

## Developing Risk Management Strategies

Duane Griffith  
Montana State University - Emeritus

Wyoming – March 2013



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Profitable & Sustainable  
AGRICULTURAL SYSTEMS  
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## The Markets and YOU

- The Markets
  - Protect against price decreases (increases) in Global markets
  - Supply, Demand, Weather, Politics, etc.
- You
  - Risk Manager or Speculator
  - **YOU speculate** on anything that is not locked in
  - Worry about price, basis, financial health
- Time before commodity harvested
  - Effects your assessment of strategies available or that you are willing to employ
  - Determines possible points of implementation



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## Pricing Alternatives

Pricing (marketing) is not about affecting your local price, it is about taking a good price when it is offered



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## Types of Risk Factors

	Futures	Basis	Premium	Production
Futures		X		X
Options		X	X	X
Remain Un-Priced	X	X		X
Forward Basis Contract	X			X
Minimum Price Contract			X	X
Forward Cash Price				X
Yield Protection				Some
RP-HPE				Some
Revenue Protection				Some

## Remaining Un-priced

- Advantages
  - Not committed to deliver a crop you could not produced due to weather, etc.
  - Get to enjoy price increases
- Disadvantages
  - Subject to all four types of price risk
  - Business/family financial health may be at risk

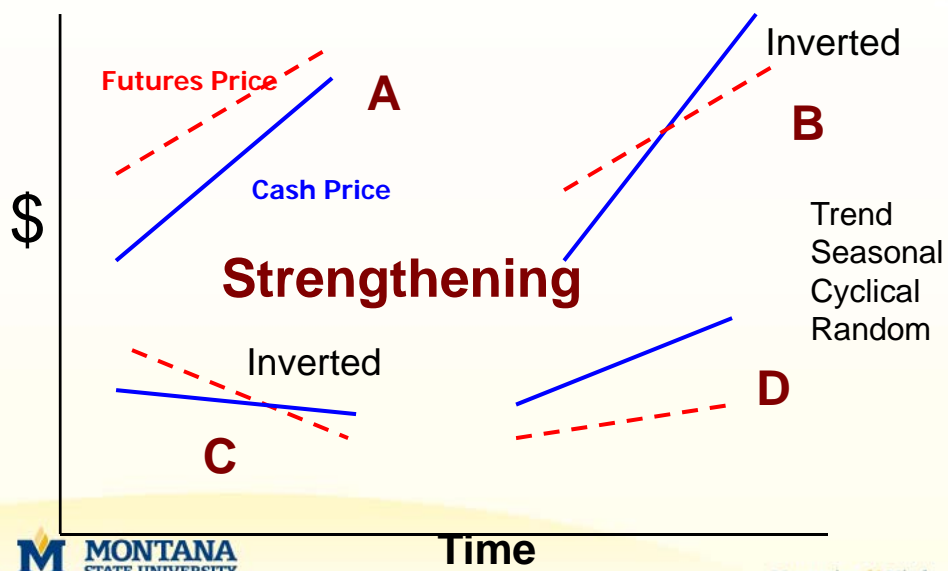
## Price Decreasing

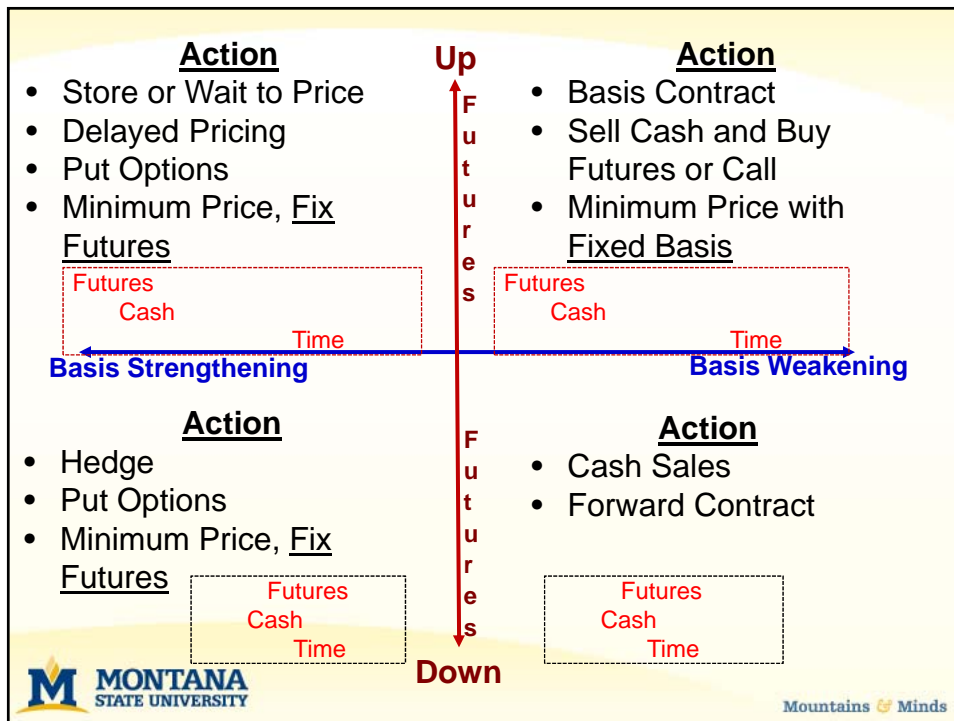
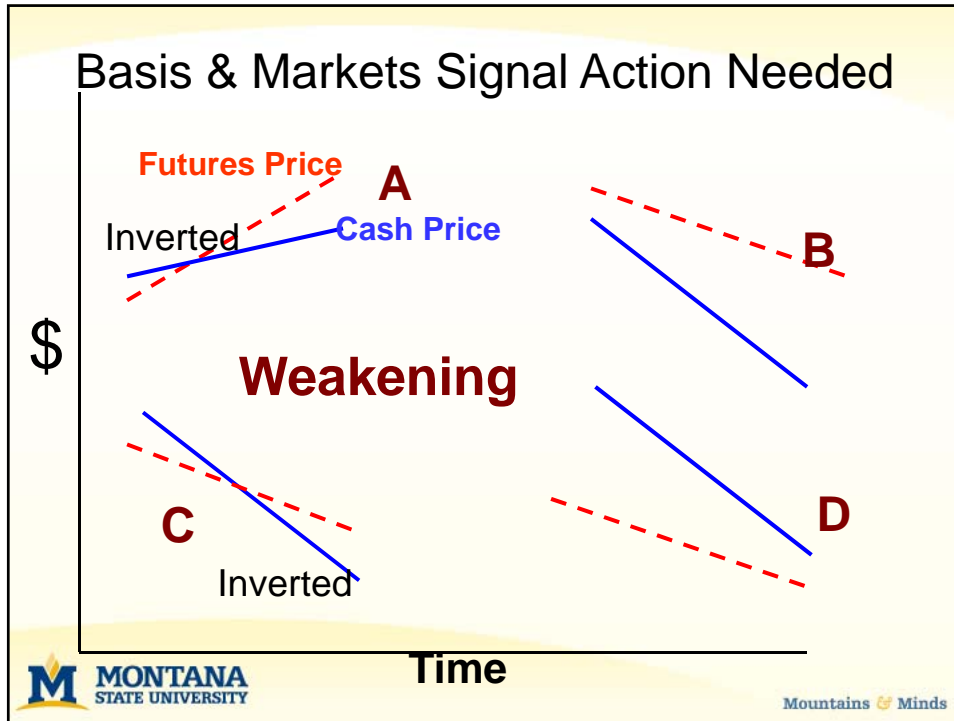
- **Sell** Futures
- **or** **Buy Put** Option (**PS**)
- **or** Forward contract
  - Lock in Price and/or Basis
- **and/or** Insurance
