

## Hedging Plan

Date:

Action taken:

Objective:

Worst case scenario:

## Hedging Plan Example

Date: May 6, 20XX

Action taken: I sold two contracts (10,000 bushels) of December corn at \$5.65. This represents about 10% of my expected production this fall.

Objective: I'm hoping to secure a basis of 40 under at harvest, either from my elevator or the ethanol plant. That will make a final cash price of \$5.25. If basis is weak and carrying charges are large at harvest, I may choose to store the grain on-farm and roll my hedge forward to the May or July contract. I may even choose to buy back my hedge at harvest and hold the grain unpriced in the bin until next spring.

Worst case scenario: A \$1.00 rise in the board will lead to margin calls. If this happens, I will use the opportunity to look ahead at new crop sales 2 years out.

The purpose of a written hedging plan is two-fold.

1. It establishes your hedge objective. I think it helps to put into words what you are trying to accomplish and why. Markets will change. Two months from now (or 4 or 6) the market will undoubtedly be different. You need a written hedging plan now so that when the market changes, you can remind yourself of your original objective.
2. It may prevent overreaction to a changing market. If the worst-case scenario occurs and market prices are \$1.00 higher, your hedging plan will remind you that you *accomplished your original objective*. By reviewing your original intent and noting, "mission accomplished," you are less likely to re-buy or re-sell your position to try and fix something that is not broken. You may choose instead to look ahead to next year (or the year after that) for more pricing opportunities.