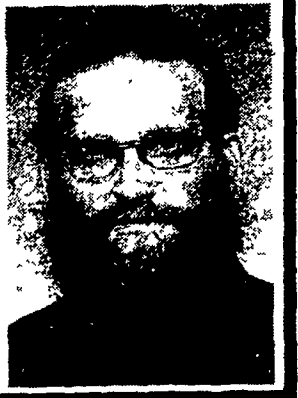


Farming's Futures

By David K. Sauder
Commodity Advisor
Trade Tech, Lancaster



To properly understand the futures market, you need to keep in mind the two classes of people involved in a commodity contract. The hedger and the speculator.

The hedger may be a farmer, a processor, or an exporter. Anyone who has the farm grains, meats or other commodities in their possession to back up their position in the market.

A speculator puts up risk capital to buy and sell the commodities contract which the hedger offers to the market. While 90 percent the speculators lose money in their trading, farmers and other hedgers who are properly advised and treat the commodities contract as a price-protection insurance policy rarely lose money as long as they have the commodities to sell off the farm on the

cash market. Their sales on the cash market offset any change in the price in their futures market contract.

This week we take a look at leverage. While more farmers should not become speculators with their futures contracts, it helps your understand the speculator's point of view when dealing with this market.

The reason futures markets offer great profit potential to the speculator, with commensurate risk, is leverage, i.e., the ability to control large amounts of value with relatively little cash.

When establishing a position in futures, the trader is required to advance so-called margin, more properly a security deposit or earnest money, that guarantees fulfillment of the contract. This is

not a part payment for the commodity, nor is the amount related to the value of the product. Rather, it is security to cover any initial loss that may result from adverse price movements. Its dollar amount is determined on the basis of market risk, which reflects price volatility.

The exchanges establish the minimum initial security deposit for each commodity, and also the "minimum maintenance" deposit schedule. When the loss on a particular market position has utilized as much of the original security deposit as the maintenance schedule permits, the trader must bring his account back to the original level by depositing additional "maintenance" funds. Individual brokerage houses may require higher security deposits than the exchange minimums.

For example, if the original margin is \$1,000, and the maintenance margin is \$700, a price move in excess of \$300 against the trader means that the trader must bring his margin back up to \$1,000

by depositing additional funds. Conversely, any gain resulting from a favorable price move will be paid to the trader, daily if desired, as it accrues without waiting until the trader's position is liquidated.

Security deposits (margin) often run lower than 5 percent of the value of the contract. It's possible,

for example, to control about \$25,000 worth of frozen pork bellies for an initial deposit of \$1,500—or \$1,000,000 worth of Treasury bills for \$1,000.

Send your questions about futures trading to Farmer's Futures, Lancaster Farming Newspaper, Box 366, Lutz, PA 17543.

York Farmers invite members to advisory councils

YORK — A meeting will be held on Friday, Jan. 29 at 8 p.m. at Mel Fifer's in Peach Bottom Township for all members of the York County Farmers Association, who are interested in joining an advisory council, announces Jack Dehoff, president of YCFA.

"Advisory Councils are small family discussion groups," Dehoff

explains. "These groups meet monthly in individual homes to discuss topics of interest to the farming community."

Presently, the local association has four councils formed in the county. Interested persons should attend the Friday meeting.

Refreshments will be served.



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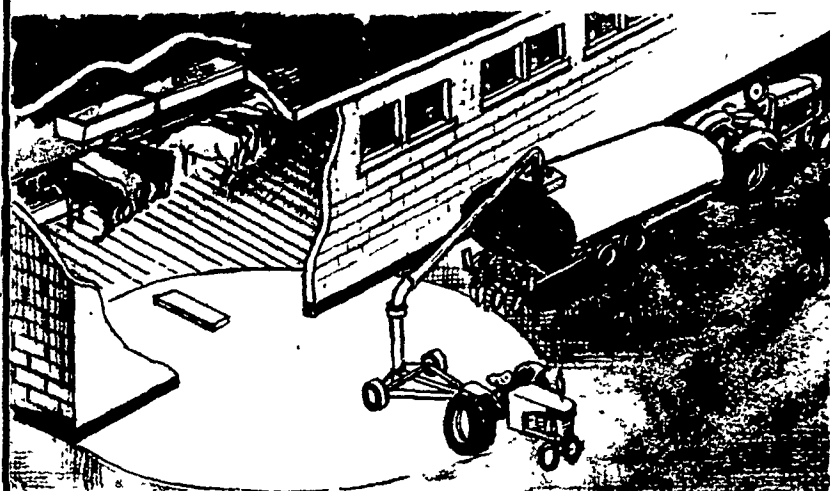
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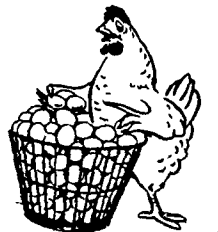


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