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**“WHERE FARMERS
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P U B L I C A T I O N # 2 5

J A N U A R Y , 2 0 2 0

Strength Through Adversity

2019 started with recovery from a shoulder surgery that could not be completed. They said there was too much arthritis to fix a tear and the required immobilization of the fix could result in a shoulder that would not move at all. Shortly after that, a gut pain set in for the next 11 months. Two hospitalizations, lots of doctors scratching their heads, and treatments for the wrong ailments ended with a trip to Mayo Clinic and a surgery that finally fixed the problem. There were few days in 2019 that health did not prove to be a daily challenge. Yet, the experience, although I'd never volunteer to repeat it, was not without reward; rewards that could not be offered or received any other way.

I got to test the limits of my endurance. I got to see who around me had my back. I now understand what goes through someone's head that faces a chronic condition and the unpleasantness associated with diagnosis and treatment. I have a better understanding of what it is to be on the receiving end of mercy and the importance of giving the same. Just like when you buy a car and suddenly see 20 others just like it running down the road; when you are sick, you suddenly see it all around you, others far worse off.

Like a glass of water satisfies the hot and thirsty...longsuffering, kindness, goodness, faithfulness, gentleness, and self-control are not as meaningful, unless you are coming from a place of need.

2019 provided many more financial, physical, and mental challenges for people than I can ever recall...but it might be that I was just paying more attention. Do not wait for adversity to get your attention in 2020. Notice what's happening to those around you: at work, at home, or in your travels. Adversity will find you eventually and you will need to have exercised accordingly and know someone who can help you move the weight of it.

As we move into 2020, the economy is booming...except for ethanol and ag. The last few years have brought plenty of adversity to ethanol and ag, but not uncommon as stock markets and ag tend to run opposite to each other. Hopefully, we are stronger and smarter for it. If nothing else, maybe we have learned to be content with less, so long as we have our health.

BRUCE BUCK

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The Progressive Farmer January 2020 issue contained an article titled, “Profit Through Marketing, Management”. Although the average farming operation is 3x larger than in the 90’s, the rate of return is about half of what it was, only about 3%. They did not make the point, but it’s obviously much quicker and easier to go broke today than it was 30 years ago.

I have always speculated that those farms who own a larger % of their ground or work with less debt are the same farms with higher incomes. This article plainly refuted that based on farm data collected far and wide over many years. There were three factors that they said make the difference between profit and loss.

Hedging gains of \$48,000 in the top income earners were compared to \$5000 in the bottom.

While hedging gains may not be completely transparent and hard to identify depending on the types of contracts you use, who you do business with, carrying grain year to year, etc., the point is clear that those who strive to work to be better marketers and operate their business according to what the markets tell them to do without letting farm logistics rule their marketing, are more likely to stay in business. Obviously, those that have the most bushels AND market the best, will outpace those that do one or the other by multiples. I think the most important factor here is that no matter what type of farming operation you run, no one has an unfair advantage when it comes to marketing opportunities.

Lower equipment costs of \$200/acre were noted in the top income earners. If you inferred a national yield of 175 bpa, that would be 87 cents per bushel.

Lowest cost producers were also noted to have a yield that was 10% higher than average.

You could estimate that to be about 40 cents per bushel over all bushels.

Combined, the spread was \$1.87 per bushel that separated the top 20% of farmers that made over \$200,000 income annually versus the bottom 20% that lost more than \$50,000 annually. If we assume 87 cents for equipment and about 40 cents on yield improvements, you have 60 cents per bushel left for marketing differences.

What I would like to know is of the \$1.87 advantage to top earners, how much of that is from their willingness to learn something new and incorporate that into their operation, even when it may be inconvenient, hard, unwanted, or just not a part of farming they like. I’d say the majority.

If marketing is not your thing, we can help you wade through it, give you reference for being a top or bottom performer in your marketing efforts, and maybe even help you like it.

One way to get a leg up on marketing, is to use Accumulator contracts that are now being offered through Poet. Next Page...

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Most corn producers have heard about accumulator contracts in some form or fashion and under various program names. How they worked were not always easy to understand and if you did understand what it meant for you, you still didn't really know why it was that way or who was really behind the trade.

