Crop and Livestock Marketing is a Challenge!

• Based upon today’s information, we are trying to predict the future.

• No one can consistently predict the future! (farmers, processors, importers, …)
  – Weather and politics are two, of the many, factors that must be predicted.
  – COVID-19
  – We are all “playing the odds”.

• Give yourself a break!!
  – Time and effort can improve the odds of making better marketing decisions.
Common Problems for Farm/Ranch Marketing

• Many farmers/ranchers use the SWAG method of marketing

• “Constraints” are used to make sales
  – Storage constraints
  – Cash flow requirements
  – Income tax considerations

• Trying to “hit the high” in the market rather than making “targeted” sales
Mechanics of a Marketing Plan

• Set price objectives.
• Set timing objectives.
• Choose the correct marketing tool.
• Monitor market conditions.
• Update or modify when needed.
• Implement!! (Pull the trigger)
Setting Price Objectives:

At what price will you sell?
Setting Price Objectives:

At what price will you sell?
When will you sell?
When will your neighbor sell?
Setting Price Objectives:

At what price will you sell?
When will you sell?
When will your neighbor sell?
Setting Price Objectives

• Know your cost of production!

• Fundamental Analysis
  – Evaluate Supply and Demand Conditions
    • USDA-WASDE Reports (World Agricultural Supply and Demand Estimates)
    • Use reports from private analytical firms
    • Hire a marketing consultant

• Technical Analysis
  – Charting techniques
    • Basic analysis free on webpages
    • Hire a marketing consultant
Fundamental Analysis
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<tbody>
<tr>
<td>Planted A.</td>
<td>89.2 Mill. A.</td>
<td>76.1 Mill. A.</td>
<td>83.5 Mill. A.</td>
</tr>
<tr>
<td>Harvested A.</td>
<td>87.6 Mill. A.</td>
<td>75.0 Mill. A.</td>
<td>82.7 Mill. A.</td>
</tr>
<tr>
<td>Yield/Harvest A.</td>
<td>50.6 bu.</td>
<td>47.4 bu.</td>
<td>49.8 bu.</td>
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USDA WASDE – Apr. 9, 2020; USDA Outlook Forum; USDA Prospective Plantings
## U.S. Corn Supply & Demand Table

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<tr>
<td><strong>Planted A.</strong></td>
<td>88.9 Mill. A.</td>
<td>89.7 Mill. A.</td>
<td>97.0 Mill. A.</td>
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<tr>
<td><strong>Harvested A.</strong></td>
<td>81.3 Mill. A.</td>
<td>81.5 Mill. A.</td>
<td>89.4 Mill. A.</td>
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<tr>
<td><strong>Yield/Harvest A.</strong></td>
<td>176.4 bu.</td>
<td>168.0 bu.</td>
<td>178.5 bu.</td>
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<tr>
<td><strong>Feed &amp; Residual</strong></td>
<td>5,432 Mill. Bu.</td>
<td>5,675 Mill. Bu.</td>
<td>5,800 Mill. Bu.</td>
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<tr>
<td><strong>Food, Seed, Ind.</strong></td>
<td>6,791 Mill. Bu.</td>
<td>6,465 Mill. Bu.</td>
<td>6,840 Mill. Bu.</td>
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</table>

USDA WASDE – Apr. 9, 2020; USDA Outlook Forum; USDA Prospective Plantings
## U.S. All Wheat Supply & Demand Table

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<tr>
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<tr>
<td>Planted A.</td>
<td>47.8 Mill. A.</td>
<td>45.2 Mill. A.</td>
<td>44.7 Mill. A.</td>
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<td>Harvested A.</td>
<td>39.6 Mill. A.</td>
<td>37.2 Mill. A.</td>
<td>37.8 Mill. A.</td>
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<tr>
<td>Yield/Harvest A.</td>
<td>47.6 bu.</td>
<td>51.7 bu.</td>
<td>48.2 bu.</td>
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<tr>
<td>Seed</td>
<td>59 Mill. Bu.</td>
<td>60 Mill. Bu.</td>
<td>60 Mill. Bu.</td>
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<tr>
<td>Feed &amp; Residual</td>
<td>90 Mill. Bu.</td>
<td>135 Mill. Bu.</td>
<td>120 Mill. Bu.</td>
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</table>

USDA WASDE – Apr. 9, 2020; USDA Outlook Forum; USDA Prospective Plantings
Key USDA Reports

