

# Commodity Risk Management

by Commodity Hedging Company

ABN: 66 010 644 612

*"When time is up, price will reverse"*

W.D. GANN



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## Farm Risk Management

Hedging is a risk management tool, which gives producers and consumers the opportunity to transfer risk. You hedge by taking an equal and opposite position in the cash or futures market by forward pricing your anticipated sales on purchasers. Hedging correctly protects you against sharp changes in price that could cause you to lose income.

Since the 1970's commodity markets have increased in volatility and continue to do so. This is largely due to the debasing of the USD off the Gold Standard and the resulting inflation that followed. Due to the increased volatility in the markets it is now more important than ever to employ good hedging strategies.

Employing a good hedging strategy allows you to

- Increase profits while minimizing risks
- Remain competitive in your industry and stay in business longer.
- Avoid economic slumps and maximize profits in good years

## How to Maximize Returns

At Commodity Hedging Company we have a simple philosophy. "Sell high, Buy low and Save". By doing this it allows you to follow another important philosophy of ours which is, "Have no Debt". Many people disagree with us on the last point so we say to them at least minimize debt whenever possible. Debt increases growing costs therefore limiting profit potential. Lowering debt also allows you to get through the tough years, which will always come (as the future is but a repetition of the past), and you have the resources available to maximize profits in good seasons. Compound this methodology over a number of years with the right marketing and risk management and you might be surprised where you can end up.

## Don't Know When to Buy or Sell? We Do...

At Commodity Hedging Company we specialize in the forecasting methods developed by William D. Gann. We have spent over 30 years researching and developing our methodology and we are one of the few company's using these methods in the agricultural sector that we know of.

David's track record speaks for itself. He has been successfully implementing hedging and risk management advice to his clients since 1990 but the story started in the early 1980's when David came across the charting and cycle methods of W. D. Gann. After over twelve years of intensive research and testing the methodology in the market David decoded Gann's secrets. Since that time David has become one of the most prominent Gann specialists in the world and uses this unique and often misunderstood knowledge to assist his clients to structure their farming operations for maximum profitability. Combined with complex economic, demographic and weather cycles David has developed unique low risk hedging strategies and tailors these strategies to each individual client. Farmers who follow our program achieve higher levels of success. In 2008 the W.A. wheat industry lost over 100 million dollars while David's clients were getting around \$600 a tonne. Why? David predicted the 2008 high 12 years in advance. He wrote about the coming bull market in wheat in a magazine article in July 1996 saying, "*This cycle will repeat, with wheat peaking in 2008*". He was well prepared for the record prices and had the marketing strategies structured so his client's reaped the rewards.

Clients who had the resources available also hedged the currency forward up to 5 years at the 60 cent level. This enabled them to achieve high wheat prices for a number of years forward with one client achieving \$792 a tonne for his wheat. We believe this may be the highest price achieved by an Australian farmer.





## What Markets Do We Advise On

Our methodology can be applied to any commodity, currency or interest rate product that is traded on any exchange. The most important component for our analysis is that we can obtain good historical records. At least 30 years is required to get a reasonable level of accuracy in a market however the longer the better. Because Gann's methodology relies so heavily on the future being a repetition of previous cycles David has spent huge amounts of resources tracking down as much historical data as possible. We currently have wheat cash prices from London going back to 1259. We doubt there are many people around the world studying cycles going back that far in order to prove their methods and make future predictions. We are very passionate about the work we do and ensure that we are doing everything possible to be accurate and successful for both ourselves and our clients.

## Record Prices for Wheat

Hi David, our prices are as follows:-

- 2010 swaps:** 1000t sold @ ave \$380/t  
1000t bought back @ ave 236/t  
Profit \$144,000
- Cash sales:** 475t sold @ ave \$350/t FIS  
Or \$310/t farm gate
- Currency:** \$200,000 US expiry Oct 2011 @ 0.6630  
Pre delivery on 17 Dec 2010 @ 0.9899  
Profit \$87,000



(Total swaps \$144,000 + Cash \$147,250 + Currency \$87,000) / 475 tonnes = \$796.31 per tonne on farm.

Jan 2011 D. Ellis, W.A. Wheat farmer.

## Forecasts

At Commodity Hedging Company we do a curve projection every year for the Markets we are working with. Below are some of David's previous forecasts that were documented.

**February 1991:** "Wheat prices should remain low August 1991, so they should seriously consider their production costs as opposed to the potential of crop returns."

