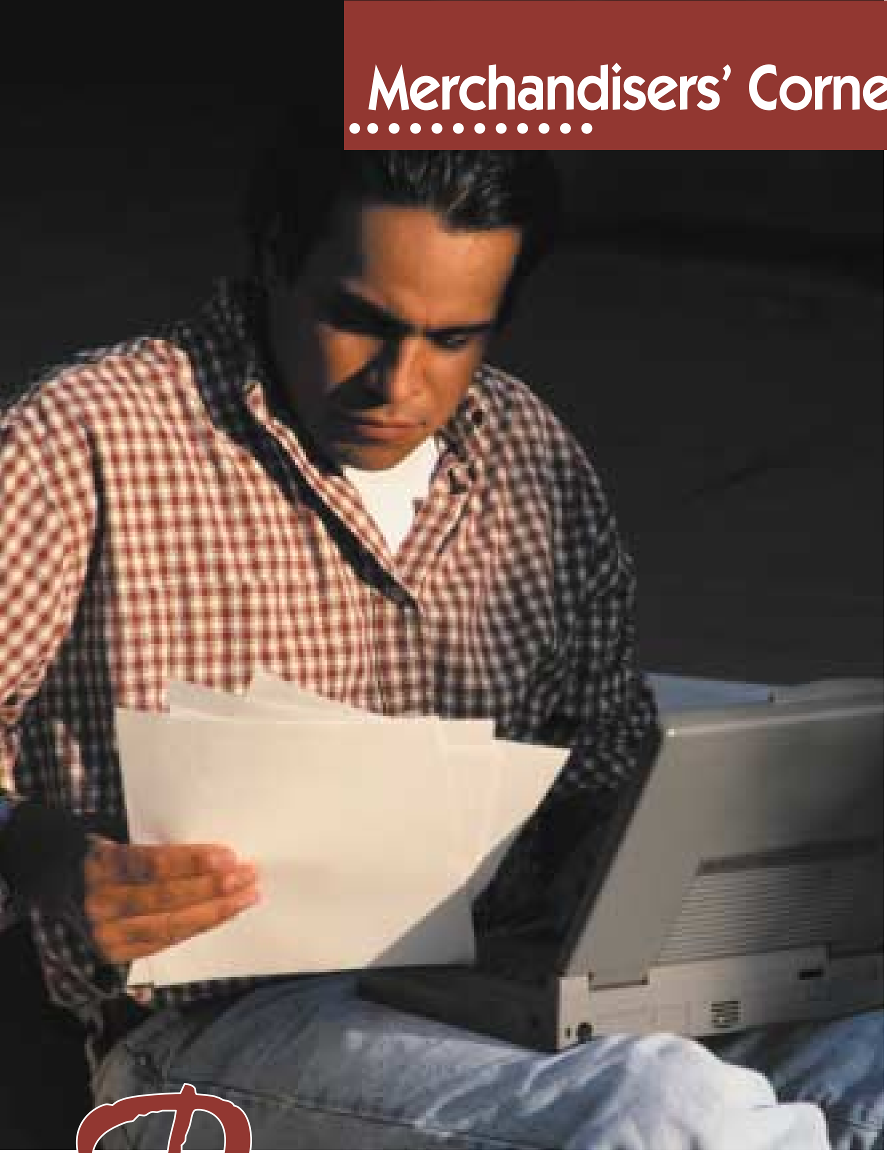

Pursuing the perfect price . . . or a producer pricing PORTFOLIO?

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Most of us concede we're not great at managing a stock portfolio; many people select mutual funds for that. Some investors like to check a fund's value or performance daily, while others barely check their quarterly statements. And we generally accept that no single fund will be the top performer every quarter or every year. Many producers, on the other hand, pursue "the perfect price" for their crops, often passing up what later turns out to have been excellent opportunities, striving for just a few more cents . . . or lament selling "too soon."

Internet grain pricing

Producers now have a way to price their grain that resembles the mutual fund approach: E-Markets' Decision Rule Contracts (DRCs). An Internet-based grain pricing system, this product acts like a computerized professional marketing manager — for each individual's grain. The system offers the neutrality, convenience and performance-accountability of mutual funds. DRCs differ from a mutual fund in that the producer doesn't buy shares at a value, nor does the producer have to commit bushels to a "one size fits all" cash grain pool. The producer commits with an elevator to deliver grain; the DRC system handles pricing that grain.

DRCs trigger objective pricing decisions using one of five unique models the producer selects (see Table 1). Two models trigger pricings on a predetermined schedule, and three models trigger pricings based on market action.