A couple of things you should know. An accumulator contract is not something that is traded on the board of trade, but its individual pieces are, call and put options. Accumulators are over the counter products created by large trading companies like Marex, who we utilize, and others like FC Stone and ADM. The features are unique due to how these companies manage the options traded within the contract. Accumulators are not something that an individual can easily or economically replicate through their own buying and selling of options.

Example:

Reference Futures Contract: December 2020
 Start Date: December 31, 2019
 Expiration: November 20, 2020
 Accumulation Level: 4.39
 Knock out Level: 3.80
 Current Dec 2020 Futures: 4.03
 Enrolled Bushels: 5,000
 Maximum Enrolled Bushels: 10,000
 Daily Pricing Quantity: 22 bushels

Remainder Pricing Feature: At knockout, prices unpriced bushels at 4.03 in exchange for lower initial accumulation level

Mechanics:

Each day futures are above 3.80, 22 bushels are priced at 4.39, until 5000 bushels are priced.

Futures trade lower to knockout level:

If futures touch 3.80, the contract stops pricing. You keep bushels that are already priced at 4.39.

If futures touch 3.80, unpriced bushels can be reenrolled at lower levels or priced using other contract types.

If futures touch 3.80 and you elected the remainder pricing feature, unpriced bushels would be priced at 4.03.

Futures trade higher than the accumulation level at expiration:

If futures are higher than 4.39 at the expiration date of November 20th, you owe 10,000 bushels at 4.39.

In all cases, 5 cents per bushel is the program fee on enrolled bushels, priced or unpriced. If the knockout level is reached, no additional fees will be charged to reenroll the unpriced bushels.

5000 bushels is the minimum enrollment quantity, but does not pertain to reenrollment of unpriced bushels.

