I f you have to be an agronomist, chemist, lawyer, lobbyist and market guru to make a profit, then you must be an American farmer.

Market guru is the weedy field for many farmers. So it’s the one to rip into with a deep cultivator. Southern Farmer, working with nine farmers, two economists, one market-broker and one farmer-economist, is teaming up with the Southern Extension Marketing Committee through the University of Florida Financial and Agricultural Commodity Trading Simulation to do just that.

In the SEMC FACTSim game, each player is given a virtual $50,000 to play with in the commodities market. Each player also has access to $50,000 in virtual loans. The players are committed to a four- or five-member team that competes against other teams to make the most money in the market. At the end of the game, the lowest score on a five-member team is totaled, and the remaining four are totaled, and the team with the most virtual money wins.

Steve Ford, an economist who writes The Ford Report for Southern Farmer, started playing the game about four years ago. In the 2008 game, he will lead the Cotton Cowboys. The value in the game, he says, is to learn more about the market; the value in the market for farmers is to learn to manage risk.

What we do on the farm has nothing to do with how to win at the marketing game," Ford says. "We use futures markets to manage our risk on the farm. The marketing game is all about speculation. The value of the game, however, is to gain insights into how the market moves. Knowing how the days open and close, how Mondays and Fridays may be different from other days of the week, how the market reports affect the market both before and after their publication, and how much variation within the day there is in cotton contracts all help in determining when to price. Playing the game also gives us an incentive to follow the markets more closely.”

Glen Arnold, a market broker for Southeast farmers, believes farmers must treat the market with fireproof gloves. Kid gloves don’t provide enough protection. “There is an obscene amount of money lost in the futures and options market each year due to speculation,” Arnold says. “It is my opinion that the bulk of this comes from small speculators. If it were that easy to trade and make money, we would all be rich. The simple truth is that no one knows what the market will do. That truth alone is the reason we hedge.”

Arnold is participating in the game as a member of the Market Mavericks. He’s here to pull tight on the reins. “My goal is to set my producers up in a way that they are covered if the market falls through the use of forward contracts and put options,” Arnold says. “If prices rise, the amount covered by the puts will gain value in the field and pull an average. Of course, this is not as glamorous as speculating in the markets, but my job is to help producers protect their livelihoods.”

Farmers, of course, aren’t into glamour; they’re into surviving — and maybe making a profit. That’s where Steve Yoder, Al Young, Jeff Davis, Neal Isbell, Joe Boddiford, Jimmy Miller and Lance Whitehead come in.

“Maybe I can learn how to do some futures options, since it’s a game,” Miller says. “We’ve got to learn how to market better.”

Get the facts on FACTSim

FACTSim performs the brokerage functions a typical trader would deal with if trading these commodities in the real world. Transactions are submitted by the trader on an electronic form that is a part of the simulation. FACTSim then checks the account status of the trader to ensure there are sufficient funds to support the trading fees and the margin requirements for that trade, and clears a current price quote to complete the trade. Once a trade is executed, FACTSim tracks the account by monitoring the current status of all open positions and the amount of money available for trading.

The simulation also performs a nightly maintenance routine, which checks the current status of the account to ensure there is sufficient capital to meet the maintenance margin requirements for all current open positions given the daily settlement price for each contract. FACTSim also keeps a log of all transactions for each account.

Traders can submit a number of order types, mimicking those available to them in the real world. FACTSim supports market orders, limit orders, stop orders, trade at open orders, trade at close orders, and fill or kill orders. The system performs automatic exercises of in-the-money option contracts upon their maturity, while offsetting all other contract types as they mature.

Every effort has been made to make FACTSim operate like a real brokerage. Users can take out loans, must repay margin calls, and must adhere to the exchanges’ hours of operation. This realism is an invaluable asset in education, affording the ability to teach the intricacies of the futures market without the high-risk and capital involved with trading.

In the Southern Extension Marketing Committee FACTSim game, players trade only agricultural commodities. Nationally, about 1,500 university students use FACTSim to learn marketing.

The Leader Board

University of Florida economist John VanSickle leads the SEMC FACTSim game, which usually fields about six teams, but this year also will include three teams sponsored by Southern Farmer magazine.

The teams representing Southern Farmer are led by three economists: Steve Ford, John Otte and Arlan Suderman. Here, each offers his game plan:

Cotton Cowboys

Led by Ford, an economist who farms in Courtland, Ala., the Cotton Cowboys include retired Florida Extension economist Tim Hewitt, who now lives in Tennessee; Jimmy Miller of Boaz, Ala.; Neal Isbell of Cherokee, Ala.; and Nick McMичen of Centre, Ala.

“The are a few rules I’ve developed in playing this game the past three or four years, but I never follow my own rules,” Ford says.

Market Mavericks

Led by Otte, a Farm Progress staff economist, the Market Mavericks include Steve Yoder of Grand Ridge, Fla.; Lance Whitehead of Fayette, Ala.; and Al Young of Crestwood, Ky. One more farmer may be added to this team.

Otte comments on his marketing style: “He who fights and runs away lives to fight another day.”

Wheat Warriors

Led by Suderman, a Farm Progress economist, the Wheat Warriors include Jeff Davis of Pembroke, Ky.; Glen Arnold of Cochran, Ga.; and Joe Boddiford of Sylvanis, Ga. One more farmer may be added to this team. Suderman will play against his usual conservative marketing style. “Participation in a marketing game with a much shorter window of opportunity requires an approach from a bit more of a speculative position.”

Key Points

- A commodities market game offers a chance to learn futures.
- Playing with virtual money teaches how easy it is to lose.
- The key to real life market gains is to hedge to manage risk.