• **WASDE** – World Agricultural Supply and Demand Estimates
• **Outlook Reports** – Wheat, Feed, Oil Crops and Sugar
• **Crop Production** – Estimates of acreage and average yields for each major producing state.
• **Crop Progress Reports** (weekly during growing season)
• **Quarterly Grain Stocks Reports**
Other Key Fundamentals

• Transportation Costs
  – Rail Rates
  – Ocean Rates

• Trade Policies
  – Bi-lateral
  – Multi-lateral

• Exchange Rates
  – Value of U.S. Dollar
  – Currency of competitors and customers
Technical Analysis
Nov. CBOT Soybean Pricing Points
Set Timing Objectives
Set Timing Objectives

• Cash flow needs
  – Cash Rent, Machinery Payments, Operating LOC, Land Payments

• Key USDA Reports
  – Search “USDA Report Calendar” and select “Calendar View”

• Key production time periods
  – U.S. production
  – Competitor’s production
## Set Timing Objectives

### Crop Production Cycle Chart - Corn

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- **Planting**
- **Crop Growth**
- **Harvest**
# Set Timing Objectives

## Crop Production Cycle Chart - Soybean

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# Crop Production Cycle Chart - Wheat

## Set Timing Objectives

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- **Dormant**: Planting, **Crop Growth**, **Harvest**
Mechanics of a Marketing Plan

- Set price objectives.
- Set timing objectives.
- Choose the correct marketing tool.
- Monitor market conditions.
- Update or modify when needed.
- **Implement!! (Pull the trigger)**
Questions?
CHOOSING THE CORRECT MARKETING TOOL
Strategies for Product Sellers

ACTION
1. Basis Contract
2. Minimum Price Contract
3. Sell Cash (or Forward Contract) and Buy Calls
4. Sell Cash (or Forward Contract) and Buy Futures

1. Hedge (Sell Futures)
2. Hedged-to-Arrive (HTA) Contract
3. Buy Put Option

EXPECTED CHANGE FOR FUTURES AND BASIS

UP
FUTURES

TIME

FUTURES

DOWN

TIME

BASIS STRENGTHENS

BASIS WEAKENS

Futures
Cash

Futures
Cash

Futures
Cash

John Ferris
Michigan State University
Why do I like this Matrix?

• Includes “cash only”, futures/options, and alternative contracting strategies.

• Helps explain why some marketing tools work well one year, and poorly the next year.

• Helps explain why basis changes can help enhance effective sales price.

• Helps highlight the differences in risk exposure.
Strategies for Product Sellers

**ACTION**

1. Basis Contract
2. Minimum Price Contract
3. Sell Cash (or Forward Contract) and Buy Calls
4. Sell Cash (or Forward Contract) and Buy Futures

**EXPECTED CHANGE FOR FUTURES AND BASIS**

**UP**

1. Basis Contract
2. Minimum Price Contract
3. Sell Cash (or Forward Contract) and Buy Calls
4. Sell Cash (or Forward Contract) and Buy Futures

**DOWN**

1. Hedge (Sell Futures)
2. Hedged-to-Arrive (HTA) Contract
3. Buy Put Option

**TIME**

**BASIS STRENGTHENS**

1. Store or Wait to Forward Contract
2. Delayed Pricing Contract
3. Minimum Price Hedged-to-Arrive (HTA)

**BASIS WEAKENS**

1. Cash Sales
2. Forward Contract

**BLUE** = Cash sale or cash contract

**GREEN** = Use futures or options market

John Ferris
Michigan State University
Requirement

• To use this matrix properly, you must:
  – Form an opinion about the future direction (trend) in the futures market.
  – Form an opinion about the future direction (trend) in the basis.
Strategies for Product Sellers

**ACTION**
1. Basis Contract
2. Minimum Price Contract
3. Sell Cash (or Forward Contract) and Buy Calls
4. Sell Cash (or Forward Contract) and Buy Futures

**EXPECTED CHANGE FOR FUTURES AND BASIS**

**BASIS STRENGTHENS**
1. Hedge (Sell Futures)
2. Hedged-to-Arrive (HTA) Contract
3. Buy Put Option

**BASIS WEAKENS**
1. Cash Sales
2. Forward Contract

John Ferris
Michigan State University
Strategies for Product Sellers

**Basis Contract**
1. Store or Wait to Forward Contract
2. Delayed Pricing Contract
3. Minimum Price Hedged-to-Arrive (HTA)

**Minimum Price Contract**
1. Basis Contract
2. Minimum Price Contract
3. Sell Cash (or Forward Contract) and Buy Calls
4. Sell Cash (or Forward Contract) and Buy Futures

