



# "For **SMART** Management"

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MARGINSMART®

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## MARGINSMART® Sample Farm Profitability Changes From Last Week

	Sep. '14	Oct. '14	Nov. '14	Dec. '14	Jan. '15	Feb. '15	Mar. '15	April '15	May '15	June '15	July '15	Aug '15
Change From Prior Week	+0.23	+0.75	+0.21	+0.01	-0.28	-0.23	-0.35	-0.28	-0.30	-0.23	-0.19	-0.19

### Welcome to MARGINSMART®

The weekly newsletter will keep you up-to-date on various topics such as market news, upcoming events, and getting the most out of MARGINSMART®.

### MARGINSMART® Tip of the Week

The tip of the week revolves around more information related to the new Margin Protection Program (MPP) of the 2014 Farm Bill. We believe that the MPP can be a viable option for all dairy producers to consider as part of their risk management program; however, the following key items will need to be considered by each dairy: 1) how does the dairy's income over feed cost compare to the MPP calculation average, 2) projections need to be made for the future taking your dairy's specific situation into account, 3) what is your dairy's needs per cwt. after the income over feed cost and 4) ultimately what is the best level of margin to ensure based on the insurance cost. At MARGINSMART® we can help you with all of these items! We have again highlighted some of the key features of the MPP on page 2 of this newsletter.

### Market News

**Milk:** There are many factors creating volatility in milk prices at this time. High cheese and butter demand within the US, compared to low supply, has pushed up nearby prices. However, longer term Class III and Class IV prices (2015) have dropped quite a bit in the last 2 weeks as milk production world-wide has increased significantly.

### Market News (Continued)

#### Grains/Feedstuffs/Cattle/Poultry:

This week we look at a few crop/grain related topics:

- Everything still points to large corn and soybean yields, however, the grain is still not in the bin.
- Some frost has hit various areas of the Western Corn Belt and Upper Midwest.
- Corn for silage and grain is generally still immature in many areas of WI and MN and heavy rain and low temps are threatening maturity.
- High soybean and soybean related basis levels continue to make the cost of these feed ingredients high until new crop soybeans arrive.

**Prospective Customers - Call Curtis Gerrits for your Free Demo Today!**

### MARGINSMART® Insight

**MARGINSMART® PRESENTS MARK LINZMEIER ON FRIDAY OCT 3 AT WORLD DAIRY EXPO FOR THREE KEY FINANCIAL DISCUSSIONS! SEE FLYER!**

**Visit us on the Web at:**

[www.marginsmart.com](http://www.marginsmart.com)

[www.facebook.com/MarginSmart](http://www.facebook.com/MarginSmart)

### Market Update (As of 9/5/2014 Close)

	Sep '14	+/-*	Oct '14	+/-*	Nov '14	+/-*	Dec '14	+/-*	Jan '15	+/-*	Feb '15	+/-*	Mar '15	+/-*
Class III Milk	24.52	+0.24	23.35	+0.68	20.67	+0.18	19.45	-0.02	18.13	-0.32	17.71	-0.30	17.51	-0.38
Class IV Milk	22.27	-0.87	21.62	-0.58	19.38	-0.67	17.40	-1.09	17.09	-0.90	16.60	-1.01	16.77	-0.84
Corn	3.39	-0.07					3.38	-0.18					3.51	-0.18
Soybeans	10.91	+0.06			9.85	-0.36			9.92	-0.36			9.98	-0.37
Soybean Meal	408	-28	339	-18			328	-21	325	-21			323	-19

\*Change from the Previous Week Price

\*\*New Crop: Milk (Dec.), Corn (Dec.), Soybeans (Nov.), Soybean Meal (Dec.)

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The following highlights the key components of the MPP:

**ELIGIBLE DAIRY OPERATIONS:**

- All dairy farms that produce and commercially market milk from cows located in the United States
- Must provide proof of milk production at the time of registration
- Cannot be enrolled in the Livestock Gross Margin for Dairy (LGM) program. However, since some dairy operations may already be participating in the LGM program an exception is made for the 2014 and 2015 enrollment in MPP whereby a dairy can choose to enroll in MPP and have coverage start after the target month of marketings under LGM has ended and proof that the LGM policy has been cancelled.
- Must be in compliance with Highly Erodible land and other conservation programs
- Rules apply for affiliated owners of more than one dairy operation. If affiliation rules apply, all operations are combined for MPP.

