain during a given time period
 - both a and c
 - all of the above

11. In April, while prices are strong, a producer is trying to determine marketing alternatives for his/her wheat crop that will be harvested in August. Historically prices decrease between April and August. A producer might use which marketing alternatives to protect against the expected price decrease?

- a. forward contract
- b. a hedge-to-arrive contract
- c. sell a futures contract
- d. buy a put option
- e. a, b and c
- f. all of the above

12. What does a producer who takes a “short position” in the futures market expect?

- a. the futures price to increase
- b. the futures price to decrease
- c. commodity production to decrease
- d. interest rates on borrowed funds to increase

13. What is the benefit of a futures option contract?

- a. it guarantees the local cash price
- b. it gives a producer the right to execute a futures contract if profitable
- c. both a and b
- d. none of the above

14. What does a producer who buys a call option expect?

- a. the futures price to increase
- b. the futures price to decrease
- c. commodity production to increase
- d. commission costs to decrease

15. The local cash price and the futures price

- a. generally move in the opposite direction
- b. generally move in the same direction
- c. are not related to each other
- d. are regulated by the exchange

Pretest Evaluation

The purpose of the Marketing Club Pretest is to provide the club leader or facilitator with the ability to assess an individual's knowledge of concepts associated with the use of commodity marketing tools to manage price risk. Evaluation of the member's knowledge of these concepts and tools will assist the leader or facilitator in designing the club's educational program to better meet the needs of its members.

The answers to the Pretest are as follows:

- 1) b
- 2) b
- 3) e
- 4) f
- 5) e
- 6) c
- 7) d
- 8) b
- 9) e
- 10) e
- 11) f
- 12) b
- 13) b
- 14) a
- 15) b

Basic Knowledge

Members who get 6 out of 7 correct answers on questions; 1, 2, 3, 4, 5, 6, and 15, have adequate knowledge of the basic concepts and principles of how the commodity markets operate. A group that does well on these questions may want to put more focus on the marketing tools used in price risk management.

Intermediate Knowledge

Members who get 7 out of 8 correct answers on questions; 7, 8, 9, 10, 11, 12, 13, and 14, have some basic knowledge about the marketing tools used in price risk management. A group that performs well on these questions may wish to put the various tools to work in a real world situation for educational purposes.

Individual results to this pretest may vary. To help the club develop an effective educational program, the facilitator or leader might want to determine which questions on the pretest were most often missed. The concepts involved with the most frequently missed questions may be a good place to start the club's educational program.

Example News Release

PRODUCERS TO DISCUSS FORMING MARKETING CLUB

(Your Town)—A meeting to discuss the formation of a marketing club to assist area producers in sharpening their marketing skills will be held (day, month and date) in (town), said (Your Name), (Your Title). The meeting will begin at (time) in (name of building and street address).

Anyone interested in participating in this new marketing club should contact (Your Name) at (telephone number).

The passage of the 1996 Farm Bill ushered in a new era for producers. It set the stage for a new environment of economic decision-making by the producer. Montana producers, who have always been faced with the complex challenges of producing, are now being confronted with the greater challenges of marketing and price risk management. Richard Owen, Vice President of Program Development for the Montana Grain Growers Association said, “a producer who is going to survive in this new economic environment must have superior marketing and price risk management skills.”

Improving marketing and price risk management skills of the Montana producer is a high priority for the Montana Grain Growers Association, requiring intensive educational programming. The formation of marketing clubs is one way to do that. According to Owen, “it is the goal of the Montana Grain Growers Association to provide producers with the education and tools needed for them to consistently sell their crops in the upper half of the market.”

Marketing clubs are usually made up of 10 to 20 producers who meet once or twice a month with the goal of increasing their knowledge of marketing and price risk management concepts. The members learn from each other’s experience and the various educational programs. The members will monitor the markets and learn to evaluate various alternatives at any point in time. The meetings will include outside speakers, regular interaction among the members and possibly some group trading of options.

