Conservatives, Well-Intentioned Are Target Victims Of Scams

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BLUE BALL (Lancaster Co.) — Blue Ball National Bank of Lancaster held its annual agricultural seminar recently at the Blue Ball Fire Hall.

About 150 customers of the agricultural lender attended the event that featured speakers discussing issues including dairy profitability, financial planning and trust development, business structures and tax considerations, the outlook for commodities markets, and environmental considerations at the federal and state level.

Speakers included Glenn Shirk, Lancaster County Extension dairy agent, who discussed dairy price volatility and what farmers can do using "put options" to help moderate the volatility of farmgate price; Attorney Gary Heim, who discussed legal and tax exposure ramifications of various business structures used for farming; Charles Few, trust development officer of Blue Ball National Bank, who talked about financial fraud and how to avoid being a target for fraud; H. Louis Moore, Penn State University professor of agricultural economics, who discussed the outlook of commodity markets for the coming year; and Bill Adams, environmental specialist for the Pennsylvania Farm Bureau, who discussed several environmental regulatory issues, from water use registration, fuel tank regulations, and nutrient management.

Extension Dairy Agent Shirk talked about the volatility of the dairy industry and how, for those with the aptitude and ability, trading exchange commodity trading tools, such as "put" options can be used to help buffer cash flow against extreme drops.

Shirk has served as a moderator in recent educational sessions for those enrolled in the limited participation U.S. Department of Agriculture Dairy Options Pilot Program.

The USDA's DOPP program is designed to see how effective the use of "put" options are in serving individual dairy producers with an effective insurance against losing essential cash flow when farmgate milk prices fall below cost-of-production.

Shirk explained the difference between the USDA's Basic Formula Price (BFP), which is a price calculated using an USDA milk pricing formula, and the price received in the farmer's milk check.

The dairy industry works in such a way that a dairy farmer doesn't know his selling price of milk, until after the purchaser uses it.

Milk is delivered to the purchaser at the expense of the farmer, the purchasing company decides how best to use the milk to its benefit, the federal government declares a BFP, and then the company calculates a price to pay the farmer.

Doing business this way — spending money to produce a product and not having any idea of how much of a return it will bring — is considered pure speculation.

As an alternative to being at the mercy and whim of the manufacturing and processing sector of the dairy industry every month, dairy farmers have the opportunity to establish their own "floor price" for their milk.

Essentially, the BFP sets a minimum value on a farmer's milk, and depending upon the location of the farm and the type of business operation of the milk buyer, the farmer gets whatever price is calculated.

The commodity trading exchanges offer a variety of commodity contracts, mostly not involving the actual exchange of any commodity.

According to trading houses, what is traded is risk.

For dairy producers, "put" options are considered a safe form of cash flow protection, with the premium the only thing at risk. It is explained as analagous to insurance.

Futures contracts on the other hand can lock in a price, but they can also require a considerable amount of cash to settle the margin call.

If someone sells a BFP futures contract at a certain level, in effect it says that on the day the contract comes to settlement, the two parties agree to settle out any value differences from the actual USDA announced BFP.

Therefore, if a farmer were to sell a futures contract on a certain weight of milk, he would be doing fine as long as the BFP didn't rise above the contract price. If the BFP would be higher than the future's contract, then the farmer would have to cash settle the difference on a margin call.

However, with "put" options, essentially what is being done is that a person is saying they are willing to pay a certain amount for milk (on paper only) if the USDA-announced BFP price, upon which the options are based, falls below that level.

What the seller of a "put" option does is collect "premium" money in exchange for the promise to pay the buyer (the farmer in this case) the difference between the contract BFP level and the actual BFP, if the actual BFP falls below the BFP level specified in the put option contract.

If the announced BFP is the same or more than the BFP level specified in the option contract, there is no exchange of money.

The farmer collects his regular milk check and is only out the premium fee of the option, which should be subtracted and be considered as a cost of business.

If the actual BFP comes in lower than the BFP specified in the option; the seller has to pay the full difference to the farmer. The trading houses do the actual settlement.

For example, if a farmer purchased a put option on 100,000 pounds of milk at $12.50 per hundredweight, and the actual BFP was announced at $11, then the farmer would receive a check from the trading house for the difference, which would be $1,500.

In all cases, the farmer sells his actual milk and collects his milk check through his regular arrangement with an actual milk buyer.

Therefore, in this case, the farmer sells his actual milk for $11 plus his basis, or $1.65 for the Lancaster average, and receives $12.65 from his milk dealer. He also receives a check for $1,500 from the put option.

However, what makes using put options for risk management tricky is that the premiums vary daily depending upon trader perceptions about the likelihood the USDA BFP will be at a certain level, and the margin of protection that can be offered.

If it becomes apparent to the entire industry that the BFP will be at a certain level, the premiums can be expected to rise to the point that the benefit received by the holder of a put option is equal to or less than the premium and broker commission.

If volatility and uncertainty is indeed the situation, and/or if the buyer's analysis of the dairy market indicates a probability of a steep BFP decline and that has yet to be reflected in the market, then there is the opportunity to realize meaningful cash flow protection.

The USDA DOPP has additional restrictions because of it uses federal cost-share funding, and it is not being intended to subsidize farmers in making profits through the program.

However, the use of put options is open to all dairy producers at all times.

Shirk listed some of the factors that can affect future dairy prices — weather, cheese prices, specific component supply and demand situations, feed costs, politics, Class I use, and quality and component premiums.

In addressing financial fraud, Charles Few listed 19 different areas where fraudulent practices have arisen.