**REGISTRATION:**

- Registration occurs at the FSA office where farm records are maintained by:
  - Establishing production history (CCC-781)
  - Completing and signing election form (CCC-782)
  - Paying administrative fee and premiums
- Registration for 2014 and 2015 is combines and runs from September 2, 2014 – November 28, 2014
- Registration thereafter is annually and periods are July 1 – September 30 of the previous year
- Requires participation in all years after registration
- There are separate rules for new dairy operations

**PRODUCTION HISTORY:**

- Must be provided at initial registration and is subject to verification by FSA
- Highest annual production for calendar years 2011, 2012 or 2013
- Special rules apply to new operations
- In subsequent years production history will be adjusted via national average milk production
- Otherwise No change in production history will occur, even if dairy was expanding during 2013/2014

**COVERAGE ELECTION:**

Minimum margin level is \$4.00 per cwt.  
Maximum margin level is \$8.00 per cwt.

- Intervals are every \$.50 per cwt. between \$4.00 and \$8.00 per cwt.
- Dairy operations may only select one level per year
- ALL producers that share risk in the dairy operation must agree to the level on the contract
- Can elect coverage between 25%-90% in 5% levels
- Can change coverage annually

**PRODUCER PREMIUMS:**

The first 4M pounds per year selected will be at a lower price (Applies even if prod. history exceeds 4M pounds)

Coverage	1 <sup>st</sup> 4M Pounds	Over 4M Pounds
<u>Level</u>	<u>Per Cwt.</u>	<u>Per Cwt.</u>
\$4.00	None	None
\$4.50	\$0.010	\$.020
\$5.00	\$0.025	\$.040
\$5.50	\$0.040	\$.100
\$6.00	\$0.055	\$.155
\$6.50	\$0.090	\$.290
\$7.00	\$0.217	\$.830
\$7.50	\$0.300	\$1.06
\$8.00	\$0.475	\$1.36

- For 2014 and 2015 a 25% reduction will be effective for all premiums (except the \$8.00 level) for the 1st 4M pounds
- Premiums for 2014 are due at registration
- For all other at premiums can either be paid in full at registration, or ½ at registration and the balance by June 1 of the calendar year of coverage
- If premiums are not paid, no coverage or benefits will be available

**MARGIN CALCULATIONS:**

- Calculated for every 2 month period
- The difference between the national all-milk price and the *national average feed cost calculated as:*
  - (A) The product determined by multiplying 1.0728 by the price of corn per bushel.
  - (B) The product determined by multiplying 0.00735 by the price of soybean meal per ton.
  - (C) The product determined by multiplying 0.0137 by the price of alfalfa hay per ton