Because DRCs are automated, they eliminate pricing indecision, one of the biggest obstacles to successful marketing. After the producer decides how many bushels to market and selects a pricing model and time frame, E-Markets' system determines exactly when to price. The producer no longer has to ask each day: "Should I sell today?" The producer is still involved, but less directly.

Producers can only use the DRC system through a participating grain buyer. E-Markets' works with the elevator instead of as a competitor. The producer commits grain to the buyer through a firm-offer or a cash contract. E-Markets does not buy the grain, nor does it determine or influence the contract between the elevator and the farmer. The process works as follows:

- An elevator or terminal signs on with E-Markets and is trained how to use the system, and how the models work.
- A producer offers or sells grain to the buyer — unpriced — and selects a model. The elevator writes a purchase (or offer) contract with agreed-upon delivery time/terms.
- The elevator goes to the E-Markets website, into the secured DRC module, and enters the appropriate information: bushels to price, which DRC model to use and the

pricing time frame. This creates a pricing agreement with a unique identification number. This DRC agreement isn't a purchase contract; it's a summary of the criteria that E-Markets is to follow.

- The E-Markets mechanism takes over, monitors the calendar or the futures market and notifies the elevator when and at what futures value bushels are to be priced under that DRC agreement. Incremental pricings might occur daily in some models, only under specific circumstances in other models.
- The buyer then hedges the price risk, sells cash grain or stays long. E-Markets does not tell the elevator/buyer how to manage the price risk, just when the risk arises.
- The producer's cash contract price is fixed: DRC value + basis.
- Producers can modify the pricing agreement on any remaining unpriced bushels — to select a different model, or even withdraw from the DRC and price the contracted bushels directly.
- Marketing advisers can also use the DRC system by working with an eligible elevator and a producer.

Table 1. The five Decision Rule Contract (DRC) pricing models.

Approach	DRC pricing	Pricing approach
Timing	Market Index Forward	Price equals amounts each trading day over a period selected by the producer.
	Seasonal Index Forward	Allows producers to differentiate time frames and price a higher or lower percent in any given month.
Market	Trend Trail	Prices a portion at the first downturn following a market rally.
	Trend Track	Prices grain above a moving index market.
	Market Prospector	Prices a portion after significant rallies — when an index exceeds a trigger level.

Producers can tie a DRC pricing agreement to a cash forward contract or to grain already delivered. Basis, delivery location, etc. may be fixed initially or later.

Constant access

E-Markets provides constant Internet access over a secured serv-

Table 2. *An example of a Market Index Forward DRC, starting Oct. 1 and ending June 30.*

Crop year	Market Index[1] (futures price)	Your cash price[2]
1994	$2.50	
1995	$3.90	Farmer/ customer fills in cash price
1996	$2.83	
1997	$2.74	
1998	$2.30	
1999	$2.28	

[1] *All DRC outcomes are July futures; basis excluded.*
[2] *"Your cash price:" Any benchmark price you want to measure against the DRC outcome.*

er. The only parties who can review a DRC agreement's pricing record online are the buyer or the producer. They must have the correct ID and code number to review specific data, just as you need a password or ID to access a bank account online.

E-Markets also offers 30 years of historical futures price data online, allowing anyone to "test-run" the DRC strategies to evaluate performance. That can be an eye-opener!

Some elevators worry about having many small pricings to document on their position report each day (e.g., a farmer with 10,000 bushels in a six-month Market Index Forward DRC agreement will be pricing about 79 to 80 bushels/day.) One solution is to create two categories: unpriced DRCs and priced DRCs. Put 100% of the unpriced bushels in "unpriced," and make just two entries on any day bushels are priced, no matter how many farmers or how many bushels you have in DRCs. First, decrease "unpriced bushels" by whatever E-Markets tells you to price and secondly, increase "priced DRCs" by the same amount in one entry.

The E-Markets website tracks all pricing data on each individual agreement; when one farmer's contract is 100% priced you move it from "priced DRCs" to "priced open purchases" (if it's not delivered yet). Accounting firms also indicate keeping DRC pricing records on E-Markets' server is adequate documentation for an elevator's book for month-end purposes.

A new portfolio

The DRC system is an interesting new tool that removes some of the emotion from marketing and allows producers to create a new type of portfolio, complete with documented performance. Run simulations of any of the DRC strategies across several crop years and see how the outcomes (futures) compare to the actual prices you paid for grain that year (see Table 2)! F&G

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