The meeting on (date) in (town) is to determine if there is adequate interest to start a club in this area. There will be a discussion of what the marketing club will do and any individuals interested will be invited to a later organizational meeting. There will be a discussion of what topics should be covered by the club’s educational program.

Anyone interested in learning more about how to deal with the risks of marketing agricultural products is welcome to attend this meeting. Additional information may be obtained by contacting (Local Contact Person) or Richard Owen at the Montana Grain Growers Association at 406-761-4596.

Sample Marketing Information Club By-laws

The following is a sample set of by-laws that a market information club or a paper-trading club might use. However, we recommend that each club adopt a set of by-laws that are specifically designed to the club's situation. It is also recommended that the club have their by-laws reviewed by an attorney in order to protect the club and its members from liability concerns.

Purpose

The (Club Name) is a voluntary organization which provides an opportunity to participate in group educational activities for the purpose of gaining a better understanding of alternative marketing tools – particularly futures & options.

Membership

An individual interested in the marketing of agricultural commodities can be a member of (Club Name). Membership is divided into two groups: Voting and Non-voting. A voting member is any individual who invests the required initial fee and maintains his investment at the level of the other voting members. If a family pays one fee they receive only one vote. Failure to meet member's financial obligations will result in forfeiture of voting rights.

New voting members can join at the beginning of the calendar year. The current voting members must approve any new voting members by a (majority, 2/3, or unanimous) vote. New members will be required to pay the same dues as a current member.

Officers

Officers will consist of a chairman, secretary, and treasurer. The chairman will conduct the meeting and work with the facilitator to plan meetings and send out reminders of meetings. The secretary will keep minutes for the meetings and maintain a list of voting and non-voting members. The treasurer will be responsible for maintaining the financial records of the club. The treasurer is also designated to set up accounts in the club's name.

Duration of Club

The (Club Name) shall be review it's situation at the end of each calendar year. The membership will determine if there is sufficient interest to continue the club into the next year

Initial Fee

An initial fee of (Dollar Amount) will be required from each member desiring voting privileges. This fee will be payable no later than (Date).

Club Accounts

The Treasurer will open a checking account in the name of the club. All checks should be made out to (Club Name). The checking account will require the signature of the Treasurer and (another officer).

Decisions

All decisions made by (Club Name) must pass by a majority vote of the voting members present at a meeting.

Disbanding the Club

A (majority, 2/3 or unanimous) vote will be required to disband (Club Name). A (majority, 2/3 or unanimous) vote will be required to determine how to disperse funds or property that the club might possess.



Sample Trading By-laws

The following is a sample set of by-laws that a marketing education club might adopt. However, the Montana Grain Growers Association recommends that each club adopt a set of by-laws that are specifically designed to the club's situation. It is also recommended that the club have their by-laws reviewed by an attorney to protect the club and its members from liability concerns.

Purpose

The (Club Name) is being established to provide members with a low-cost opportunity to participate in the educational benefits of owning commodity futures and options contracts, and observing their premium value change as the market moves. The organization also allows its members to be involved in the mechanics of buying and selling.

Membership

An initial fee of (Dollar Amount) (No more than \$300 according to Commodity Futures Trading Commission requirements) will be required from each member desiring voting privileges. This fee will be payable no later than (Date). The collection of additional fees or deposits during the year will be done only after a (majority, 2/3 or unanimous) vote by voting members present at an announced meeting with at least 50% of the voting members present. New voting members can join only at the beginning of the calendar year. The current-voting members must approve any new voting members by a (majority, 2/3 or unanimous) vote. New members will be required to make the same initial deposit as the current members made.

Club Accounts

It will be the responsibility of the Treasurer to complete the paperwork to set up an account with a broker. (The broker will be informed that the club is trading for educational purposes and will comply with the regulations of the Commodity Futures Trading Commission (CFTC).)

