Gibson Insurance Group

"The Risk Management Specialists"

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Inside this issue:

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Rural Crime — A Growing Issue

There has always been a small amount of crime in rural areas and towns across the Midwest. The occasional tool box, chain saw, or electric fencer would disappear once in a great while. While these incidents were an aggravation and we would get all worked up for a time, it is nothing like the situations that we are facing today.

Over the last 24 months, each of us have had a personal experience or know of a neighbor that has had a major theft occur on their operation. These thefts are no longer $150 chainsaws, but have escalated to $18,000 UTVs, $50,000 tractors, and $75,000 skid steers. We at the office are not exempt from rural crime. This year, we have had a tractor and fencing materials stolen off our farms, and diesel fuel was siphoned out of a semi sitting right behind our office.

This week I found it humorous when I listened to two farmers try to outdo each other when describing the punishment they thought would be fitting for the crime. It started with a beating and quickly moved to branding, ear notching, the use of electricity in various forms, castration, and finally being shot. All these things, I'm sure, would help deter the criminal from practicing his trade in the rural area but I don't think these practices would be readily acceptable by the general public or local law enforcement.

Yes, I admit it makes me madder than a bull caught in an electric fence, but what do we do? This is no small issue that should be brushed under the rug. These are crimes that are threating our livelihood and need to be addressed.

This week we had the opportunity to meet with a couple members of the Missouri Highway Patrol's Rural Crime Investigative Unit (RCIU) to talk about these issues and what state and local law enforcement are doing about rural crime.

The RICU is comprised of ten investigators. The ten investigators work vigorously in conjunction with county sheriff department's to make our communities safer and to help educate community members. With the limited manpower and resources available, this unit has seen great success investigating rural crimes, but they can't do it alone. They need the help of local communities to stop these criminals.

I have to admit at the start of this meeting I was somewhat aggravated at law enforcement, both the county sheriff's offices and the Highway Patrol, thinking that they could have done more to protect rural citizens. As they began to explain all that was involved in working rural crime I realized that this opinion was very wrong. My appreciation for their work grew as our meeting progressed. There was much more being done behind the scenes than I ever expected. The job is nothing like what was portrayed on the Andy Griffith Show.

County and state law enforcement budgets are lim-

Rural Crime — A Growing Issue (Continued)

ited and they don't have the man power that one might expect. The emergency calls never cease to come in and they must respond to all calls. After the officer leaves the scene of the call the time needed to do the required paperwork takes longer to complete than the time spent on the actual call.

The question becomes what needs to be done by citizens to stop rural crimes? The quick answer is to become involved and get educated. If we remain passive, we are actually empowering those criminals that are taking advantage of people in rural areas.

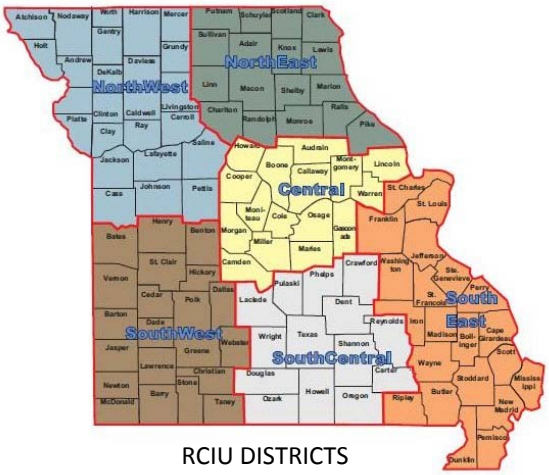
Now, the officers in our meeting suggested that we don't need to carry handcuffs and chase cars with our old feed truck but there are simple things we can do.

Their first suggestion was to carry a note book and pen in our vehicle to write down things that *"JUST DON'T LOOK RIGHT"* (JDLR). On the top of this notebook write down two phone numbers. The first number is 888-484-8477. This is the number for the RCIU of the Highway Patrol (call it, that is why they publish the number). The second number should be your local sheriff's department.