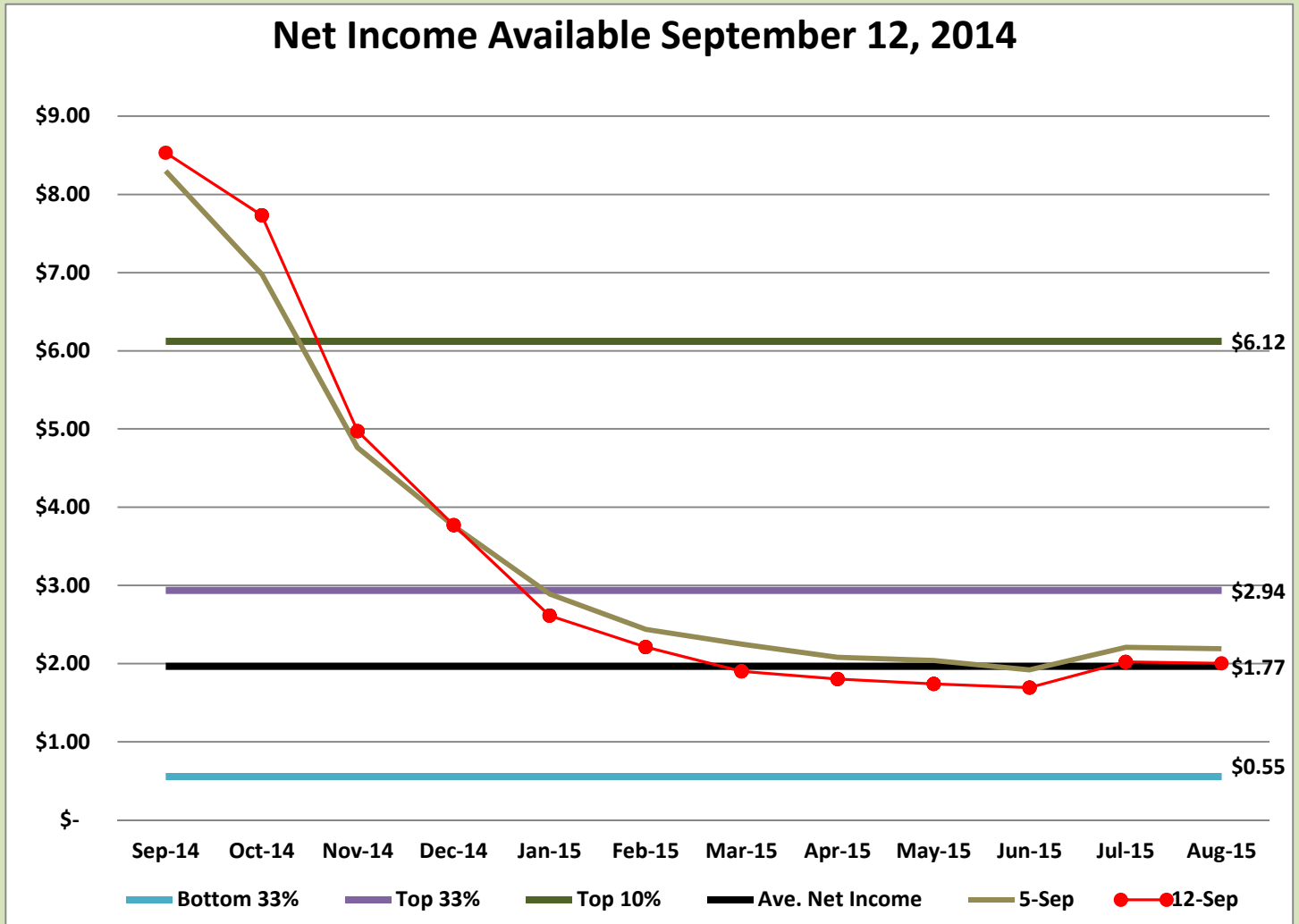
**CONTRACT MODIFICATIONS:**

- Available for death and various other changes
- Notify FSA office for approval



MARGINSMART® maintains a fully virtual Sample Farm with 1,500 mature cows and an 85 #s of milk / head / day shipped average. It buys 100% of its feed at market and its heifers are custom raised. The red line on the Net Income chart below shows the net income / cwt. available last Friday over the next 12 months based on 100% market prices for milk and feed, and full operating activities.