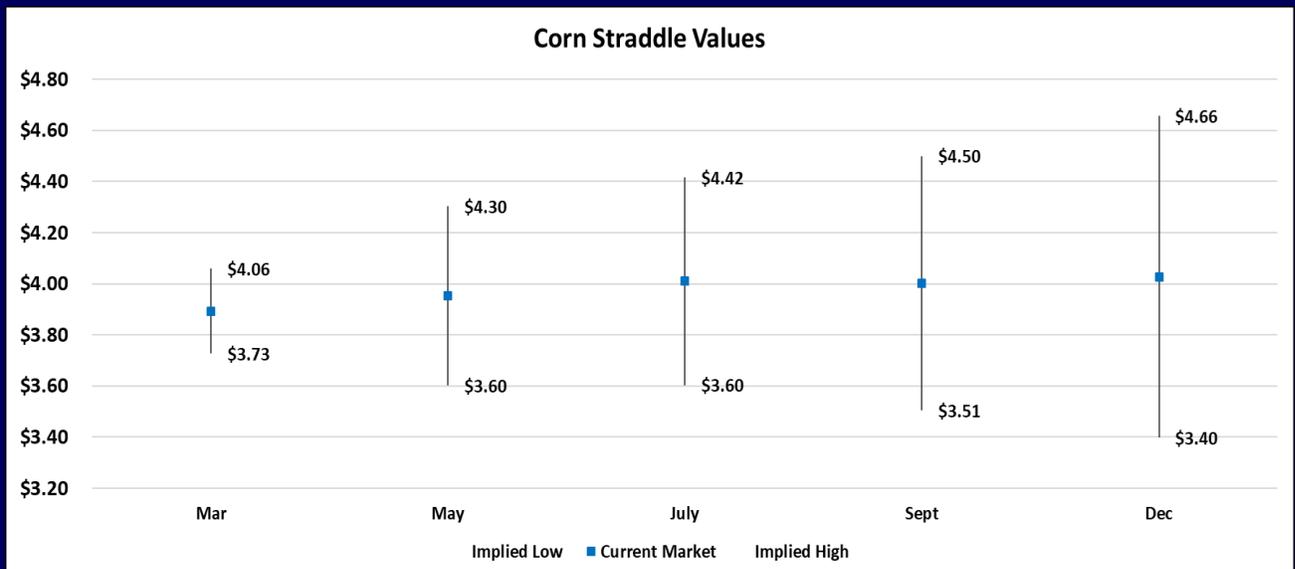


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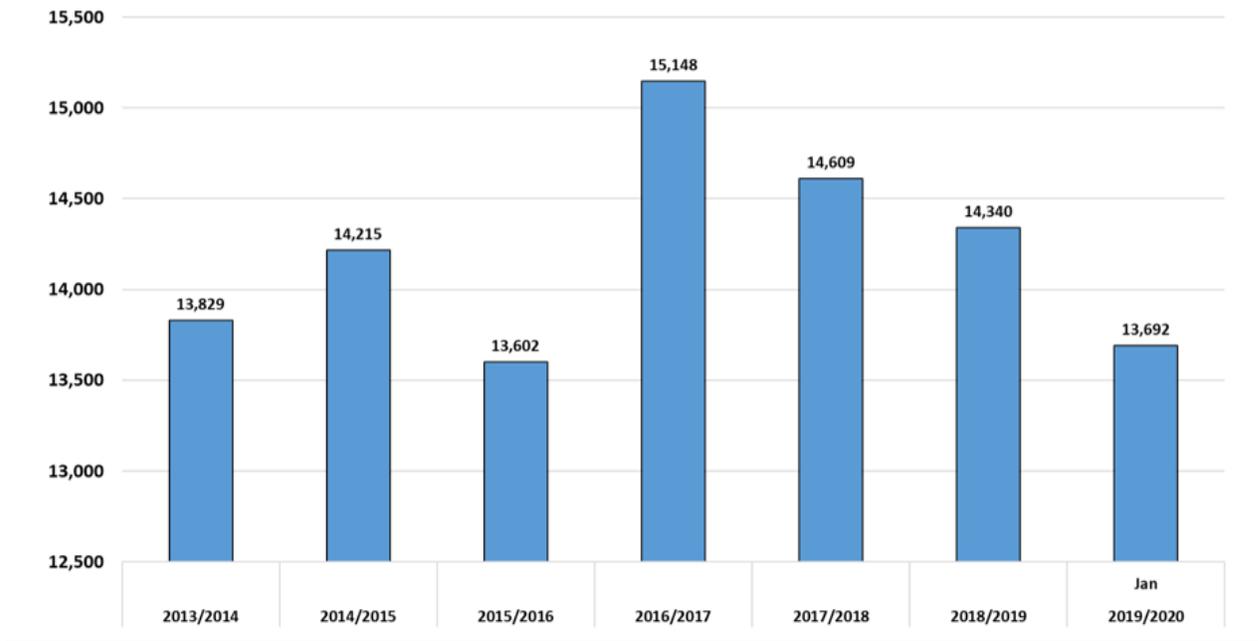
What do we know about options in general? The highest percentage expire worthless. As you consider programs that Poet offers like our Premium Plus and our Accumulator, both include a secondary obligation to deliver bushels and these obligations are based on a short call option.

When you take the price of the current market, say \$4.03 in this example for the December contract, and add/subtract the combined cost of a \$4.00 call and put, you define what the market at large determines as the possible range of futures movement from the current price. In theory, when you take on a secondary obligation that is near the ends of the straddle range, the odds of it being exercised are very slim, but premiums received at the extreme ends of the probable price range are also very small.

So, two things to remember. Choosing a secondary obligation with a price that is increasingly profitable for you reduces the likelihood that it will occur. And, the farther away from the current market you commit to secondary obligation risk, the less premium you will receive on the primary contract. Only you can assess when the premium received for a secondary obligation is a good trade for your operation.