Farmers are a group of people that travel the same gravel roads day after day as we do chores and go to town for errands. If you see a strange vehicle in the area that has never been there before, maybe it's travelling slowly, or just looks out of place, do you write down any information about it? The officers suggested that we try to get the plate number if possible. Failing that, get a description of vehicle and its occupants. Maybe take a picture, since almost all of us have a phone with camera capability. When you see things "that just don't look right" at least jot a note. If it looks really strange make the call. The more information we can get to law enforcement officials the better.

The second thing they suggested would be to install security cameras and game cameras around areas of the farm that might be of interest to thieves and other lowlifes. The quality of this technology has increased rapidly over the last few years and the prices have come down to very affordable levels. These prices are so low that cost is not an excuse for not adopting this practice.

I have both skid steers and UTVs on my farm. These are some of the hottest items that crooks look to steal. It was brought to my attention that each of these vehicles could be protected with a small GPS device. If the machinery were to be stolen they could easily be tracked by satellite giving law enforcement a greater chance of catching the thieves with the stolen property. I know this sounds a little "James Bondish" but with a little research we found that this technology is readily available and is very inexpensive. A little GPS receiver that could protect your equipment ranges from $37 to $100 per unit to purchase. They are all small and very easy to hide. Many of these units can hook in to the electrical system of the machine for power. Most have a battery backup that will continue to transmit even if



RCIU DISTRICTS

Rural Crime — A Growing Issue (Continued)

the batteries of the machine have been removed.

An even cheaper way to identify your equipment is by scribing identification into hand tools, power tools, welders and smaller items using an etching pencil or pen. This can also be done on larger equipment. Etching your name and contact info in an inconspicuous place on the equipment that only you would know where it is, will help identify it if it is found. There are numerous other suggestions that we were given that could be used to protect our farm property but these are just some that stood out during our meeting.

Most of the property that is stolen in the area does not stay in the area. It moves to other locations to be sold where it is not as likely to be identified as stolen. The MoKan theft task force has established a program called TRACE (Theft Reports of Agricultural and Construction Equipment). This program was setup to trace the thefts and movements of stolen agricultural and construction equipment. For lack of a better explanation, it is set up like a multi-state neighborhood watch program. Currently there are over 1,100 participants representing 102 counties in Missouri and Kansas . This organization is growing larger each day. I would suggest that all producers join this organization to report strange activities and to be kept informed to what is going on in the agricultural community. To join call 913-715-5561 or email them at TRACE@jocogov.org

One thing that I have learned about the producers we serve is that they are not a lazy, passive group of people. The farm communities of the state all have values and beliefs that are probably considered uncommon to our city cousins. When a neighbor needs a hand there always seems to be someone there to help with what needs to be done. The time has come where we all need to work together to put the criminals out of business. This newsletter goes out to many communities over a large part of the state of Missouri as well as the surrounding states. I would like to see each community become proactive and hold a meeting, inviting the RCIU, your county sheriff's department, as well as, the adjoining county's departments. Law enforcement will educate you on what the problems are and how we can stop these criminals from violating our rural communities.

Chris Lynch, an agent here in our office was a college athlete before working here. He explained to me that before the players ran out on to the court they already had a plan in place. They knew their opponent's weaknesses and planned to exploit them to win the game.

Over the next few weeks we are going to work with the business leaders in my home area and try to do this very thing. This is not something that one person can do, it is an effort that we must all become involved in. Farmers, grandmothers, high school students as well as other individuals in rural areas could all take an active part in solving this problem.

Don't choose to empower the criminals. It's time to take a stand.

T.R.A.C.E.

Theft
Reports of
Agricultural and
Construction
Equipment

An online neighborhood watch program for rural populations and construction equipment owners in Kansas and Missouri.