**Outcome:** Bull market started and wheat went from \$2.75 to \$4.60 US cents/bushel.

Source: *Queensland Country Life newspaper.*

**August 1994:** "Cotton should bottom around August 30th 1994, start a new bull market going to new highs long term."

**Outcome:** Cotton bottomed at 68 cents and went to record highs of \$1.1720, prices not seen for 130 years, since the Civil War in 1864 when cotton went to \$1.89 US cents.

Source: *Letter sent 7th August 1994 to 143 spinning mills in USA, confirmed by article written by Knight - Ridder news 10th March 1995.*

**November 1995:** "Predicting wheat would go to \$7.70 cents/bushel, wheat had never been above the 1974 highs in over 737 years.

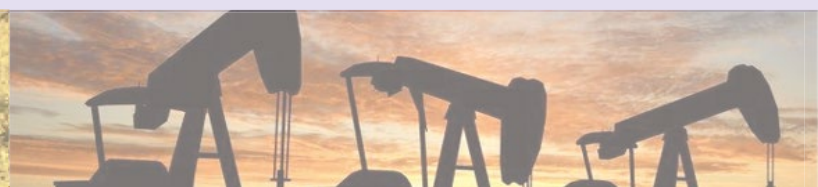
**Outcome:** 1996 wheat hit \$7.50 on the very last day of trading surprising everyone with this amazing prediction.

Source: *Article was written in Knight-Ridder news 1st Nov 1995*

**July 1996:** Wheat prediction, "this cycle will repeat with wheat peaking in 2008"

**Outcome:** Wheat went to record highs never seen before in March 2008 at \$13.00 per bushel. Prediction was made 12 years in advance and all my clients where hedged forward.

Source: *Your Trading Edge magazine July 1996.*



## W.D. Gann

Whilst Mr. Gann is long gone we still consider him an integral member of our team through all his work that he has left behind. He was one of the greatest traders and forecasters to have lived (1878 – 1955). He made over 50 million in his lifetime. He forecast the top in the D.J.I.A to the day, and within 3 points in 1929.

“After fifty-two years of experience and research going back hundreds of years. I have proved to my entire satisfaction that history repeats and that when we know the past, we can determine the future of prices. I have put TIME CYCLES to the test in my personal trading, and I have issued Annual Forecasts on Stocks and Commodities for more than 50 years, which have proved accurate.

TIME CYCLES repeat because human nature does not change. That is why wars occur at regular CYCLES. Old men do not want wars; neither do they want to go into war after they have been through one. Young men fight the wars because they read history and want to be heroes. Leaders of nations appeal to the young men who have no experience, and induce them to fight. The same desire in men that urges them to risk their lives in war causes them to take a chance in business and in speculation. They take too many chances and get too optimistic after a long period of success in business and after prolonged advances in Stocks and Commodities.

Old men in business, after a prolonged period of prosperity, become too hopeful and get over-extended. It is easy to borrow money after a long period of business prosperity. People who borrow money on hope have to LIQUIDATE when FEAR overtakes them and conditions are at the worst. That is why CYCLES in business and the Stock and Commodity Markets have always repeated and always will.”

W.D. Gann April 5, 1954

## David Burton

David has been successfully implementing hedging and risk management advice to his clients since 1990 but the story started in the early 1980's when David came across the charting and cycle methods of W. D. Gann. After over twelve years of intensive research and testing the methodology in the market David decoded Gann's secrets. Since then he has taught traders in USA, UK, and Australia and has spoken at a number of conferences in Chicago, London, Moscow and Sydney. David is recognized as the leading expert in the world on the methods of W.D. Gann.

David is the only person to publicly forecast in advance the 130 year high in cotton in 1995, the 737 high in wheat in 1996, the low in cotton in 2001, the bull market in the currency in 2007 as well as the biggest bull market in wheat in 2008. He also writes for the top trading magazine in Australia called “Your Trading Edge”.

Because David has run his own business since 1990, he can also give you some ideas and pitfalls to look out for. Not only does David take into account the cycles on commodities but also looks at sunspots cycles on weather that affects yield and business conditions. The cycles of W.D. Gann and weather forecasting of Inigo Jones (a long term weather forecaster) as well as other methods, are all taken into account to lower risk and maximize profits.

More public forecasts and articles are on his website [www.commhedge.com.au](http://www.commhedge.com.au)

## CONTACT US

You can contact David at Commodity Hedging Company via the details below.

They will be more than happy to discuss your requirements. David holds the appropriate AFSL Licence 241371 and can therefore offer advice relating to your circumstances.

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