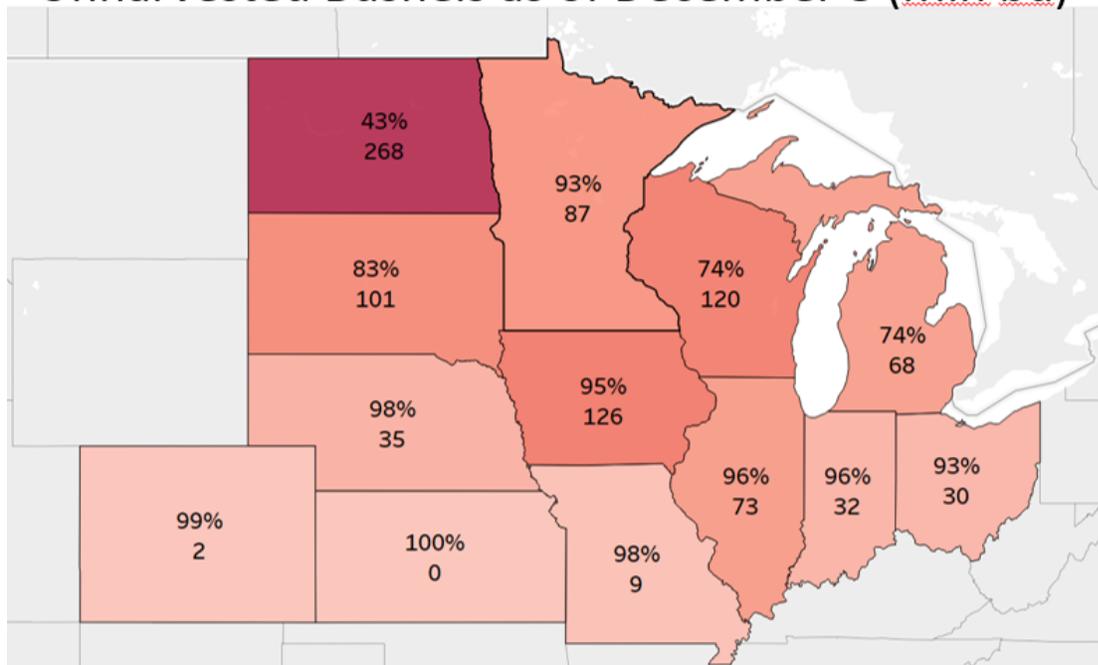


Corn S&D Charts - Production



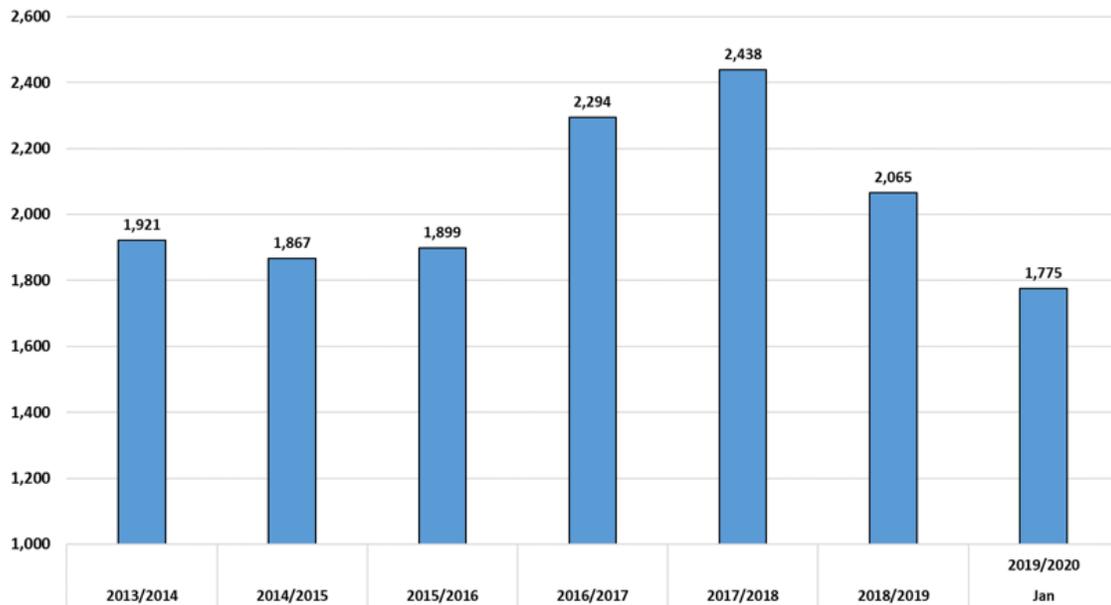
Bullish sentiment lies in a 2019 supply that was substantially smaller than the previous three years and 1 billion bushels of that supply had yet to be harvested as of early December. When bins are not as full as usual, the feeling is that prices should go higher...but you have to consider demand.