TO JOIN TRACE

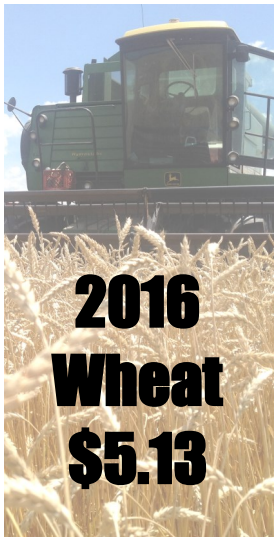
913-715-5561

TRACE@jocogov.org

Crop Revenues Fall Short of Guarantee

The wet conditions that we experienced during the 2015 wheat harvest certainly was a trying time for everyone. The excess moisture created grain quality issues, some cases of higher than allowed vomitoxin levels, low test weights, and not to mention the difficulties in actually harvesting the wheat. It seemed like a harvest that would never end.

This year, many producers



Crop Revenues Fall Short of Guarantee (Continued)

IMPORTANT

Contact the office Immediately IF

- **Your farming entity has changed from last year either by death, divorce, marriage, or business type**
- **You have not signed an AD-1026 form at FSA**
- **Your contact information has changed (mailing address, phone, etc)**
- **You are adding land or breaking out grass fields for your crop operation**

Failure to do so could have serious implications for your crop coverage.

and lenders alike expressed a concern that the amount of money that they received did not meet their revenue guarantee that was listed on their crop insurance policy. The question arose, was this adjusted correctly? How could this happen?

The short answer to this is yes, the claims were adjusted correctly. It is possible to sell your crop, collect your insurance loss and still be less than the revenue guarantee on your policy. In the vast majority of these cases it happened when the local markets were discounting the commodities price well below the futures market.

First let's review how a revenue policy works. For wheat, the price for the crop is established by using the CBOT futures market. The Risk Management Agency tracks the daily close of the September CBOT futures market from August 15th to September 14th each year. The average closing price of these days is calculated to figure the minimum price for wheat. As wheat nears harvest, this futures contract is averaged again from July 1st till July 31 to establish a harvest price for wheat. As per the policy, the producer is guaranteed the higher of these two prices. As you see all of these calculations are taken from the futures market. It does not take into account what the producer receives for his grain.

The difference in price between the cash market and the futures market is called a "basis". We can either have a positive basis (cash markets higher than futures) or a negative basis (cash markets lower than the futures) each year depending on the size of the crop or other concerns that the terminals have when purchasing grain. The good part about this is that we generally produce in a grain deficit area with lots of buyers of feed grains. For corn and beans this means that we generally sell grain into a positive basis and wheat is sold at a slightly negative basis.

This year we saw a basis that we extremely negative for wheat. It is very detrimental to producers when grain buyers set the base (cash) price for a grain less than what the futures market is. For the purpose of loss adjustment it would be much better for the producer if the cash price was closer to the futures market price and the dockages more severe.

This year was extremely unusual for wheat as the basis was higher than we have ever seen before. So the question becomes, what can we do to avoid this situation in the future?

There are several strategies that could work here. The simplest is to have some on-farm storage. When harvest is in full swing producers and elevators are moving grain rapidly through the supply chain. Elevators have an abundance of supply and don't have to bid up in order to purchase grain. This makes the basis more negative. As this seasonal glut of grain works through the supply chain, grain becomes less available and the willingness of buyers to bid up for grain increases making the basis more positive.

One thing to remember is that grain prices are seldom static. These prices move up or down nearly every day. Therefore, a producer might have grain in the bin

Crop Revenues Fall Short of Guarantee (Continued)

and the futures market may go down significantly before the basis narrows. This producer is totally at the mercy of the market when the grain is in storage.

The second option is to get a basis contract with the elevator where you will be delivering your grain. This contract establishes a set difference between the cash and futures market for delivery at a time in the future that the elevator and the farmer both agree upon. An example of this would be where the farmer and the elevator make an agreement to buy the producers grain at $0.10 over the futures market when the grain is delivered in the month of March.

The problem that producers had this year was that the grain quality was so poor. Few people want to store a damaged crop in grain bins, so many producers delivered their grain to elevators and sold the grain as it was harvested. When this was done the producer was adjusted by a procedure called a "reduction in value". When losses have to be worked this way it uses the elevators spot grain bid (with basis included) and the elevator discounts for damage are corrected for on the crop insurance settlement. There is no way to protect the producer for the basis that the elevator is charging.

