2005 Soybean Management Field Days

More Soybean Dollars In Your Pocket
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Strategy 1:
Forward price using cash forward contracts.

Sell cash forward contracts in May and June $6.94
Harvest time (October) price $5.44
Advantage $1.50

Strategy 2:
Forward price using call options for price protection.

Sell cash forward contract In May and June $6.94
Buy call option on August low (July 31) -.13
Harvest time price Advantage $5.44 $1.37
### Strategy 3:
Sell the day before the September crop report.

- Sell cash forward contracts
  - On frost scare (Sept. 10) $5.91
- Harvest time (October) price $5.44
- Advantage $0.49

### Strategy 4:
Sell on the post harvest bounce.

- Sell post harvest bounce $5.64
- Harvest time price $5.44
- Basis improvement after harvest $0.18
- Advantage $0.38

### Strategy 5:
Buy futures on the winter low.
Sell on the spring high.

- Buy May futures on winter low (Febr. 14) $5.26
- Sell May futures on spring high (April 28) $6.19
- Advantage $0.93

### Nebraska Farm Business Inc.
Top 20 Farms: Ratio Comparison

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Historic Guideline</th>
<th>2004 Top 20 Farms</th>
<th>2004 All Farms</th>
<th>5 Year avg. Top 20 Farms</th>
<th>5 Year avg. All Farms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Expense</td>
<td>&gt;62.5%</td>
<td>55.7%</td>
<td>75.1%</td>
<td>57.4%</td>
<td>74.7%</td>
</tr>
<tr>
<td>Depreciation</td>
<td>&lt;12.5%</td>
<td>9.8%</td>
<td>7.5%</td>
<td>9.4%</td>
<td>8.0%</td>
</tr>
<tr>
<td>Interest Expense</td>
<td>&lt;10.0%</td>
<td>2.7%</td>
<td>4.2%</td>
<td>3.3%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Net Farm Income</td>
<td>&gt;15.0%</td>
<td>31.8%</td>
<td>13.2%</td>
<td>29.9%</td>
<td>11.3%</td>
</tr>
</tbody>
</table>

Query: If your operation retains 15% of Gross Income as Net Income, and it must supply $52,504 for Family Living and Taxes; what Minimum Gross Income is required?
More Data from Top 20 Farms

<table>
<thead>
<tr>
<th>Year</th>
<th>Top 20</th>
<th>All Farms</th>
<th>Top 20</th>
<th>All Farms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Income</td>
<td>$379,951</td>
<td>$577,565</td>
<td>$324,303</td>
<td>$435,435</td>
</tr>
<tr>
<td>% Owned Acres</td>
<td>31.8%</td>
<td>29.9%</td>
<td>31.8%</td>
<td>29.9%</td>
</tr>
<tr>
<td>% Cash Rented</td>
<td>15.9%</td>
<td>32.7%</td>
<td>15.9%</td>
<td>32.7%</td>
</tr>
<tr>
<td>% Crop Share</td>
<td>52.3%</td>
<td>37.4%</td>
<td>52.3%</td>
<td>37.4%</td>
</tr>
<tr>
<td>Total Farm Debt</td>
<td>$185,810</td>
<td>$504,580</td>
<td>$185,810</td>
<td>$504,580</td>
</tr>
<tr>
<td>Debt to Asset Ratio</td>
<td>14%</td>
<td>36%</td>
<td>14%</td>
<td>36%</td>
</tr>
</tbody>
</table>

Machinery Cost Data

- Machinery Investment: Top 20 $85,462, All Farms $164,888
- Investment per Acre: Top 20 $86, All Farms $160
- Machinery Operating Cost per Acre:
  - Top 1/3 $32
  - Low 1/3 $43

Income Tax Treatment of:

- **Hedging**
  - Taxable event occurs only after contract is closed.
  - 100% of Gain or Loss recognized as Ordinary Income

- **Speculation**
  - Taxable Event occurs at the end of every year “Marked to Market”
  - Gain or Loss is treated as Capital Sale (Losses are Limited to $3,000 Annually)
  - Does not affect Social Security Tax

Key Elements in Identifying a Hedge

- A hedging transaction is one that a taxpayer enters into in the normal course of the taxpayer's trade or business to reduce risk of price changes.
- An opposite and equal position in futures market offsets a position in cash market.
- Quantity traded should not exceed anticipated production
- Taxpayer must identify transaction as a Hedge on the date of the transaction.
### Marketing Strategy

- **(1) $6.94 Cash Sale**
- **(2) $.13 Option Cost**
- **(3) & (4) Cash Sales**
- **(5) $.93 Gain on Futures Contract**

### Income Tax Result

- **(1) Sch. F Income when received**
- **(2) Sch. F deduction at expiration**
- **(3) & (4) Same as (1)**
- **(5) Speculative Gain reported on Form 6781 & transferred to Sch. D as 40% short term & 60% long term gain**

### May Soybean Futures, 1980-2005

- **2005smfddollarsinpocket013**

### May 2005 Soybean Futures

- **2005smfddollarsinpocket014**

- **2005smfddollarsinpocket015**

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2005 SMFD – University of Nebraska – Lincoln Extension