% Of Corn Harvested Unharvested Bushels as of December 8 (Mln bu)



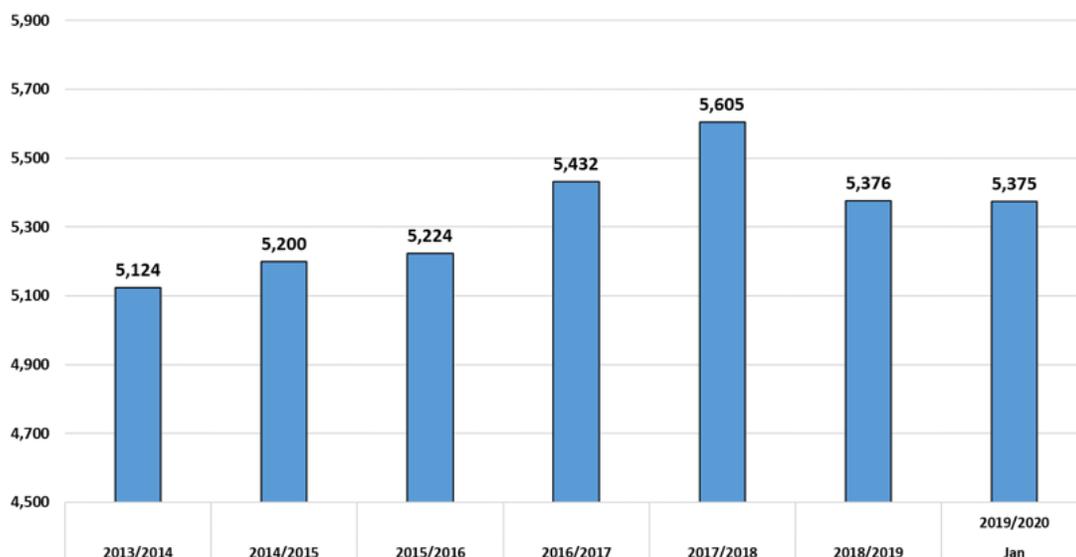
**US Total:
1.1B bu**

Corn S&D Charts - Exports

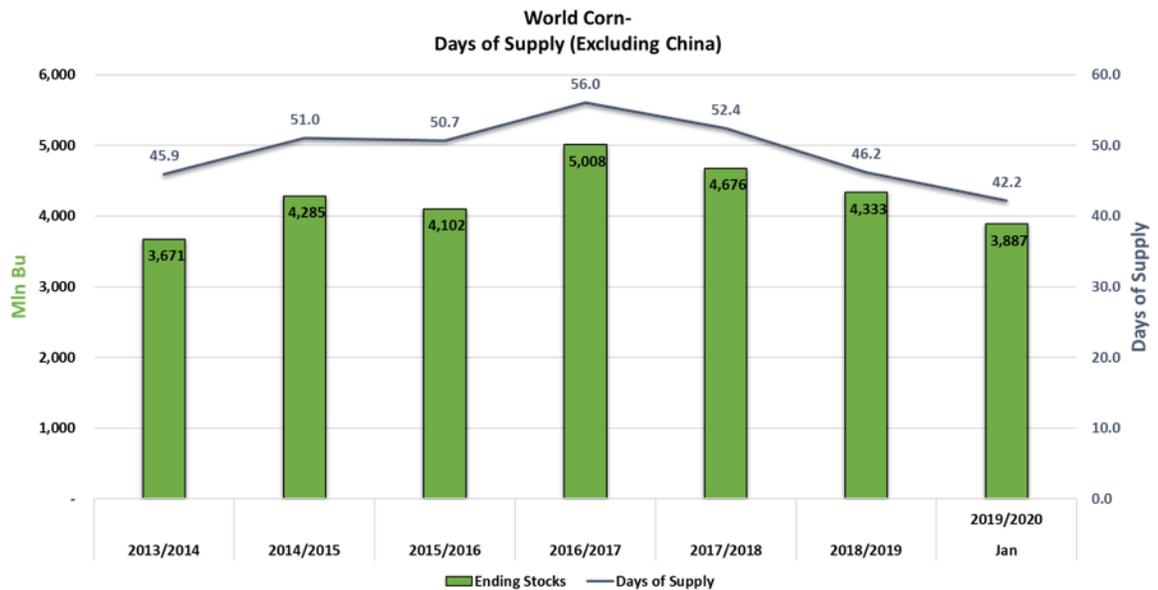


Export demand continues to fall off and there is a direct correlation with the size of the South American crop each year. If the low cost leader of South America has a big crop, like it did last year and could again this year, then U.S. exports wain. Poet’s message of late is that U.S. grain cannot be competitive in a World market, so we MUST find more ways to use our grain at home such as in E15, which would increase corn usage by more than we export annually. But as you can see, corn used for ethanol is estimated to be down again this year due to recent EPA rulings that have been less than fair to Ag and Ethanol.

Corn S&D Charts – Corn for Ethanol

