



David Scheibel 320-365-3744  
 37554 Co Rd 4 877-365-3744  
 Bird Island MN 55310 320-579-0442 C

[david@mnwestag.com](mailto:david@mnwestag.com)  
[www.mnwestag.com](http://www.mnwestag.com)  
[www.mnwestagservices.com](http://www.mnwestagservices.com)

## Using a Call Option to Create a Minimum Price on Cash or Forward Contracts

Sell Cash or Forward Contract Now and Buy a Call Option

If you offset option with a profit (rally required) add call option profit to Cash Sale or Forward Contract

### TODAY'S FLOOR CALCULATION

Futures Month	Nov 08
Futures Price	\$ 15.49
- Basis	\$ 1.55
= Cash or Forward Contract Price	\$ 13.94
- Call Option Premium	\$ 1.0500
- Trade Costs	\$ 0.01
= Cash Floor	\$ 12.88
Expiration Date	10/24/08

### Example if a Market Goes HIGHER

This is for any situation where the market is **HIGHER than your strike price** when you offset the call and assumes no benefit from remaining time value.

Example HIGHER Estimated	
Futures Price	
Futures Price	\$ 18.00
- Call Option Strike	\$ 15.40
= Value of Call Option	\$ 2.60
- Premium Cost	\$ 1.0500
- Trade Cost	\$ 0.01
+ Cash or Forward Contract Price	\$ 13.94
= Net Price	\$ 15.48

### Example if a Market Goes LOWER

This is for any situation where the market is **LOWER than your strike price** and the option is allowed to expire worthless.

Example LOWER Estimated	
Futures Price	
Your Cash or Forward Contract Price	\$ 13.94
- Call Option Premium	\$ 1.0500
- Trade Cost	\$ 0.01
= Net Cash Floor	\$ 12.88

<b>Pros</b>	<b>Cons</b>
* Open Upside	* Delivery Commitment
* Floor Price Established	* Floor price lower than what you can "lock in"
* Managed Risk	
* Fixed Cost of premium	
* No Margin Calls	

The information contained herein was obtained from sources believed to be reliable, but cannot be guaranteed. All examples given are strictly hypothetical and neither the information, nor any opinion expressed, constitutes a solicitation to market commodities or buy or sell futures or options on futures. Past financial performance and results are not indicative of, nor do they guarantee, future performance. Commodity marketing and trading has inherent risks. Trading and/or marketing decisions, as well as any gains or losses thereof, are the sole responsibility of the commodity owner, producer, and or account holder. MN West Ag. Services, LLC, its principals and employees assume no liability for any use of any information contained herein. Reproduction without authorization is forbidden.