



Store Cash Bushels and Buy Put Option

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Put Option



- A put option is the right, but not the obligation to sell a futures contract. The buyer of the option pays a premium for “price insurance” to the downside.
- Market Lower: Put option gains value to offset cash loss.
- Market Higher: Put premium is only cost.



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Store cash bushels and buy put option strategy



- A combination of a cash position (owning cash bushels) and a risk management position (buying the put).
- The put option gains value as market goes lower (as cash bushels lose value).
- If market moves higher, the cash position gains value and the put option is limited to loss of option premium.



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Estimated Floor Price Calculation



March Put Strike Price	\$4.00
less Premium Paid	- 21¢ premium
less estimated basis	- 30¢ est. basis
= Est. Floor Price*	= \$3.49

**Option examples do not include commissions and interest*



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Store Cash & Buy Put Option



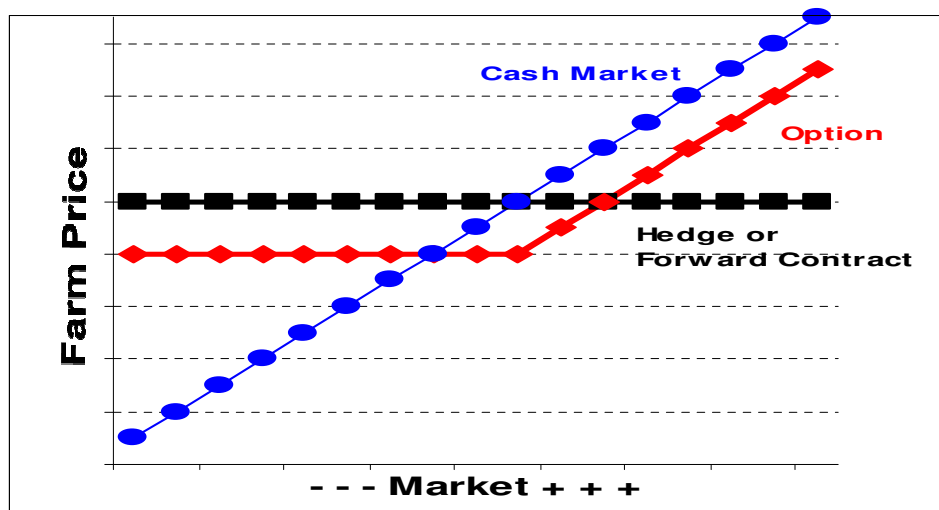
	Futures Market Outcome	\$4.00 Put Option Worth	less Premium	equals Net Futures	less Basis Estimate	equals Cash Estimate
+ 1.00	\$5.00	0.00	-0.21	\$4.79	-0.30	\$4.49
+ 0.75	\$4.75	0.00	-0.21	\$4.54	-0.30	\$4.24
+ 0.50	\$4.50	0.00	-0.21	\$4.29	-0.30	\$3.99
+ 0.25	\$4.25	0.00	-0.21	\$4.04	-0.30	\$3.74
Initial Futures	\$4.00	0.00	-0.21	\$3.79	-0.30	\$3.49
- 0.25	\$3.75	+0.25	-0.21	\$3.79	-0.30	\$3.49
- 0.50	\$3.50	+0.50	-0.21	\$3.79	-0.30	\$3.49
- 0.75	\$3.25	+0.75	-0.21	\$3.79	-0.30	\$3.49
- 1.00	\$3.00	+1.00	-0.21	\$3.79	-0.30	\$3.49

**Upside
potential
AND
floor
price**



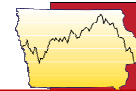
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Comparing Marketing Alternatives

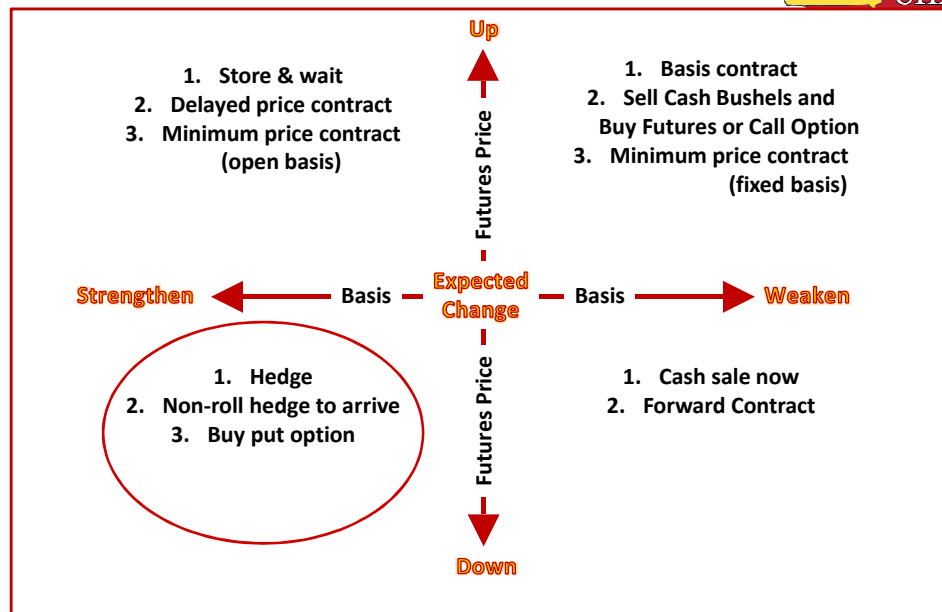


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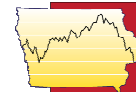
Crop Marketing Matrix



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CHALLENGE



Key points:



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Store cash bushels & buy put option strategy

- The put option gains as market goes lower (as cash bushels lose value).
- Market higher: cash position gains value and the put option loses only the premium paid.
- **Strike Price – Premium – Est. Basis = Est. Floor Price**
- Basis is key to the net result of the strategy.



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