The Treasurer will open a checking account in the name of the club. All checks should be made out to the (Club Name). The checking account will require the signature of the Treasurer and (another officer).

Club Trading

The Treasurer will execute the designated trade only after sufficient funds have been collected and deposited with the broker. Contracts in the club's name will have stops placed on them to ensure the club treasury has sufficient funds to cover any margin call.

Decisions

Decisions made by the club will be done by a majority vote unless otherwise specified in the by-laws.

Use of Trading Profits

The club will determine how to distribute any revenue that has resulted from the club's trading activities.

Disbanding the Club

A (majority, 2/3 or unanimous) vote will be required to disband (Club Name). Prior to disbanding all of the clubs market positions must be liquidated. A (majority, 2/3 or unanimous) vote will be required to determine how to disperse funds or property that the club might possess.

*Establishing a Trading Account**

According to regulations individual who pool their money for the purpose of trading are required to register with the Commodity Futures Trading Commission and the National Futures Association as a Commodity Pool. However, a marketing club can request to be exempt from registering as a Commodity Pool if:

- 1) The club has no more than 15 members
- 2) The trading pool account has less than a \$200,000 total initial contribution
- 3) The trading pool operator sends a letter to the Commodity Futures Trading Commission and the National Futures Association, requesting exemption for registration as a Commodity Pool
- 4) The club has a tax I.D number
- 5) The club name appears on the trading account
- 6) The club has a checking account under the same name
 - all commodity accounts must be funded with checks that match the name on the trading account

If the marketing club has more than 15 members contributing to the trading pool it will be required to register as a Commodity Pool. The paperwork for this is both extensive and time consuming. If a club wishes to register as a commodity pool they should contact their broker to obtain the necessary forms.

A marketing club with more than 15 members may also form a partnership in order to trade on the commodities market. If a club chooses to form a partnership they should seek the services of an attorney to handle the legal concerns involved with a partnership. A marketing club wishing to form a partnership should contact their broker or an attorney to obtain the necessary forms.

We recommend that a newly organized marketing club only trade by purchasing options. Options are the safest means of limiting the losses that the club could sustain in a volatile market.

(Date)

(Pool operator's Name)

(Pool operator's Street Address)

(Hometown, MT 59000)

Special Counsel, Front Office Audit Unit
Division of Trading and Markets, CFTC
2033 K. Street N.W.
Washington, DC 20581

Dear Special Counsel of CFTC:

Pursuant to Part 4.13 (a)(1) of the Commodity Futures Trading Commission regulations, please allow this letter to serve as our notification to you that (Club Name and Tax ID Number) is not required to register as a commodity pool nor I (us) as commodity pool operators pursuant to the following exemptions in that:

- 1) There are not more than 15 members in the club nor is the initial investment of the club into the commodity trading account more than \$200,000.
- 2) I (we) do not receive any compensation or other payment, directly, or indirectly, for operating the pool.
- 3) I (we) am (are) not otherwise required to register with the commission and I (we) am (are) not a business affiliate of any person required to register with the Commission.
- 4) No one in the club does any advertising in connection with the pool.

The principal address of (Club Name) is (Contact Person's Address). All participants have been provided with this statement.

Sincerely,

(Pool Operator)

cc: Mr. Tony Gialanella
Director of Compliance
National Futures Association
(200 West Madison Street
Chicago, IL 60606-3447)

Each member of the trading pool



Marketing Club Resource Information

Montana Grain Growers Association

PO Box 1165
Great Falls, MT 59403-1165
Website: www.montanamarketmanager.org

Phone: 406-761-4596
Fax: 406-761-4606

Richard Owen
Vice President Program Development

E-mail: rtowen@mgga.org

Montana State University Extension Service

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2 South Pacific
Dillon, MT 59725-2799

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Fax: 406-758-5881

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Fax: 406-675-2804

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