How does it affect the farmer? Let's take a look at Joe Farmer and see how the basis could affect how his claim is adjusted. Joe is harvesting his wheat and is not storing it. The nearby futures price for wheat is $5.00 per bushel. He has 2 options for marketing his wheat. Option 1 is to take his wheat to the local elevator and Option 2 is to take it to a terminal buyer farther down the road.

With harvest in full swing, the local elevator was applying a $1.40 per bushel negative basis and paying $3.60 per bushel for good wheat ($5.00 futures - $1.40 basis) and then subtracting the quality discounts from there. Meanwhile, the terminal was bidding $5.00 for wheat but they had a much more rigid dock schedule for quality adjustments.

When Joe harvested his wheat, his yields came in at his guarantee so he had no yield loss. He did have quality issues so when he took his wheat to the local elevator he was docked $2.70 which is taken off of the $3.60 per bushel cash price. This will make his actual payment per bushel of wheat sold at the local elevator $0.90. When the adjuster worked this loss on sold production he calculated that the price paid the farmer was only 25% of the price being bid. Therefore there was a 75% reduction in value due to quality issues.

When the adjuster works a claim on sold production they are required by the policy to use a process called "reduction in value" (RIV). Because the local elevator was only paying $3.60 for wheat this became the new base price and the $2.70 dockage was made up by the insurance loss.

By adding the $0.90 cash price paid by the elevator and the $2.70 price paid by crop insurance, Joe would gross $3.60 per bushel. This is far less than was listed on his crop policy as a revenue guarantee of $5.00. How could this happen? Remember your crop insurance policy will never cover a negative basis.

What if Joe decided to send his wheat to the terminal that was paying the higher price for wheat but had a more severe dockage schedule? How would this effect his loss adjustment payment?

Joe sends his wheat to the terminal. The price being paid at the terminal was $5.00 per bushel but the same poor quality wheat still had a 75% discount ($3.75). At the terminal the Joe was paid $1.25 per bushel after the dockages were subtracted.

The adjuster would work this claim using the same RIV (Reduction in Value) process that was used in Option 1 but the results will be different. The base price is now $5.00 and the dockages are $3.75 per bushel because Joe had the same 75% reduction in value. Because Joe's crop insurance policy covers this reduction in value he would be paid a $3.75 per bushel loss. By adding his $1.25 cash price paid by the terminal and the $3.75 price paid by crop insurance, Joe would gross

Crop Revenues Fall Short of Guarantee (Continued)

$5.00 per bushel by selling at the terminal.

The difference between these two cases was the negative basis that the local elevator was charging to handle the grain. Crop insurance does not protect against this negative basis that elevators can charge.

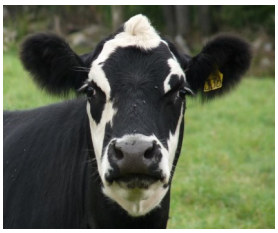
When a producer must deliver grain to an elevator in times like these where there is a negative basis, it might be advantageous to put the grain under storage at the elevator and work the loss before the grain is sold. When this loss is worked the producer would be paid this loss and then he could sell his grain at a later date when the basis improves.

When losses are worked this way, the adjusters use a method called a discount factor to work the losses. This method uses published discounts for each reduction in value that includes, test weight, moisture, vomitoxin and other reductions that will be found on your scale tickets. When this claim is completed the producer could move the grain at any time that the basis narrows enough to make the sale price attractive to them.

For the wheat crop this year, some producers would have gotten a better settlement if they would have had the wheat adjusted in the bin prior to sale using the discount factor of adjustment. Generally this will hold true anytime there is a large negative basis when selling a crop. Even though the crop adjustment might be better the producer will still be at risk for declining crop prices and basis movement.

The second point to remember is that crop insurance uses the word guarantee in reference to the futures prices when market prices are established. A producer can still sell his cash grain for less than this amount without a loss being due because of the basis that we have explained. To some producers this will be confusing. If you have further questions please call Dean so he can address your particular questions.