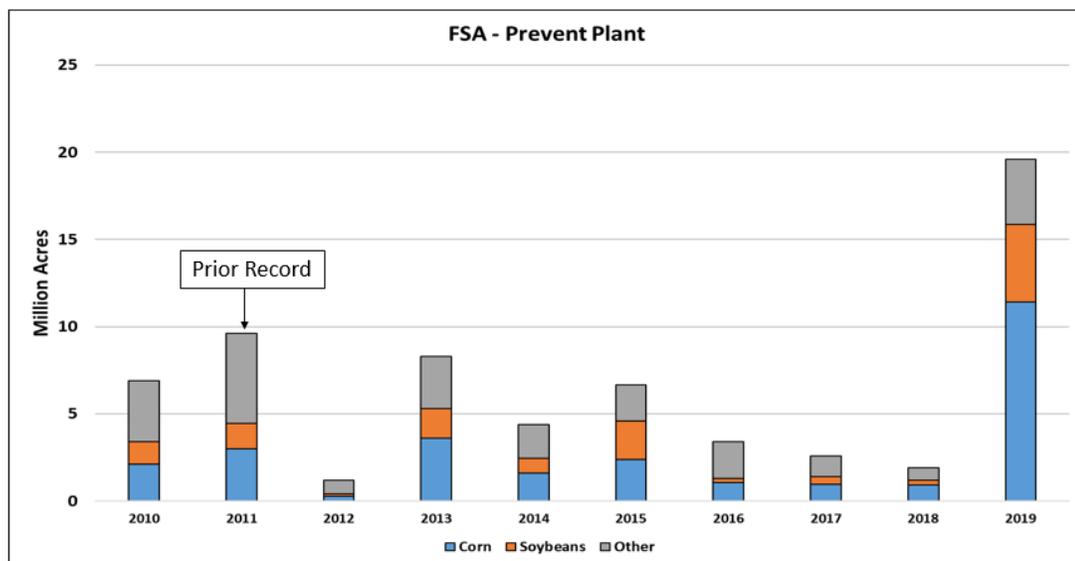


World Days of Supply **Excluding** China



The world supply of corn that drives futures prices are trending lower, not only in quantity, but more importantly, in days of supply as cheap corn over the last 5 years spurs new demand globally. But for the U.S. this next year, the record prevent plant acres of last year are estimated to increase 2020 planted corn and bean acres significantly. When you multiple more acres by a trend line yield, at least on paper, the 2020-21 carryout could move upwards of 3 billion bushels. That equals sub \$3.00 corn in fall of 2020. To prevent that from happening, corn will need to stay cheap through planting season to prevent marginal acres from being planted. To avoid this scenario, forward pricing a greater % of the next crop is very advisable.

Prevent Plant Acres Will be Looking for a Home...