  - Combo policies for grain
  - LRP or LGM policies for livestock

## Price Increasing

- **Buy** Futures
- or **Buy Call** Option (**CB**)
- or Forward contract
  - Lock in Price and/or Basis
  - Contract other inputs (corn silage, corn, etc.)
- and/or Combo Revenue Protection (RP) insurance
  - Protects against missing out on price increases

## Basis & Markets Signal Action Needed





## Risk Management Tools

- Combo Insurance Plans
  - YP, RP-HPE, RP
- Traditional Marketing Tools
  - Hedge, Puts, Calls, Forward Contracts
  - Combinations of Traditional Marketing Tools
- Combinations of Insurance and Traditional tools
  - Explore the Coverage Gaps
- Combo Plans **versus** Traditional Tools



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## Build Risk Management Strategies

- Identify types of price risks you want to address
  - Local Cash Price = (Futures + Basis)
  - Yield
- Evaluate combinations of Combo Plans & marketing alternatives
  - Combo RP plan
  - YP with Cash or Forward contracts and Call options
- Add additional price protection to Combo plans using Futures/Options if the market offers
  - Add Put option to YP if market price allow (**Hedger?**)
    - Explore coverage Gaps
  - Call options if production is going to be issue



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## Strategies Implementation

- Futures and Options Markets
  - Straight Hedge
  - Put Options for down side risk
  - Call Options for upside risk
    - Only works with regional/global problems
- Insurance
  - Combo Policy
  - **RMA Projected Harvest Price** for WW
    - Could have establish a floor price for winter wheat in Wyoming for \$8.79, before Sept. 30, 2012
    - RP cap is \$17.58 per bu.
    - KCBT currently trading at ~\$7.75