Cattle Nutrition — Keeping the Herd Strong



Harvest is now over and I have put the machinery up for the winter. It is always pleasant to shift gears, and put on my cattlemen's hat and start concentrating on that part of my operation. The cow herd is a part of my operation that can usually take care of itself while row cropping is in full swing. Now is the time of year, with the cows being in mid to late gestation, to evaluate the nutrition program these girls will need to get them ready for calving.

For many producers this is a time that is overlooked and they find themselves playing catchup with a nutrition program that may cost them a lot of dollars over the coming year. Through trial and error, I have learned a few things and have implemented them over the past several years that seem to pay big dividends to the cow calf operation.

Currently, I am looking at my herd and evaluating the body condition of all the cows. My goal is to have the herd with a body condition score of at least 5 going into the winter. It is important to me to keep this condition score all the way though calving to insure early cycling and get a high percentage of these cows bred back as soon as possible. If your hay or other forages are of lesser quality it may take some supplements to keep these cows in good condition.

Cattle grazing on cover crops

Cattle Nutrition — Keeping the Herd Strong (Continued)

This year we were overly blessed with rain during most of the spring which caused a lot of hay to get wet thus decreasing its nutritional value significantly. There is really no way of knowing for sure what the value of your hay is unless forage samples are sent to a lab for analysis. Today I am a strong advocate of testing. This is something that I did not regularly do in the past, but is something that I have found to very beneficial and the results very interesting. I want to know what is being fed to make sure I am not putting additional dollars in an operation that is not required.

In the past, I would closely watch how much dry hay was being consumed by the animals. Cows on low quality forage will consume less feed and their body condition will start to decrease without supplements. Cows that are fed top quality forages will over consume these types of forages. Either way feeding these cows can be expensive unless a proper balance is maintained.

Cows that are weighing in the 1000 pound range during gestation will need a diet that is about 7% to 8% protein and contain a TDN of 48-55% depending on the stage of gestation. Calcium and phosphorus levels need to be at .2% of the diet. By evaluating forages that we have on hand we will readily know if we will need supplementation during the coming months. If supplementation is needed it may be as simple as putting out some protein tubs or lick tanks to supply the animals with the extra nutrition they may need. From past experience I can suggest some things that are cheaper but may not work as well.

If a producer chooses to add energy to the diet using grains such as corn, they can actually lower the energy intake of cows that are eating low quality forages. Because grains are high in starch and sugars, they tend to decrease the digestibility of the forages as well as reducing total intake. It is preferred to use natural plant proteins when supplementing a cow herd. Feeds like distillers' grains, corn gluten, wheat mid pellets and soy hulls are all economical feeds to replace grains with. These byproduct feeds have the advantage of providing energy through highly digestible fiber rather than from starches like grain.

Cow nutrition is the most important in the last 90-120 days of gestation. Properly feeding the cows at this time will greatly increase the success of your cattle operation. Calving ease, milking and quick rebreeding are all factors that affect the profitability of the beef operation. We have to remember that during the 3rd period of gestation about 80% of all fetal growth will occur.

Fat levels in feed during this part of gestation is probably one area that is too often over looked. Several years ago I was experimenting in the byproduct market and came across salvage peanut butter that was very underpriced. I used this ingredient in feed that I was making for a group of broken mouth cows that were in the later stages of pregnancy. In experimenting with this product I found that it was not that hard to handle and it seemed to produce quick results. In no time body condition scores went from low 4s to 6s and the hair coats on the animals went from rough to very slick and shiny.

Forage Silage
(wheat/rye mix)

Cattle Nutrition —Keeping the Herd Strong (Continued)

The boost did not only come from the extra protein that was being fed but also the higher levels of fat. Research has since shown that feeding higher levels of fat in the last trimester of pregnancy actually helps the calves as well. One study from Montana shows that new born calves whose mother had been fed a high fat ration had higher blood glucose levels, higher body temperatures, and were able to maintain that increased temperature during extreme cold exposure when compared to calves whose mothers were not fed a high fat diet.

This is important to me when cows are calving in the middle of a winter storm or in extremely cold weather. Some of the hardest work on a cattle operation is going to get baby calves that are born weak and getting them warmed up and back out to their mothers. These babies always seem to need the attention at 2am.

