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STRATEGIC PLANNING

What is it? Why do it?

These questions may be best answered by a quote from Yogi Berra, "You've got to be very careful if you don't know where you're going, because you might not get there."

Strategic planning may sound like a high level corporate exercise that is undertaken by the most sophisticated of business executives. It is, but it is also done by you and me every day.

Let me give you an example. Last month I was scheduled to visit some clients in Indiana and Kentucky. I knew where I wanted to go, but I needed to plan a route to take me there. Strategic planning... determine a destination and then plan a route. It is the same in your farming operation, set goals and then decide the steps you must take to reach those goals.

We have conducted several strategic planning meetings with clients over the past several months. Our process involves examining strengths, weaknesses, opportunities and threats of the operation. Each operation is unique, facing their own challenges and presenting varied planning opportunities. Succession planning from both the older and younger generations, education and training, growth, financing, adequacy of liability insurance coverage, equipment sharing and basic estate planning issues are topics that have been raised. We listen, we offer some advice and prepare an action plan to get started. It is a beginning of a process that requires forward thinking and, very often, hard decisions.

One more thing, during my trip major construction projects had closed a road near Indianapolis. I needed to take a different route than originally planned, but I reached my destination. So apparently, even after setting plans in place, a regular review is a good idea. The same goes with your farming business, determine where you want to go, let's set some strategies or plans to get there, then review the progress regularly.

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AGPERSPECTIVE INC

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PRECISION AGRICULTURE AND CROP INSURANCE

Technology impacts our lives more and more every day. Some technology makes our life better. For instance, I recently purchased an iPad and to me it is as revolutionary as the cell phone. I love it! After reading my first electronic book on the iPad I sincerely hope that I never have to read a "regular" book ever again. However, with new technology comes a steep learning curve. As I get older I find myself fighting the desire to learn new things. Often I have to force myself to do it. Sometimes I find the technology valuable as in the case of the iPad and sometimes I find it is not for me i.e. Facebook. Either way by forcing myself to engage the technology I learned.

In Agriculture, like all other industries, technology is rapidly changing the landscape. In 1996, I was at a research farm where they had a corn planter that varied plant population and seed variety by soil type. It took time, but today much of that technology is commercially available. As a crop insurance agency that desires to be on the "cutting edge" I feel it is of the utmost importance that we stay abreast of technology changes that will help our industry. For years the crop insurance industry has been focused on how to use yield monitor data to adjust losses. The accuracy and reliability of the yield monitor has proved challenging. I firmly believe that in time these issues with the yield monitor will be resolved. In the meantime, I feel that recent advancements in precision planting and specifically automatic row shut offs have the greatest promise for the crop insurance industry. With the advent of this technology the corn planter has become the most accurate source of planted acreage information. No longer is the data skewed by point rows and odd shaped fields.

Reporting planting information at both the FSA office and again with a crop insurance agent is both redundant and antiquated. For producers that have invested in precision planting technology it is a horrible waste of time to go into the FSA office and fill out by hand endless sheets of paper when all of the information can be found on a data card or flash drive. I firmly believe that in the coming years the government will allow producers to use their planter data to certify their acres with the FSA. Michael Scuse, acting undersecretary for USDA's Farm and Foreign Ag Service recently was quoted as saying, "With the technology we have today, there's no reason you (farmers) should have to give your crop report twice." He went on to outline a USDA streamlining initiative that will eventually allow the farmer to choose who they would like to report acreage and yield information to i.e. their crop insurance agent or their local FSA office and how. It is plain to see the direction this is going and at AgPerspective we want to be on the front end. Starting in 2012 we plan on being able to use planter data for crop insurance acreage certification. We look forward to discussing this with you throughout the winter months.



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**IMPORTANT
UPCOMING
CI DATES**

**WHEAT SALES
CLOSING
9-30-11**

**WHEAT
PRODUCTION
REPORTING
11-14-11**

**WHEAT ACREAGE
REPORTING
11-15-11
OR
11-30-11**

FALL CLAIMS

As you begin your fall harvesting, please be on the lookout for damage. Many claims are not found until harvesting, or aren't thought to be worth turning in until you get in the field and the damage is worse than you thought!

Reminders for MPCCI Claims:

- Crops that will not be harvested for grain must have an appraisal done by an adjuster prior to the destruction of the crop. Check strips can only be authorized by an adjuster.
- Any acreage destroyed prior to being released by an adjuster will be considered destroyed without consent and will not qualify for a claim payment.
- Any quality issues (aflatoxin, etc) need to be turned in as soon as you know there could be an issue. In many cases samples need to be taken directly from the field before harvest.

Reminders for Hail Policy Claims:

- If you find any wind damage during harvest, or if you find additional wind damage please contact us ASAP so we can get an adjuster in contact with you. Check strips can only be authorized by an adjuster!