Never Satisfied Grants

If you had \$3000, how would you improve your community? Poet believes that changing the World starts at home. That's why Poet is offering Never Satisfied Grants of up to \$3000 to individuals or groups who have innovative plans to make their community better. Apply today at Poet.com/grants.

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APPLY FOR A
**NEVER SATISFIED
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The graphic features a light beige background with blue and orange geometric shapes in the corners. The text is arranged in a central column, with the Poet logo at the bottom.

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New industry is often catapulted through legislative efforts. Ethanol production in Missouri was one of those industries that went from zero to supplying the entire State with 10% ethanol blends in just a few years, lead by legislative efforts to create a program and a framework for MO ethanol plants to organize and operate. Ethanol is a big venture that requires lots of capital and expertise in all areas to be successful.

Since ethanol came on the scene in MO some 20 years ago, I do not recall MO Ag legislation that has been as wide sweeping and impactful as legalizing medical marijuana in the State of MO. This new “legal” industry, passed by voters 3 to 1, is estimated to produce taxes and fees of \$18 million, and at a State cost of about \$7 million to regulate and enforce.

Richard Gunnels, who farms near Elmer, was one of hundreds of applicants that applied to participate in this new industry. Richard has said many times that his passion is production, learning how to grow the most corn on an acre of ground. With the same passion, Richard thoroughly investigated what that meant in the production of medical cannabis. It meant two things. First, he knows he can do it as good and probably better than most because growing plants is what he does. Second, the cannabis industry is just about as complicated as ethanol when it comes to capital, rules, and regulation, and he needed all the help he could get to make it a reality.

Working with local government and authorities, and partnering with those already established in the business elsewhere, he ranked #3 of over 500 applicants to grow cannabis for medical use in MO.

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Richard is now licensed to grow cannabis under the name Agri-Genesis LLC, located in Macon, MO. His cultivation facility is approved to grow 90,000 square feet of plants and true to agriculture striving to be the low cost producer, that will be 90,000 square feet of plant canopy with high tech vertical growing systems. You can see what that might look like by going to YouTube and typing in “Fence Grow Lights at Franklin BioScience Cannabis Vertical”.

Besides being licensed as a Cultivation Facility, separate licenses must be applied for to participate in any part of the growing to sales process: cultivation, manufacturing, lab testing, transporting, & finally dispensing. Richard is also licensed as a manufacturer and holds 5 dispensary licenses, the equivalent of a retail store.

Cultivation Facility

So how do you grow cannabis? Very carefully. Growing is almost all done manually, requiring much labor. 5 to 6 crops can be grown each year, some being harvested weekly. It costs upwards of \$500 to produce one pound of flowers. Each plant has a barcode to track its existence, production, and eventual demise, to insure that what is produced is accounted for to its end. All plants grown within a cultivation facility are female plants that do not produce seeds and all plants are cloned (started) from a mother plant. Growing a plant requires 18 hours of light and 6 hours of darkness on a strict schedule. Lighting types have been tested exhaustively to maximize plant health and response. When plants are large enough to set flowers, lighting required is 12 hours of light and 12 hours of darkness. If these lighting requirements are not adhered to exactly, these female plants can transform into male plants in response to light at the wrong time or interval. Those plants would produce seed and would have to be destroyed. As you can imagine, there are no light switches located where anyone can just flip the switch and no windows where anyone can just pop one open. Lighting is everything. With that, security is 24/7.

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Manufacturing

Richard holds a manufacturing license. Manufacturing is the process of turning the flowers into a concentrated oil that is then added to foods like gummy bears in exacting amounts.

The manufacturing process is regulated by someone holding a lab testing license; someone other than the manufacturer for obvious reasons.

Dispensary Facility

Richard holds 5 of these licenses that provides him a retail presence wherever the State will allow. For now, Kirksville, Macon, Moberly, Parkville, and St. Louis are named. However, many people obtained licenses and many towns may have more than one dispensary currently slated to open. These may get moved in future as supply and demand dictate. Security is also 24/7 at these retail outlets. To get product from the manufacturing facility to the dispensary requires a licensed transporter. This too, is someone other than the manufacturer or the dispensary to prevent product misplacement.