During the last trimester consider trying a 4%-5% fat ration to see if you can identify the same results. This might be done by purchasing roasted soybeans, finding a by-product feed or complete supplement that is high in fat.

Mineral nutrition is also important. This is very evident when we have cattle go down with grass tetany. This is rarely an issue this time of year, but when the grasses come out in the spring we need to make sure our magnesium levels are high enough to avoid this problem.

The only other issue that I look at in my nutrition program is vitamin A. Vitamin A is provided by a salt mix or mineral mix the entire time during gestation and then is increased in strength at calving. The mature cow will need about 25000 IU of vitamin A prior to calving and 40,000 IU after calving on a daily basis.

When looking at the nutritional needs of a cow, the period during lactation is when the nutrition needs of the cow are the highest. However it is my opinion that proper feeding during the last 120 days of gestation is the most crucial time for management of the beef operation.

Turnips and Radishes planted October 1 for grazing

The Markets - Opportunity Awaits

As we close the calendar year for 2015 it is important to look where we have come from and where the markets might go in the coming year.

During the first quarter of 2015 corn prices were in the $4.15 range. As planting got in full swing these prices eroded for a short time. When it became evident that this crop may not get planted due to wet weather it began driving prices in the DEC15 corn market to $4.75.

When planting was done nationwide, we had planted 88.5 million acres of corn. Even though this crop was planted later than normal, harvest yields remained very good. The beginning stocks starting this year are about 500 million bushels higher than they were a year ago. This came as a little bit of a surprise since we planted 2.2 million acres less than a year ago and the national yield was down by 2 bushels per acre.

The prices that we see today are a combination of several issues. Exports, do-

The Markets - Opportunity Awaits (Continued)

mestic usage and ethanol usage, are all lower than a year ago. The value of the dollar has the biggest effect on this category. Exports alone are down 14%. While our production numbers are not that much different than a year ago, world supplies have grown considerably. Since 2010/11 our world ending stocks are 1.62 times larger than they were a few years ago. The reason for this surge is the 3 years of average to below average yields in this country that drove corn prices to $7.50 in 2012. In that year we were looking at a stocks to use ratio of 14.4% worldwide. The last USDA report shows ending stocks at 208.2 MMT with a stocks-to-use ratio of 21.3%.

Soybean yields were not affected as dramatically in 2010, '11, and '12, but we have seen the supply of soybeans grow as well. Ending stocks this year are pegged at 77.7 MMT. This is an increase of 15 MMT over this time last year. Soybeans stocks-to-use ratio worldwide is listed at 25.6%. The US and world markets have an abundant supply of grain and until this surplus is worked out of the system it will continue to pressure markets.

So what should we expect for markets in the coming year?

Currently the trend is still down. Farmers are sitting on a lot of grain that will probably start coming into the market after the first of the year. This will continue to pressure the markets in the first quarter of the year. Two years ago, estimated farm income was $123.3 billion dollars, today that number has dropped to $55.9 billion dollars. This reduction should force grain to market as producers aren't flush with cash as in the past and will need to move grain prior to planting to meet their liquidity needs.

For 2016, I have placed my marketing goals at $4.50 for my corn and $9.75 for my soybeans. Even though I believe the average price for 2016 will be much lower than this, it is important to establish a level where you are willing to pull the trigger if the market gives you an opportunity. Most years we see a rally in the grain markets prior to planting where we buy acres from one crop to another based on current futures prices. Planting challenges and weather scares will happen giving us opportunities to price crops on negative supply news.

I am expecting planted acres of corn and soybeans nationwide to be lower this year due to current prices and big supplies. Some of the acres that were broken out over the last few years will return to grass. This is especially true with some of the marginal converted grasslands and some acreage in the extreme north. Soybean acres may fall slightly as double crop soybeans may look less attractive.

