

## Commodity Challenge offers marketing experience without losing any funds

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What would you do if someone handed you 75,000 bushels of corn and 25,000 bushels of soybeans and then gave you the opportunity to market that grain in the best way possible to make a profit?

That's what 70 people recently did in playing the Commodity Challenge, sponsored by the South Dakota Corn Growers Association. The game began in December and was completed March 7.

Andy Geppert, 33, lives south of Kimball and took part in the challenge

"Looking back on the way things played out, it would be pretty easy to make better decisions," Geppert said. "I got involved with it because my dad's a member of South Dakota Corn Growers. It seemed like a good way to learn a bit more about how to market crops and try something that I would not normally. It's a lot easier when using someone else's money."

Geppert is not new to marketing. He's attended grain marketing seminars and listened to speakers through a marketing agency in Mitchell. He's worked with his dad to market grain on the farm. After that, "Am I able to get better prices for my crops?" he asked. "Learning about the market is sure not hurting me. I'd like to think I've gotten a little better."

When taking on the Challenge this year, Geppert said it was hard to figure out what to do with commodities as they did not follow what was predicted.

"I started out by feeling really good. Both corn and soybeans went up, and I thought I was doing the right thing," Geppert said. "The market took off and I made a bunch of cash sales. I sold all my soybeans before the first of the year. As it didn't play out well, my dad was glad to see me play with "pretend" money rather than the farm's money." Geppert said he ended up in the bottom half of the board.

"The game is an educational tool to learn about how various marketing strategies work or don't work during a particular time," Darrell Mark, director of the game for the South Dakota Corn Growers said. "It allows participants, mostly farmers, to practice using marketing tools in real time market environment, but using pretend money and bushels." Mark is an Agricultural Marketing Specialist and Adjunct Professor of Economics at South Dakota State University.

Tools included cash contracts, futures and options. As producers signed up, they were allocated their bushels, and then they were on their own to sell, make trades, set up hedges, and follow their own instincts in marketing their grain.

"We saw a broad mix of people involved," Mark said. "Some were very familiar and comfortable with marketing in their own operation. This gave them a chance to try some different things. Those who were

well-seasoned tried alternative techniques.”

Other producers playing the game had never used the futures market or options. They used it as an opportunity to see how they work before they tried it with real commodities on their own farms. Some of those participants were older producers. Others were college age, getting their feet wet in the real world of marketing.

The game, based on the Internet, is run by the Center for Farm Financial Management of the University of Minnesota.

The game essentially provides a trading platform. There are a number of different versions across the country. Mark says that anybody could join without cost. The South Dakota Commodity Challenge was set up for those with an interest in corn and soybean production in eastern South Dakota. User names and passwords were provided to the players. Mark supplemented the game with other educational resources and a marketing book. Those wanting to get involved in other ongoing games can check out [www.commoditychallenge.com](http://www.commoditychallenge.com).

“The recent big move in the grain market caught a lot of us by surprise,” Mark said. “The game has a leader board where we keep track of the decisions made and net sales prices, on nearly an instantaneous basis, all of the players. So we could see who was doing the best. Many of the players used fictitious names though.” Mark believes the South Dakota Commodity Challenge will be repeated next winter.

After three months, the players’ net sale prices for soybeans ranged from \$9.25 to \$15 a bushel for soybeans. Members used some futures, some options and some cash contracting to market their corn and beans.

Ranges for corn sales went from \$3.60 to \$4.40. “I think all of us have our own ideas of what would work best,” Mark said. “I think it’s good to try different strategies. I try things that I might not feel comfortable doing on the farm. I try riskier strategies in a simulated marketing environment than I will when I’m using real dollars on my own farm.”

The key to marketing is using the best risk marketing tools at the right time. In reality, sometimes that has a good outcome, sometimes it is terrible.

Knowing the terminology with some experience gave a farmer from Groton some advantages in playing the Challenge game. Austin Schuelke, 30, of Groton, said he was near the top of the marketers around the first of February, but then ended up on the wrong side of the soybean market and finished up in the middle of the pack.

“I sold all my cash beans because there was a good basis. I bought some back. Thank goodness I didn’t invest my own money.”

Schuelke said that he learned a lot about the system from his dad and from doing hypothetical trades. For those just out of college, this would help them learn the system with an interactive opportunity.

“Personally, I wouldn’t want to dive into a game you don’t understand,” Schuelke said. “It’s hard to try to

grasp the system. Smaller farms may not have the capital to cover the margin calls.”

In his own operation, with soybeans, he says he’s more hedged than he’s ever been before. Brokers are bullish, especially on the new crop, looking at prices of \$12 and \$12.50.

With not a lot of moisture, reports are that frost is about 5 feet down in the fields. It will take some spring moisture to suck the frost out of the ground, Schuelke said. “April 10 would be the first day to plant corn in this area. If I can plant everything in one day, I’d pick April 25. That won’t happen, but I hope that at least we’re in the field by then. “

“I always told my students that using put options is like buying life insurance,” Mark said. “If it’s a true hedge and the market moves higher, then the option will expire worthlessly. But, the hedger will be marketing grain at a higher price – probably more than was protected by the put option.”

“The challenge is being able to recognize what are marketing risks and what aren’t,” he said. “Farmers are used to taking production risks, they do that when they plant corn. A lot of producers need to learn the difference between a true hedge and a speculative trade. I see that line get blurred a lot for farmers.”

“When corn prices were at \$7 a bushel and soybeans were at \$15 to \$16, farmers could make money no matter what marketing decision was made,” Mark said. “Now that is not the case, grain prices are much lower than in the last 4 or 5 years. Farmers can’t afford to make many mistakes. So that tends to help people sharpen their pencils and learn more about marketing tools.”

Geppert said there will be an opportunity to use some of what he learned at some point this year, but he’s still a little unnerved by the market. He’s not real comfortable with puts and calls.

“I was surprised by how much of a variance there was for those in the Challenge,” he said. “We all started with the same bushels and the same dollars. But there was a variance of \$80,000 between top to bottom.” Geppert also took part in another type of challenge which focused on trades using 30,000 bushels of winter wheat.

For 2014 and beyond, farmers will need to become reacquainted with the tools they’ve had in the past.

Mark is now a full-time farmer and is an adjunct professor at South Dakota State University. He also works on projects like this with the South Dakota Corn Growers. “I have studied markets and sometimes that gives you an edge and sometimes it doesn’t. For the past few years, farmers had been rewarded for being a procrastinator when it came to marketing. I don’t think that will be the case in the next few years.”