

# 2005

## Soybean Management Field Days

### *More Soybean Dollars*

### *In Your Pocket*

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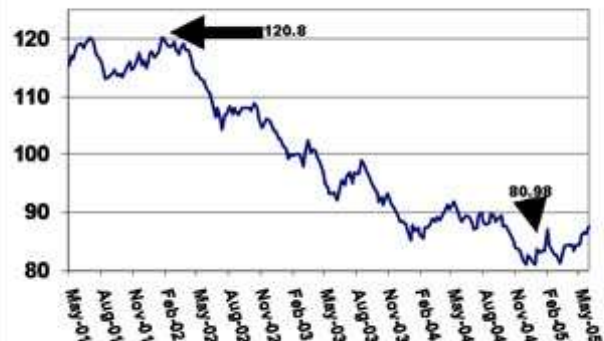
## More Soybean Dollars in Your Pocket

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## DOLLAR INDEX WEEKLY



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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

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### 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 \$ 5.44

Advantage \$ 1.37

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### Strategy 3:

**Sell the day before the September crop report.**

<b>Sell cash forward contracts</b>	
<b>On frost scare (Sept. 10)</b>	<b>\$5.91</b>
<b>Harvest time (October) price</b>	<b>\$ 5.44</b>
<b>Advantage</b>	<b>\$ .49</b>

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### Strategy 4:

**Sell on the post harvest bounce.**

<b>Sell post harvest bounce</b>	<b>\$5.64</b>
<b>Harvest time price</b>	<b>\$ 5.44</b>
<b>Basis improvement</b>	
<b>after harvest</b>	<b>\$ .18</b>
<b>Advantage</b>	<b>\$ .38</b>

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### Strategy 5:

**Buy futures on the winter low.**  
**Sell on the spring high.**

<b>Buy May futures on</b>	
<b>winter low (Febr. 14)</b>	<b>\$5.26</b>
<b>Sell May futures on</b>	
<b>spring high (April 28)</b>	<b>\$ 6.19</b>
<b>Advantage</b>	<b>\$ .93</b>

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

Ratio	Historic	2004		5 Year avg.	
	Guideline	Top 20	All Farms	Top 20	All Farms
Operating Expense	<62.5%	55.7%	75.1%	57.4%	74.7%
Depreciation	<12.5%	9.8%	7.5%	9.4%	8.0%
Interest Expense	<10.0%	2.7%	4.2%	3.3%	6.0%
Net Farm Income	>15.0%	31.8%	13.2%	29.9%	11.3%

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??

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## More Data from Top 20 Farms

	2004		5 Year Ave	
	Top 20	All Farms	Top 20	All Farms
Gross Income	\$379,951	\$577,565	\$324,303	\$435,435
% Owned Acres	31.8%	29.9%		
% Cash Rented	15.9%	32.7%		
% Crop Share	52.3%	37.4%		
Total Farm Debt	\$185,810	\$504,580		
Debt to Asset Ratio	14%	36%		

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## Machinery Cost Data

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

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## Income Tax Treatment of: Hedging                      Speculation

-Taxable event occurs only after contract is closed.	-Taxable Event occurs at the end of every year "Marked to Market"
-100% of Gain or Loss recognized as Ordinary Income	-Gain or Loss is treated as Capital Sale (Losses are Limited to \$3,000 Annually)
-Affects Federal & State Income Tax and Self-Employment Social Security Tax	-Does not affect Social Security Tax

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## 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.

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## 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

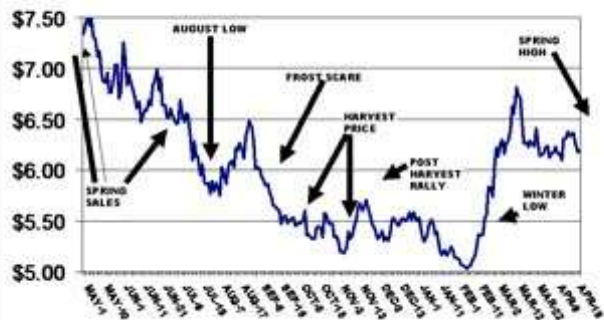
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## MAY SOYBEAN FUTURES, 1980-2005



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## MAY 2005 SOYBEAN FUTURES



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