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.
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.

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
### Store Cash & Buy Put Option

<table>
<thead>
<tr>
<th>Futures Market Outcome</th>
<th>$4.00 Put Option Worth</th>
<th>less Premium</th>
<th>equals Net Futures</th>
<th>less Basis Estimate</th>
<th>equals Cash Estimate</th>
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<tr>
<td>+ 1.00</td>
<td>$5.00</td>
<td>0.00</td>
<td>-0.21</td>
<td>$4.79</td>
<td>-0.30</td>
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<tr>
<td>+ 0.75</td>
<td>$4.75</td>
<td>0.00</td>
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**Upside potential AND floor price**

### Comparing Marketing Alternatives

- **Cash Market**
- **Option**
- **Hedge or Forward Contract**

**Comparison Diagram**

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**Iowa Farm Bureau**

**Iowa State University**

**Extension and Outreach**
Crop Marketing Matrix

1. Store & wait
2. Delayed price contract
3. Minimum price contract (open basis)

1. Basis contract
2. Sell Cash Bushels and Buy Futures or Call Option
3. Minimum price contract (fixed basis)

Key points:
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.