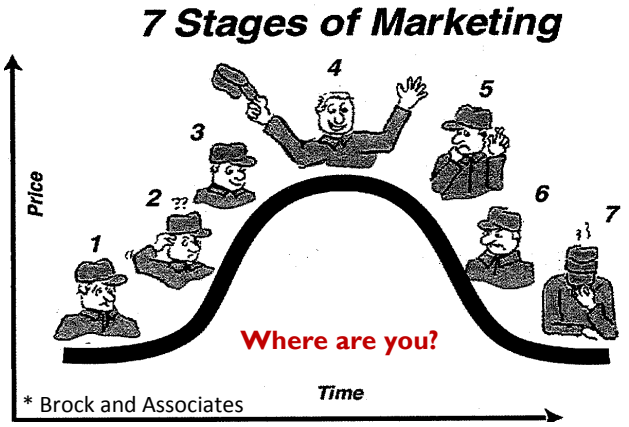
I expect little help from the dollar to increase exports. Federal Reserve Chair Janet Yellen, has made it very clear that it is her intention to start raising interest rates. Since the world still sees our currency as a safe haven for investments, this is probably a good move for the total economy and world stability. Unfortunately, it will have a negative impact on commodity prices, making our goods less attractive on the world market.

This is not all bad news. Yes, farm income will be down again for 2016, but there will still be opportunities to make money. In the grain sector management, cost cutting and a good job of marketing will be critical to the bottom line. Producers may find themselves looking at different niche markets like high amalyse corn or specialty soybeans to add to their bottom line. Inputs should follow grain prices, even though they are slower to react they will eventually come down. Personally, I am going to put off booking my fertilizer needs and some seed purchases to see if they might correct prior to planting season.

With lower grain prices there is and will be opportunity in the cattle industry. Hogs may not share this as they are very export dependent and will be hurt by the rising dollar.

Opportunity in the face of adversity.

We could use this heading in regards to most commodity markets at one time or another but at the current time is it most fitting for the beef industry. For the last several years we have had record prices and record profits unrivaled by any sector of Ag industry until late summer of 2015. Like all commodity markets, the price pendulum finally swung too far toward higher prices and is now making a



* Brock and Associates

The Markets - Opportunity Awaits (Continued)

correction. What we expect now is that the price pendulum will swing too far in the opposite direction before becoming more stabilized.

I am empathetic for those producers who bought high priced feeders and watched as the markets fell like a rock without any price protection. Anyone who has been in farming very long has experienced the same thing. What is important to remember is that just because the market prices have fallen doesn't mean that there is not an opportunity to make good money in the cattle business.

Any time there is a direction change in a market there are a certain amount of people who are going to take a financial bath. The depth of that water will be determined by the amount of risk management that the producer has in place.

I think that we can all agree that the cattle market went up too high too fast. Much of the industry was mesmerized by the reports that there was not a large enough cow herd in the country to supply the demand for beef. Meanwhile, we were feeding cattle in feedlots to heavier and heavier weights and saving heifers at the same time. During this same period, the consumer was sending signals that the beef industry didn't heed.

There is a static demand for beef at some level. This means that there is a certain amount of beef that consumers will eat regardless of price. Lately, the consumer has been objecting to the higher prices of beef by decreasing consumption. There are reports that the per capita consumption of beef dropped in this country by 3.5 lbs in 2014 alone. This is a significant drop and reflects the consumer's resistance to the prices at the meat counter. Food establishments, over the past couple of years, have joined this movement as well. The portion size of meat has dropped in many restaurants, allowing them to maintain their margins without raising the price of the meal.

While beef is the preferred meat on the dinner plate, I am concerned about the drop in consumption year after year. When people of my generation were growing up, beef was served at most meals. Today that may not be the case. For most older adults, beef is still our preference. I wonder if the generation that is growing up today will have the same preference?

Just as some thought this market was starting to bottom it received some bad political news. This week the World Trade Organization (WTO) has ruled that the country of origin labeling (COOL) that has been adopted by the United States put both Canada and Mexico's producers at a disadvantage. This ruling gave these two countries the right to impose tariffs amounting to $1.05 billion dollars against imported US produced beef and pork.

With this announcement we saw the beef markets fall again. It is important that the key market support of $118.00 holds in this fat cattle market. If it doesn't the next level of support would be just above $100.