**Sell Cash (or Forward Contract) and Buy Calls**
5. Hedge (Sell Futures)
6. Hedged-to-Arrive (HTA) Contract
7. Buy Put Option

**Sell Cash (or Forward Contract) and Buy Futures**
8. Cash Sales
9. Forward Contract

**EXPECTED CHANGE FOR FUTURES AND BASIS**
- **Up**
  - Futures
  - Cash
- **Down**
  - Futures
  - Cash

**Basis Strengthens**
1. Hedge (Sell Futures)
2. Hedged-to-Arrive (HTA) Contract
3. Buy Put Option

**Basis Weakens**
1. Cash Sales
2. Forward Contract

John Ferris
Michigan State University
Strategies for Product Sellers

1. **Store or Wait to Forward Contract**
2. **Delayed Pricing Contract**
3. **Minimum Price Hedged-to-Arrive (HTA)**

**FUTURES**

**Basis Strengthens**

**EXPECTED CHANGE FOR FUTURES AND BASIS**

**Basis Weakens**

**TIME**

**UP**

**FUTURES**

**DOWN**

**FUTURES**

**TIME**

**ACTION**

1. **Hedge (Sell Futures)**
2. **Hedged-to-Arrive (HTA) Contract**
3. **Buy Put Option**

**TIME**

**FUTURES**

**DOWN**

**TIME**

**FUTURES**

**TIME**

**ACTION**

1. **Cash Sales**
2. **Forward Contract**

John Ferris
Michigan State University
Strategies for Product Sellers

**1. Basis Contract**
**2. Minimum Price Contract**
**3. Sell Cash (or Forward Contract) and Buy Calls**
**4. Sell Cash (or Forward Contract) and Buy Futures**

**Basis Strengthens**
- 1. Hedge (Sell Futures)
- 2. Hedged-to-Arrive (HTA) Contract
- 3. Buy Put Option

**Basis Weakens**
- 1. Cash Sales
- 2. Forward Contract

**EXPECTED CHANGE FOR FUTURES AND BASIS**

- **Cash**
- **Futures**
- **TIME**

John Ferris
Michigan State University
What is a *Delayed Pricing Contract*?

- Farmer delivers grain today, but cash price is not established until a future date.
- Title for grain is transferred to the buyer, and buyer commonly resells grain before final cash price is established.
What is a *Delayed Pricing Contract*?

- The futures price is not established.
- The basis is not established.
- The grain buyer often charges a fee to write a Delayed Pricing Contract, which covers a portion of the buyer’s basis risk.
What is a Delayed Pricing Contract?

- Seller is unsecured creditor, but grain dealers bonding applies for first 30 days of contract.

- The grain dealers bond may or may not apply after 30 days. N.D. Credit-Sale Contract Indemnity fund covers 80% of value for contracts over 30 days.
Strategies for Product Sellers

**Basis Contract**
1. Store or Wait to Forward Contract
2. Delayed Pricing Contract
3. Minimum Price Hedged-to-Arrive (HTA)

**Minimum Price Contract**
4. Sell Cash (or Forward Contract) and Buy Calls

**Sell Cash (or Forward Contract) and Buy Futures**

**Hedge (Sell Futures)**
1. Hedge (Sell Futures)
2. Hedged-to-Arrive (HTA) Contract
3. Buy Put Option

**EXPECTED CHANGE FOR FUTURES AND BASIS**

**Basis Strengthens**

**Basis Weakens**

**Cash Sales**
1. Cash Sales
2. Forward Contract

**Futures**
1. Basis Contract
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John Ferris
Michigan State University
Strategies for Product Sellers

**ACTION**
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**EXPECTED CHANGE FOR FUTURES AND BASIS**

**TIME**
- Futures
- Cash

**BASIS STRENGTHENS**
1. Hedge (Sell Futures)
2. Hedged-to-Arrive (HTA) Contract
3. Buy Put Option

**BASIS WEAKENS**
1. Cash Sales
2. Forward Contract

John Ferris
Michigan State University
What is a *Basis Contract*?

- This is a contract between a grain buyer and farmer where the basis is specified in the contract, but the futures price has NOT been established.

- The farmer can choose the futures price at a later date (time of final sale).