So why medical marijuana and not hemp, I asked Richard. He stated that medical marijuana was regulated, as in the supply is regulated, so the market appeared to be better positioned than say hemp, which can be grown by anyone, any time. Demand within the State was estimated to be 20,000 people by the end of 2020; those that would be approved by a Doctor to buy it. As of today, over 30,000 are already approved, so demand looks to be well above that.

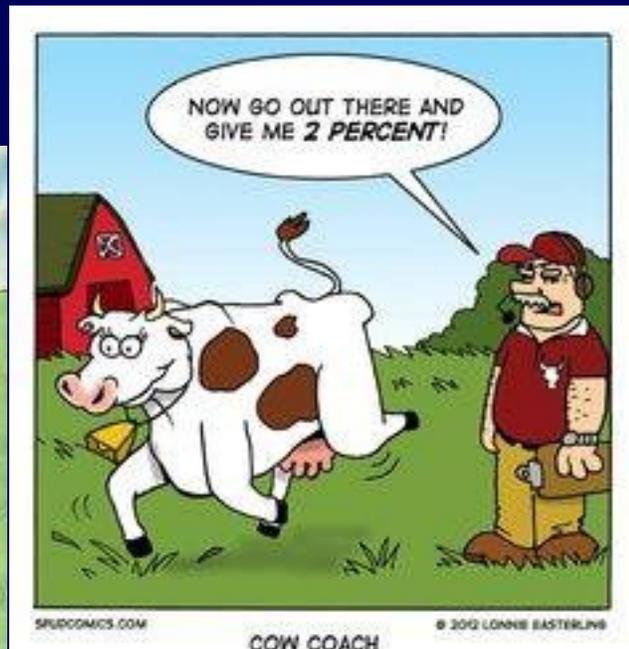
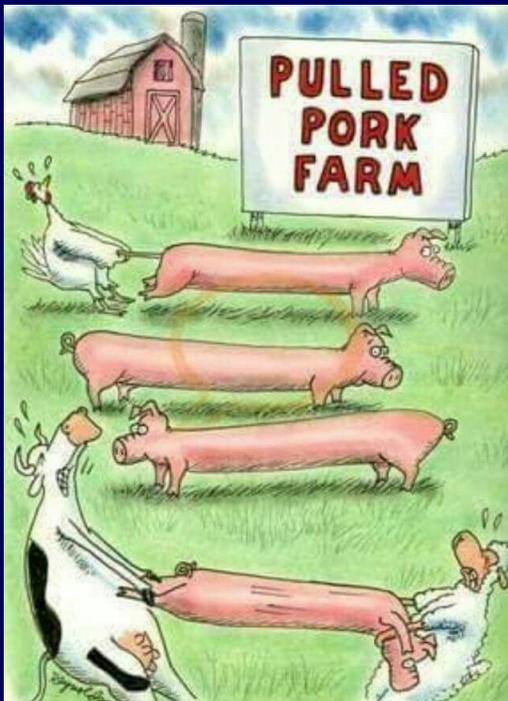
We both agreed that used for medical purposes, cannabis has proven to remedy or significantly improve symptoms for those with some cancers, epilepsy, glaucoma, Parkinson's, IBS, Crohns, and other chronic illnesses. As much as people fear casual use and abuse of cannabis, we again agreed that it is little different than abusing any drug, and it can remedy some ailments that other drugs cannot.

50-60 full time jobs will be created in the next year.

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Bruce Buck Insurance—660-376-4000, Marceline, MO

Richard Gunnels—Agri-Genesis LLC, Macon, MO



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Program

#7	CN20	88%	@	\$4.14
#8	CN20	91%	@	\$4.37
#9	CZ20	13%	@	\$4.06
#10	CN21	11%	@	\$4.21

If you have an event related to your farm, let us know. From time to time, we will post what we see come over Face Book or email that is timely and relevant.

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2 year old ANGUS & SimANGUS Bulls
Bred and Open Commercial Females

Sires Represented:
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LD Capitalist 316, CTS Remedy,
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