What if the market does fall this low? Can we make money and thrive in the cattle industry?

The profitability of any industry depends on input costs of production as compared to the prices that we receive for our finished product. In the beef market there is usually three different players at work at any given time. There is the cow-calf producer, the backgrounder, and the cattle feeder. At any given time the profitability of these 3 segments of the market could look very different. Not all parts of the cattle industry will be equally profitable at the same time, however at any given time one part or the other is usually profitable.

The cow calf operator has a biggest investment out of these three and is the most stable. This operation requires the largest investment in land and breeding stock that is purchased for use over several years. It is

The Markets - Opportunity Awaits (Continued)

important to the cow calf man to keep his investment to a level where he can make good returns as well. This is the least volatile of the three.

In early August, a local cow-calf producer came by the office looking for a way to protect his investment in his spring calf crop. By the time he came by the office, feeder cattle futures prices had fallen about $20 per cwt to around $220. Fearing that prices were now in a down trend, he was looking to put a floor price under his calves until the time he would market them in December. He projected that his calves would weigh around 595 pounds the first week of December and the price floor he could establish that day was $223.51 per cwt for around $42 per head. The price floor would cease on December 4 and would settle against the Feeder Cattle Index on that day.

Now $42 per head may sound like a lot of money but in hindsight it was cheap. As you know the markets continued their downtrend all fall. The feeder cattle index on August 3 was $217.38 per cwt. On December 4, when the producer's floor ended, the index was $165.66.

The producer came by the office after his floor ended wondering how his coverage worked out. With the Feeder Cattle Index price, adjusted to his weight of cattle covered, to be $182.22, his loss was $41.29 per cwt ($223.51-$182.22), $245.68 per head of his estimated weight of 5.95 cwt ($41.29 X 5.95 cwt), or $203.68 after his coverage cost per head. Of course he was somewhat disappointed in the cash price he got at the sale, but after hearing this, he felt a lot better about selling his calves in this down market.

The feeder cattle market is the most volatile. It has huge swings and regularly moves significant amounts over a given period of time. Is it still possible to have some profitability in feeders even in this market? Sure there is.

This week I attended a feeder cattle sale and saw a lot of cattle that had the potential of making money. I sat on my hands while about 75 feeders weighing 497 sold for $142. These were green, unworked, bawling calves, but with care and attention this group would have made several dollars.

Below are the numbers that I ran on the LRP calculator that can be found on our web site. The fed cattle market is less volatile but also seldom returns the rewards per dollar invested that the feeder market does. Cattle finishers have recently been losing tons of money on the cattle that are just being finished. Many of these producers have never used the futures market or the LRP products to protect the profitability of their operations. The ones that did were able to pass on the risk of falling prices to another party and still make a good income. Finishing cattle is a very capital intensive operation. I personally don't have the risk tolerance to participate in finishing cattle without the LRP program. With this program and some good sound data, one should be able to figure a profit depending on your costs of production. If a profit can't be figured then one shouldn't feed cattle.

Steer #2 - these cattle will be raised for 21 weeks and sold @ 750 lbs

Number of head	75
Starting weight	497
Target daily gain	1.75 lb/day
Cost /# of gain	$0.50
Weeks fed	21 (May 5)
Coverage price	$149.67

(This is the maximum floor price that was being offered today)

When I ran the numbers the results looked like this

Break Even Costs on 05-06-2016

Estimated weight per head	754.25#
Per head	$834.37
Per group	$62577.38
Break Even Price per cwt	$110.62
Coverage price	$149.67
Return over feed costs	$294.52
Cost of coverage /cwt	$8.59

Total Return over feed costs per group $22,089.00

The feed ration that I figured used the following ingredients

Wheat silage	$45 /ton
Dry grass hay	$30/ bale
Shelled Corn	$3.94
Soybean Meal	$279/ton
Distillers Grain	$135/ton

Remember that the costs that I used were only the cost of the cattle and the feed costs. On my operation I would have added a $25/ head additional cost for vaccinations, medications, and a $27 / head charge for yardage, utilities and hired labor.
Even with these figures added, the return to land labor and management is still $243.00 per head.

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