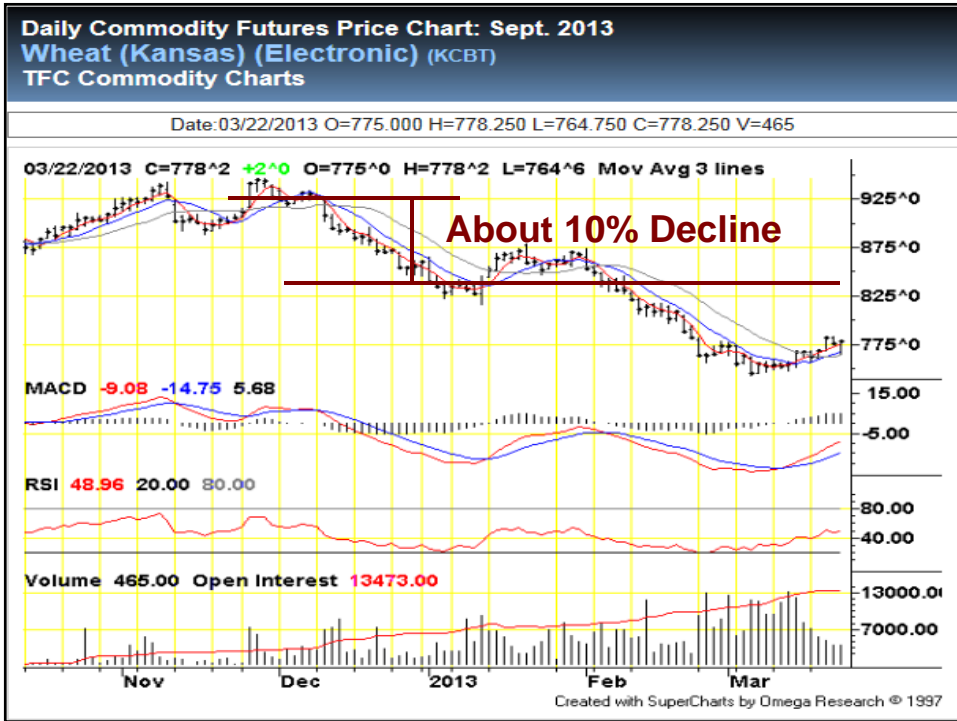
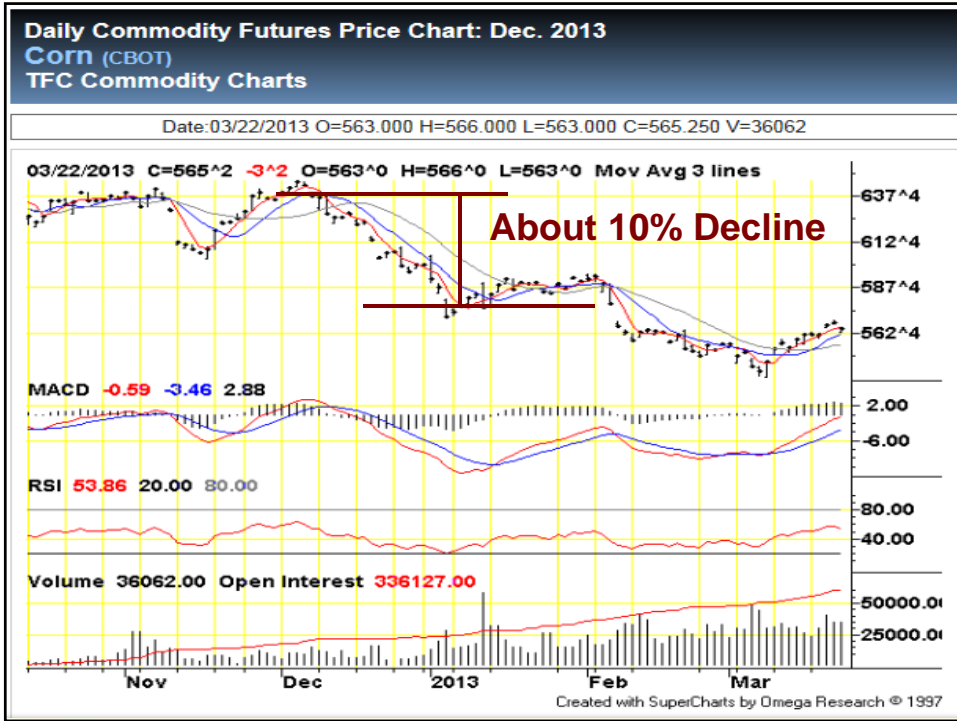
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## Potential Costly Strategies

- Letting the Markets tax you
  - Marketing to avoid taxes
- Marketing to manage cash flow needs
- Not Marketing
- These strategies could double your tax rates
  - Market value loss on top of regular taxes



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## Using Available Tools

- Comfort level with risk protection tools
- Marketing team includes yourself, spouse, lender, partners, etc.
- Assign responsibilities
  - Insurance expert/evaluator
  - Market watcher
  - Financial manager/expert
  - Others \_\_\_\_\_

## Exercises – Develop Strategies



## QUESTIONS