- The *basis* in the contract may not be the basis today!
Strategies for Product Sellers

**ACTION**

1. Basis Contract
2. Minimum Price Contract
3. Sell Cash (or Forward Contract) and Buy Calls
4. Sell Cash (or Forward Contract) and Buy Futures

**EXPECTED CHANGE FOR FUTURES AND BASIS**

**UP**

1. Hedge (Sell Futures)
2. Hedged-to-Arrive (HTA) Contract
3. Buy Put Option

**DOWN**

1. Cash Sales
2. Forward Contract

**TIME**

**FUTURES**

**CASH**

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John Ferris
Michigan State University
Sell Cash - Buy Futures

• Why does this strategy work?
• Is this more risky than storing cash grain and waiting for a price increase?
• Is this more risky than a Basis Fixed Contract strategy?
Strategies for Product Sellers

**ACTION**
1. Basis Contract
2. Minimum Price Contract
3. Sell Cash (or Forward Contract) and Buy Calls
4. Sell Cash (or Forward Contract) and Buy Futures

**EXPECTED CHANGE FOR FUTURES AND BASIS**

**BASIS STRENGTHENS**
- Futures
- Cash
- TIME

**BASIS WEAKENS**
- Futures
- Cash
- TIME

**ACTION**
1. Hedge (Sell Futures)
2. Hedged-to-Arrive (HTA) Contract
3. Buy Put Option

**TIME**

John Ferris
Michigan State University
Memory Trick #1
For Option Buyer!

• “Call UP the broker to check on prices”
  – The buyer of a Call Option gains when the futures price increases. (call = right to buy futures contract at strike price)

• “Put Down the phone when you are done”
  – The buyer of a Put Option gains when the futures price decreases. (put = right to sell futures contract at strike price)
Memory Trick #2

• Two types of options:
  – **Call** option ➔ right to **BUY**
    • The letter “C” is next to the letter “B” in the alphabet

  – **Put** option ←→ right to **SELL**
    • The letter “P” is next to the letter “S” in the alphabet
Suggestions for using Options

• Options work “best” when there is a large price movement (in the correct direction) in a short period of time.
  – Underlying futures market moves in the correct direction.
  – Volatility increases due to large price movement
  – Time value decreases very little because it is a short period of time
  – Interest rate does not have time to change.

• Option premiums will never change at the same rate as the underlying futures market price (delta).
  – Exception is just before option expiration.
Strategies for Product Sellers

**ACTION**
1. Basis Contract
2. Minimum Price Contract
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**EXPECTED CHANGE FOR FUTURES AND BASIS**

**UP**
- Futures
- Cash
- Time

**BASIS STRENGTHENS**
1. Hedge (Sell Futures)
2. Hedged-to-Arrive (HTA) Contract
3. Buy Put Option

**BASIS WEAKENS**
1. Cash Sales
2. Forward Contract

**Down**
- Futures
- Cash
- Time

John Ferris
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Strategies for Product Sellers

ACTION
1. Basis Contract
2. Minimum Price Contract
3. Sell Cash (or Forward Contract) and Buy Calls
4. Sell Cash (or Forward Contract) and Buy Futures

EXPECTED CHANGE FOR FUTURES AND BASIS

BASIS STRENGTHENS
1. Hedge (Sell Futures)
2. Hedged-to-Arrive (HTA) Contract
3. Buy Put Option

BASIS WEAKENS
1. Cash Sales
2. Forward Contract

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What is a *Hedge-to-Arrive Contract*?

• This is also called a *Futures Fixed Contract*.

• The grain buyer purchases a futures contract to set the futures price, but the basis has NOT been determined.

• The basis is usually set at the time of final sale.

• The buyer typically charges a fee (per bushel) to cover brokerage costs and potential margin calls.
Strategies for Product Sellers

**ACTION**
1. Store or Wait to Forward Contract
2. Delayed Pricing Contract
3. Minimum Price Hedged-to-Arrive (HTA)

**EXPECTED CHANGE FOR FUTURES AND BASIS**

**BASIS STRENGTHENS**
1. Hedge (Sell Futures)
2. Hedged-to-Arrive (HTA) Contract
3. Buy Put Option

**BASIS WEAKENS**
1. Cash Sales
2. Forward Contract

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Definition of *Hedging*

- Establishing an opposite position in the futures market from that held in the cash, or physical, market.

- The objective is to “shift” price risk and “lock in” as desired price.

- Hedging is most effective when the cash and futures markets are *highly correlated*. 
Definition of Speculating

• Establishing a position in the futures OR the cash market expecting to profit from a favorable price movement.

• The objective is to enhance price, but this requires accepting the risk of an adverse price movement.
Reminder!

