

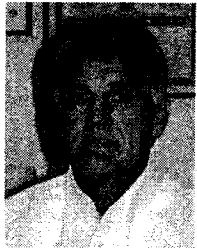
# Some farmers will go belly up in 2008

BY DON STALLINGS

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On March 5th, 2008, December, 08 cotton closed at 95.53; September, 08 corn closed at 5.79; November, 08 rough rice closed at 17.390; November, 08 soybeans closed at 13.91; and July, 08 wheat closed at 10.47. Negative basis adjustments for Greenville, Miss., delivery during that March 5, period, were November soybeans 85 cents; September corn 58 cents; and July Wheat \$1.55. You ask me, "Don, with commodity markets this high how can anyone go broke farming this year?"

Picture an aging 60 year old farmer being sentenced by a federal judge for bank robbery. The judge speaking earnestly to the farmer says, "Until this incident you have been the pillow of the community with a wonderful family.



What brought you to the point of robbing a bank at gunpoint?" The farmer, broken and humbled, says, "Judge, I have been waiting 40 years to see \$11 wheat. Times have been tough, and I had accumulated a lot of debt over 40 years. This was going to be my chance to get everything paid off and retire. When wheat jumped to \$4 last year that was the best price I had seen in a while, so I went crazy and booked 55 bushels to the acre. I didn't set my basis at that time, because I thought it would improve before harvest time. Heavy spring rains hit my crop as well as Roundup damage that could not be traced to anyone, and I ended up harvesting 30 bushels to the acre. I have never taken out crop insurance because I thought I could not afford it. Then, at harvest, the basis had jumped up to \$2.50 because of the volatile commodity markets, so the net I realized on my crop was \$1.50 a bushel. Then I had pay the market difference to the elevator on the 25 bushels I failed to produce. My cash flow looked like this: Revenue, \$1.50 times 30

bushels = \$45 an acre. Cost, \$300 per acre direct, equipment, land rent. Additional cost, \$7 times 25 bushels for market difference on wheat not produced, \$175 per acre. Bottom line, \$430.00 per acre loss. I had 2,000 acres of wheat, so I lost \$860,000. I thought I had no choice. I was going to lose everything I had worked so hard for."

Is this an excerpt from a John Grisham novel, or a real life drama from a Mississippi courtroom? This year it could easily be either. The run up in commodity prices has been, for the most part, a welcome change for farmers, but as you can see from this horror scenario, it can spell the death for farmers who fail to plan and limit risk.

This is the best case I can make for farmers sitting down and developing a farm plan with an experienced farm financial planner, a seasoned crop insurance specialist and a good commodity broker. As I mentioned in my article last month, every farm situation is different. Every farm is unique and what will work

for one farmer will not work for another. Sit down and model out what you think will work for you and the figures will guide you in the right direction. Then get all the input you can on how to limit your risk. If you do your homework and have a bit of luck you could spend next year on a Florida beach instead of doing hard time.

If you would like a free copy of our crop planning software, give me a call at 662-887-4557 or e-mail me at dstallings@bairdandstallings.com. Your comments are always welcomed and very much appreciated. Suggestions from farmers have helped us fine tune our software. **DBJ**

*(Don Stallings is a shareholder in the Indianola, Ms. accounting firm, Baird and Stallings, CPAs, P.A. He is a certified public accountant, a certified valuation analyst, and a certified forensic financial analyst.)*