He also strongly warned the audience that Lancaster County is characterized as having a large population with strong religious and Christian ideals and those people are characterized as being especially susceptible to confidence artists because of the religious community's trust in the goodness of other people.

However, Few said that most of the Lancaster County scam artists frequently seek to prey on those of deep faith because they are perceived as vunerable.

"Jesus is the Savior of humanity. He is not a marketing concept or sales tool."

Few said to be especially wary of any request for money or services or investments into businesses that offer ways to avoid paying income taxes, or that claim to provide strong returns on investment and help a charity at the same time.

He said to be cautious of those whose business message is mixed with religious and/or anti-federal government dogma.

Few said he did some research and gained some characteristics of con artists.

"Con artists are clever and have good people skills," Few said, adding that con artists think their victims deserve their fate and are seldom violent.

"They are shrewd judges of people with an excellent sense of timing. If caught, they will probably strike again later. Con artists are seldom rehabilitated," he said.

Few also provided some of the more common traits he said are shared by victims of fraud. He said victims are frequently, but not always, older women living alone; but also they are people who are trusting of others, may be lonely, but have a sense of charity and a willingness to help others.

According to Few, intelligence has nothing to do with being a victim of fraud, and unfortunately sometimes victims become embarrassed at having been victimized and then fail to report the incident.

Few listed a couple of the scams of more recent history in the Lancaster area.

He said to watch for those who offer to protect assets from taxes by putting them into "pure trusts."

The operators behind this scam targeted mostly farmers and conservative people, held secret meetings, promised to shield assets from taxes, provide protection from liability and retain their privacy, he said.

Few said what happened was the victims turned their money over to the con artists and got nothing back that was legal or useful in return. In effect, they gave their money away.

An outfit that billed itself as the International Business Association promoted domestic and offshore trusts to avoid paying United States income taxes. The scam included fictitious paper transactions, loans and gifts. Few said victims paid significant money to set up the phony trusts.

The New Era Foundation was broken up and exposed for the Ponzi/pyramid scheme that it was. The person behind it is in prison, but many felt the impact. The scam promised to double investments of charitable and non-profit organizations in a short period of time, although the organization did no investing.

What the organization did was use some of the money collected from new prey to pay some of the first victims in order to make it seem as though the silent investors were actually paying off.

Another outfit that changed names frequently and targeted religious and charitable-minded people promised up to 400 percent investment returns per year.

It went by the names of Kestral Trust Ltd., Agape Christian Church, First Equity International, Agape Financial Services, North Star Publications, and Westmoreland Management, among others. No physical church was ever found to be affiliated with the organization.

Few also mentioned another outfit headquartered in Florida that has been banned from doing business in Pennsylvania and other states. It goes by the names of Greater Ministries International, Faith Promises Program, New Testament Church, and Health Benevolence Christian Fellowship.

If was recently found in contempt of court for ignoring the ban on it doing business in Pennsylvania.

Few said state officials have described it as an apparent pyramid scheme promising to double invested money in 17 months, though it claims to invest the money in precious metals mines in Liberia, Africa.

For consideration, Few offered a couple additional thoughts.

"If you want to gift money to a worthy cause, gift money to a worthy cause," he said.

"If you want to invest money to provide income or growth, invest money to provide income or growth.

"Be extremely careful about mixing the two objectives in one product. If that is what you are considering, consult first with appropriate legal and financial professionals," Few said.

A spokesperson for state Attorney General Mike Fisher said this week that Few's comments should not be attributed to the state office.

However, Fisher said, "I urge all consumers to get the facts before financially committing to an investment plan or opportunity. Be extremely skeptical about proposals that offer huge returns on your money in a short period of time.

"Remember," Fisher said, "ask for the proposal in writing and don't fall for a salesperson who is creating confusion as a tactic to make a bogus deal sound legitimate."

Poultry Conservation Workshop May 22

LAFOX, Ill. — Garfield Farm will be the host site for the annual conference of the American Livestock Breeds Conservancy May 21-23.

The conference will feature a day-long workshop on Saturday, May 22, entitled "Birds of a Feather." The workshop will focus on the conservation and utilization of farm breeds of chickens, turkeys, ducks, and geese.

Speakers for the workshop will include poultry historian Dr. John Skinner presenting the history of poultry in America; poultry scientist Dr. Robert Hawes speaking about genetic conservation; Glenn Drowns, Sandhill Preservation Trust, discussing the promotion of rare breeds of poultry; Paula Johnson of the Society for the Preservation of Poultry Antiquities reporting on a national turkey census; and Lou Horton, waterfowl judge, discussing ducks and geese.

In addition, there will be an exhibit of rare breeds of poultry and livestock, a Sunday forum on the role of rare breeds in agriculture, and an exhibition of contemporary farm animal art. Registration for all events is open to the public.

The American Livestock Breeds Conservancy is a national nonprofit member organization based in Pittsboro, N.C. The ALBC mission is the conservation and promotion of rare and endangered breeds of livestock. New members are welcomed and the public is cordially invited to attend the conference.

For more information about registration for the conference and workshop, contact Cynthia Ehrman at ALBC, PO Box 477, Pittsboro, N.C. 27312, (919) 542-5704, albc@albc-usa.org, web page www.albc-usa.org.

For more information about Garfield Farm, contact Jerome Johnson, Director, Garfield Farm Museum, PO Box 403, LaFox, Il. 60147, (630) 584-8485, garfarm@elnet.com, www.elnet.com/~garfarm/garfarm.html.