Bowles Addresses Risk Management At Seminar

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"allow someone else to take on your risk," he said.

In addition to hedging, Bowles discussed futures contracts. A contract, he reminded those present, is legally binding.

A long futures contract gives the right and obligation to take delivery of a specified quantity of a specified commodity at a specified time (buying). Likewise, a short futures contract gives the right, and obligation, to make delivery of the predetermined quantity of commodity at a certain time (selling).

Although a contract is legally binding, to eliminate a short (selling) position, "buy it back, it's easy to get out of," he said. A long (buying) position can also be sold back.

The local price is established with the Chicago futures price and the local basis. The local basis is the difference between the local cash price and the futures price. The basis is a measure of local, as compared to Chicago, supply and demand.

However, "don't get hung up on terminology," he said. "understand what it is that you want to do... a broker will help you through it," he said.

Hedging, he said, is a temporary substitute for a transaction to be made later in the physical market (as in taking today's price for delivery in April.)

Two markets that can be hedged in are the futures and cash markets — they are a buyer willing to buy a producer's cattle for delivery in April.

"If you produce or own a commodity, you are risk when the price goes down. Hedging (selling futures) eliminates that risk.

"If you have an instrument that takes advantage of when a price goes down, it's a hedge," he said. By selling futures, the position gains value when prices decline.

According to Bowles, hedging protects profits, which is "the good scenerio," he said. "Can you protect profits as big as you would like? No — profits are never as big as we'd like. That's why we don't take a respectable profit in the first place."

Holding out for larger profits is the first emotion, said Bowles. After the market peaks and begins to move back down, there is the high hopes emotion, when "they (investors) think they should have taken the earlier price — and they hope it will go back up," he said. The third emotion is fear. "So often where we sell is at the bottom, because those emotions have taken over.

"Be satisfied with a good price," he said. Producers must balance the possibility of lost opportunity with longevity.

Do your homework, advised Bowles. Know what the buyer wants and know the cost of production. On top of production costs, "add something for yourself to come up with a target price. When you find that, sell."

Hedging limits losses, besides allowing a price determination prior to the making or taking delivery of a physical commodity. With this knowledge, a producer can buy cattle either aggressively or with reserve, based on profits predicted by future prices. Hedging also satisfies lenders and removes market uncertainty, said Bowles.

He also addressed margins, a performance bond. "Basically it says, 'I am going to uphold my end of the bargain,'" he said. It is a cash deposit that is required of both the buyer and the seller.

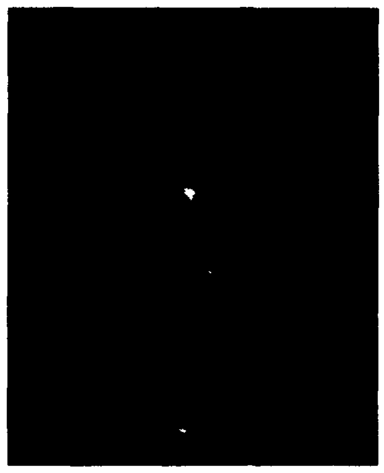
Although a margin call is an amount of capital required if account equity falls below maintenance level (which means a check needs to be sent to the broker), a margin call occurs only when futures, not the cash market, is moving against the farmer.

This means the cash market is going in the right direction and the farmer's net worth is going up.

Options on futures are "put" and "call," which protect in a down or up market. The options create a minimum or maximum price for commodities, which allows for the producer to take advantage of the upside of the market and provide an average minimum price. With options, "don't do anything unless you can fully understand what it can do for you, what it can't do for you, and what it might do to you," he said.

Bowles also spoke about commodity brokers. Make sure they do not trade on their own account, which creates a conflict of interest, he said.

Steve Van Lannen, vice president of producer relations, Packerland Packing, Green Bay, Wis., spoke to the group briefly to explain the packer's forward-contracting options. They contract high-energy Holsteins, Angus, and crossbred cattle. Producers can find futures and options prices on www.agweb.com, www.farms.com, and www.vdacs.state.va.us.



Jonah Bowles, ag risk management coordinator, Virginia Farm Bureau Federation, explained tools such as hedging and futures at a recent workshop.

Va. Dairy Bowl Quiz Team Takes National Championship

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"The four of us had been on teams before. We knew each other on a personal level," said Sarah Clemons. "I wish I had made the time to study more."

The 17-year old young woman, who with her brother Josh has always been home-schooled, said that going to nationals was a dream come true and something she has always wanted. She said the experience was very satisfying.

Josh, 15, is already pursuing a dairy farmer career with determination and owns one dairy cow and several heifers.

Their parents, Tim and Julie Clemons, also have a younger son, Caleb, aged 4.

In the Phase B — team collaboration questions, Sarah Clemons was responsible for giving the answers because she was the team captain.

When the judges were asking for three answers, the team came up with six, then it was decision-making time. Clemons had to select the three she thought the judges wanted. She had the confidence that her teammates would stand by her if the answers she presented happened to be incorrect.

"The only stress was coming from the competition and the writing, not the team," she said.

Otherwise, Phase A was the written test and Phase C was a toss-up round of 20 questions, followed by the Phase C bonus questions. The latter also involved team collaboration.

The coaches who assisted Winston were 4-H volunteer leaders Patty Leonard from Fauquier County and Julie Clemons from Madison County.