• Using support and resistance lines (technical analysis) can help set price objectives.
• In today’s trading world, you are not fast enough to “chase the market.”
• You can place an order to sell at a specified price and “let the market come to you.”
  – Hedging or options strategies (must work with a broker)
  – Hedge-to-Arrive (Futures Fixed) or cash sales (work with a cash market buyer).
Strategies for Product Sellers

**Basis Contract**
1. Store or Wait to Forward Contract
2. Delayed Pricing Contract
3. Minimum Price Hedged-to-Arrive (HTA)

**Minimum Price Contract**
4. Sell Cash (or Forward Contract) and Buy Calls

**Sell Cash (or Forward Contract) and Buy Futures**
5. Sell Cash (or Forward Contract) and Buy Futures

**Hedge (Sell Futures)**
1. Hedge (Sell Futures)
2. Hedged-to-Arrive (HTA) Contract
3. Buy Put Option

**Expected Change for Futures and Basis**
- Futures up, basis strengthens
- Futures down, basis weakens
- Futures, cash, and time movements

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Strategies for Product Sellers

1. Basis Contract
2. Minimum Price Contract
3. Sell Cash (or Forward Contract) and Buy Calls
4. Sell Cash (or Forward Contract) and Buy Futures

ACTION
1. Hedge (Sell Futures)
2. Hedged-to-Arrive (HTA) Contract
3. Buy Put Option

EXPECTED CHANGE FOR FUTURES AND BASIS

BASIS STRENGTHENS
1. Store or Wait to Forward Contract
2. Delayed Pricing Contract
3. Minimum Price Hedged-to-Arrive (HTA)

BASIS WEAKENS
1. Cash Sales
2. Forward Contract

TIME
FUTURES
UP
DOWN
Cash
Futures
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Strategies for Product Sellers

**ACTION**
1. Basis Contract
2. Minimum Price Contract
3. Sell Cash (or Forward Contract) and Buy Calls
4. Sell Cash (or Forward Contract) and Buy Futures

**EXPECTED CHANGE FOR FUTURES AND BASIS**

**BASIS STRENGTHENS**
1. Store or Wait to Forward Contract
2. Delayed Pricing Contract
3. Minimum Price Hedged-to-Arrive (HTA) Futures

**BASIS WEAKENS**
1. Cash Sales
2. Forward Contract

**TIME**
- Futures
- Cash

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Strategies for Product Sellers

**ACTION**

**1. Basis Contract**
**2. Minimum Price Contract**
**3. Sell Cash (or Forward Contract) and Buy Calls**
**4. Sell Cash (or Forward Contract) and Buy Futures**

**EXPECTED CHANGE FOR FUTURES AND BASIS**

- **FUTURES UP**
- **FUTURES DOWN**

- **BASIS STRENGTHENS**
- **BASIS WEAKENS**

**ACTION**

**1. Hedge (Sell Futures)**
**2. Hedged-to-Arrive (HTA) Contract**
**3. Buy Put Option**

**1. Cash Sales**
**2. Forward Contract**

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Strategies for Product Sellers

**ACTION**
1. **Basis Contract**
2. **Minimum Price Contract**
3. **Sell Cash (or Forward Contract) and Buy Calls**
4. **Sell Cash (or Forward Contract) and Buy Futures**

**EXPECTED CHANGE FOR FUTURES AND BASIS**

- **Basis Strengthens**
  1. Hedge (Sell Futures)
  2. Hedged-to-Arrive (HTA) Contract
  3. Buy Put Option

- **Basis Weakens**
  1. Cash Sales
  2. Forward Contract

**TIME**

- Futures up
- Futures down
- Cash down
- Futures up
- Cash up
- Futures down
- Cash down

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Caution!

• All of these strategies assume that you have a relatively strong opinion about what direction prices will move (both futures and cash).

• Following a strong trend line is easy; picking the turns is hard.

• A large part of marketing strategies is also risk management.
Strategies for Product Sellers

**ACTION**
1. Basis Contract
2. Minimum Price Contract
3. Sell Cash (or Forward Contract) and Buy Calls
4. Sell Cash (or Forward Contract) and Buy Futures

**EXPECTED CHANGE FOR FUTURES AND BASIS**

**BASIS STRENGTHENS**
1. Hedge (Sell Futures)
2. Hedged-to-Arrive (HTA) Contract
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**BASIS WEAKENS**
1. Cash Sales
2. Forward Contract

FUTURES

TIME

FUTURES

TIME

TIME

TIME

TIME

TIME

TIME

GREEN = low risk
BLUE = moderate risk
RED = high risk

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Reminder!

• The only way to enhance price (receive a higher price than the current market) is to accept some level of risk!
  – The higher the potential reward; the higher the risk level (potential loss).
Questions?