RP and YP yield loss claims need to be turned in within 15 days of the harvest of your unit, or 45 days after the end of your insurance period. Adjusters will ask for any settlement sheets you have, or measure your bins if you store your grain on the farm. The sooner you get your claims to us the sooner we can have adjusters in contact with you and the sooner you will get your claim checks!

Please call us with any claim questions or concerns at 815.284.9792!

2012 FARM BILL ON A FAST TRACK IN WASHINGTON

This may sound hard to believe as "fast" and "Washington" typically do not go well together. Why the rush? Much has to do with the agreement that resulted in raising our nation's debt ceiling. Part of that agreement called for a reduction of the federal budget by \$1.5 trillion by Dec. 23. We all know cuts are coming to agriculture and agriculture committee members in both the House and Senate would like to be proactive rather than reactive. The general thinking is that the sooner the general framework for the 2012 Farm Bill is developed the better. The hope is that this will allow major stakeholders in the debate to have some say in where the cuts are going to come from. According to Senators Lugar (R-IN) and Roberts (R-KS), both members of the Senate Ag Committee, it is highly likely that by Dec. 23rd we will have a very good idea of what the next Farm Bill will look like and what areas will be targeted for the most severe cuts. Final passage of the bill is not expected until late 2012, but it appears that major ground work will be laid relatively soon. It is our commitment to keep our clients up to date on Farm Bill developments as they happen. If you are not a client and would like more information on the 2012 Farm Bill developments please contact our office at 815-284-9792 and ask for Troy or Ryan.



**TROY
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OTC "OVER THE COUNTER" MARKET VS. THE CME, WHO WILL PREVAIL?

Profit opportunities for the 2011 crop have been numerous but the question most often asked by producers is how to lock in 2012 profits at this early stage. Many are concerned about the numerous moves that the US government may take countering high commodity prices moving forward, especially in an election year. The one that seems to get the most airtime is slashing the ethanol mandate which we can be assured would damage price severely. We have compared several hedging strategies for 2012 and released formal recommendations to our client base detailing them. One of the conclusions in our studies came from the OTC or "Over the Counter" market which proved very interesting and certainly worth sharing.

Last edition I mentioned that we are now using the OTC market as another tool in our hedging "tool box" which brings great value to the producer. What we specifically learned in our search for solid defense strategies against falling price is that the OTC offers significant cost savings as well as risk reduction. There are several products within the OTC market that are similar to CME options. One that has interested producers the most are "Short Dated Options". These are options that function very close to CME options but can expire whenever and however you dictate at purchase. If you sell corn today to eliminate price risk lower, you no longer have any upside potential and perhaps are concerned about the January USDA report. To add upside potential we may typically look to a March CME call option which would carry more initial investment since we are buying extra time premium through Feb 18th. Instead, we could purchase an OTC short dated call option that is priced off the March futures but expires January 31st, thus investing less and carrying us well through the January report. This CALL option can be tailor made, for example if you would only like coverage through January 15th fine, have it quoted as such and save the cost of 15 more days of time premium.

In our 2012 strategy we are employing the OTC market by purchasing Modified Average put options that protect against a move lower in December 2012 futures between the day of execution and the end of February. We are most concerned about this time frame since during the month of February the RMA will use daily closes to average spring price for 2012 crop insurance guarantees. If price has fallen from \$6.50 to \$5.50 you have a much lower crop insurance guarantee. The increase in option value will help offset the price decline thus improving your price floor. By using the MA "Modified Average" PUT, which is a fancy label for the word "averaging", we have protected grower revenue against sharp declines in price without committing cash bushels to the market. In other words, we are not forced to sell corn and cap our upside possibilities. We know that once crop insurance spring price is determined producers immediately have 100% of the crop hedged against a price fall. To sum up, why buy coverage all the way out to December when the government subsidizes the insurance cost, thus cheapening the hedge floor, plus the OTC market allows us to protect a shorter time period for less cost as well.

As you can tell we are very excited about the new hedging opportunities that the OTC market offers starting with the 2012 PUT strategy. Another caveat to using the 2012 OTC strategy is that the put options are driven off December 2012 futures. This is a big issue with a market that has short 2011 inventories. With low corn carry out many are projecting that the US may plant nearly 95 million acres of corn for 2012. With potential demand destruction due to high price and abundant 2012 planted acres price is certainly subject to correction lower. This hedging method makes it affordable to minimize risk for the 2012 crop in the proper crop year while maintaining complete upside potential.

The OTC market is not a fit to hedging every risk for producers. We prefer comparing the OTC and CME, head to head, and weighing the cost savings, protection levels, and time value, on an individual basis. The reality is that when we incorporate Crop Insurance, CME and OTC strategies, we are able to minimize downside price risk while giving producers unlimited upside potential through the unsold grain. These factors are huge in an environment where price rallies or declines throughout the year can be \$3.00-\$4 per bushel. Don't hesitate to call me at (815)284-7246 with questions about OTC hedging opportunities or to inquire about our programs, I am always happy to help.