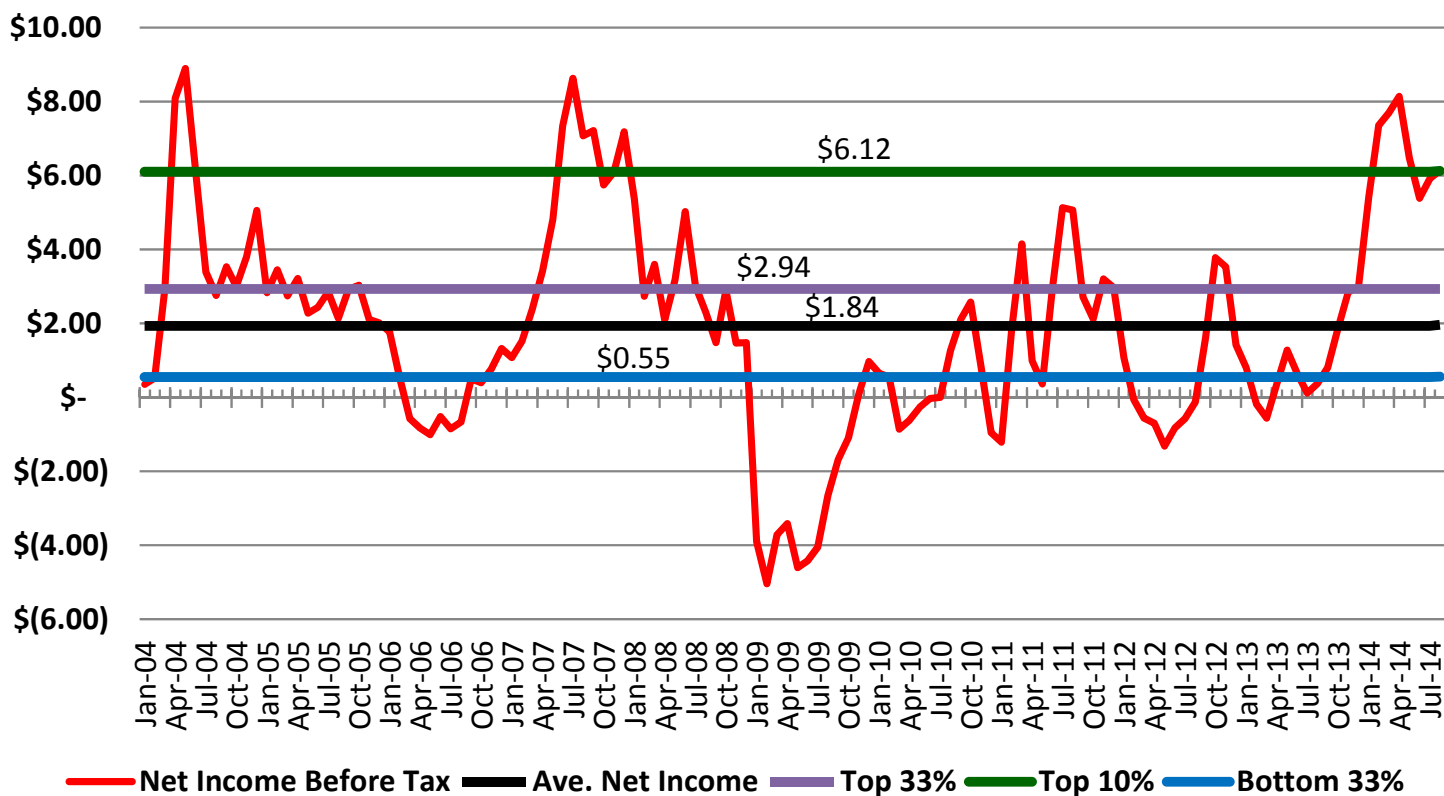
### Net Income Available September 12, 2014





MARGINSMART® maintains a fully virtual Sample Farm with 1,500 mature cows and an 85 #s (current level – this has increased over the past 10 years) of milk / head / day shipped average. It buys 100% of its feed at market and its heifers are custom raised. We calculated the past 10 years' results (with adj. milk / day). The red line on the chart below shows the net income before tax for the last 10 years WITHOUT ANY contracting, and completely subject to market prices. It also shows the Top 10% (90<sup>th</sup> percentile), top 33% (67<sup>th</sup> percentage), the average and bottom 33% (33<sup>rd</sup> percentile.)

## 2004-2014 Historical Net Income Before Tax





MARGINSMART® maintains a fully virtual Sample Farm with 1,500 mature cows and an 85 #s (current level – this has increased over the past 10 years) of milk / head / day shipped average. It buys 100% of its feed at market and its heifers are custom raised. We calculated the past 10 year's results (with adj. milk / day). The first chart is the yearly average net income per cwt. for the last 10 years. The second chart breaks the yearly income into quarterly increments per cwt. for the last 10 years. The charts below are a breakdown of the information in the historical graph above.

### Historical Quarterly Average Net Income Before Tax

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
4.04	2.67	0.07	5.21	2.89	-2.79	0.44	2.52	0.60	0.95

### Historical Quarterly Average Net Income Before Tax

	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
2004	1.27	7.70	3.22	3.95
2005	3.01	2.64	2.64	2.38
2006	0.58	-0.79	-0.34	0.83
2007	1.66	5.19	7.64	6.34
2008	3.90	3.43	2.27	1.95
2009	-4.22	-4.15	-2.79	-0.01
2010	0.11	-0.30	1.13	0.82
2011	1.58	1.42	4.30	2.76
2012	0.15	-0.95	0.30	2.92
2013	0.02	0.77	0.43	2.57
2014	6.82	6.67		