

## LONG-TERM MANAGEMENT AND TECHNOLOGY BENEFIT STALCUP AG SERVICE CLIENTS

By Dennis Reyman

A number of factors go into making a profitable farm operation. Improved seed genetics have increased yields over time. Improvements in the land itself and how it is operated also play an important part. When these factors are put together, it is gratifying to both owner and manager to see successful results.

One such story involves a farm managed by Stalcup's for nearly 40 years. Over the years, terraces, waterways and grain storage were built and tile drainage was installed. More land was added to improve field efficiency and to aid estate planning. In 2000, soil fertility sampling was improved from random tests across the farm to intensive site-specific testing which can be replicated with GPS. With these sample results, a fertility plan could be developed where appropriate levels of phosphorous, potassium, micro-nutrients and lime are applied across the farm with variable-rate spreading equipment to maximize yields and fertilizer efficiency. Additionally, improved equipment allows no-till planting, which prevents soil erosion during heavy spring rains. When soil conditions are appropriate, strip-tillage is used to deep-place fertilizer into bands. The corn planter then places the seeds into these bands, leaving soil between the rows untouched for better soil conservation. In the past several

years, corn and beans were both planted in 20" rows. These narrow rows allow better plant spacing and allow the leaves to shade the rows more quickly, which conserves moisture and aids weed control.



In reviewing yield history this fall, the pay-off from utilizing better technology and better equipment was more than evident. From 1996 to 1999, this farm's corn averaged 149 bushels per acre. From 2000-2004, the average improved to 165, and from 2005 to 2008 the average has jumped to 195.5 bushels per acre. Three of the past five years have exceeded 200 bushels per acre on this farm, and 2009 will again provide a bumper crop. While the Corn Suitability Rating (CSR) on this farm is right on the county average, its actual yield history exceeds the county average by 15%. Soybean yields have also improved although not as dramatically as the corn, rising from 46 to 52 bushel averages.

These farm owners and many others have directly benefited from improved agricultural technology by operating their farm on a custom

### *In This Issue*

- *Long-Term Management and Technology Benefit Stalcup Ag Service Clients*
- *Today's Land Market*
- *Stalcup Managers Attend Leadership Institute*
- *Tax Update*
- *Northwest Iowa Crop Progress and Grain Markets*

basis. Under this operating method 100% of the crop goes to the owner. Improvements in technology also help explain how some farm operators are able to pay higher cash rents. Early adopters of this technology have seen the biggest payback in improved efficiency and yields.

Stalcup Agricultural Service works to employ those technologies that best fit each farm. If you are interested in custom-farming or would like to explore other leasing options, please give one of the farm managers at Stalcup Agricultural Service a call.

The volume of farm real estate activity this fall has been significantly lower than previous years. After a flurry of sales the past three to four years, many potential sellers are satisfied to hold farmland rather than consider other investment alternatives.

Estate settlements always bring land into the market, but other sellers have been limited. Following are some of our thoughts on this trend:

### Investment Alternatives?

Starting last September we witnessed a dramatic upheaval in world financial markets with a huge drop in stock prices. While we stepped back from the brink of meltdown and since March have had a very good rebound in the stock market, our current economic recovery is tenuous. While there has been a lot of recent press on the Dow Jones Industrial Average regaining the 10,000 level, it is important to remember that ten years ago the Dow was over 11,000, meaning a decade of no real gains.

Interest rates have been pulled down to low levels to help spur the economy, leaving holders of cash assets with very low returns.

In contrast to stocks, bonds, and CD's, farmland returns are coming off two very strong years. High grain prices and generally good yields have made cash returns to farmland ownership very attractive. While last fall's economic uncertainty helped drop land values for 2008, average Iowa farmland value has increased from \$1,781 per acre in 1999 to \$4,468 per acre in 2008. Over this time period land values have gained an average of 9.67% per year and cash earnings have increased an average of 4.22% per year. When comparing these returns to other investments, it is not hard to see why there is less farmland being offered for sale.

### What Does the Future Hold?

While economic forecasting is about as risky as predicting the weather, a few trends are becoming apparent. Increasing government spending has led to rapid increases in budget deficits, which are likely to continue to grow over time. Alternatives to financing these deficits consist of increasing the money supply or interest rates. Since raising interest rates in the near-term is off the table, an increasing money supply and consequently increased inflation and weakening of the dollar seem to be the trend. Under this environment, a flight to hard assets is likely. We have already seen a significant rise in oil and precious metal prices this year and also some recent indication investment funds



have renewed interest in buying agricultural commodities as the dollar weakens.

Asian economies have rebounded the fastest from the economic troubles of last year and most are not burdened with huge budget deficits, which should enable them to continue to grow. Since much of the growth in food demand is predicated on a rising middle class in these dynamic Asian economies, this bodes well for the export sector of American agriculture. A weak U.S. dollar makes our products more competitive in their markets. These macro-economic factors should be supportive to the land market as we move forward.

### Quality is Key

While volume is down, sales are still occurring. A trend we have witnessed is widening spread between prices of high and lower quality farmland. Several sales in late summer and early fall of quality farms in strong areas netted prices that were similar to prices of mid 2008. Land with lower

*continued on page 3*

Following are representative recent sales from our trade area. Stalcup-brokered sales are shown in **bold**\*

## Selected Sales of Good Farmland

Date	County	Acres	CSR	\$/acre	% Tillable
July	Pocahontas	78.0	81.0	\$5,550	93%
Aug	BV	50.0	80.2	\$5,550	90%
Sept	Webster	168.1	83.1	\$5,450	96%
Sept	BV	80.0	71.0	\$4,050	89%
Sept	Sac	150.0	63.5	\$4,075	97%
Sept	Lyon	80.0	60.2	\$6,125	99%
Sept	Sioux	91.0	70.4	\$8,500	99%
Oct	Emmet	160.0	72.0	\$5,450	99%
Oct	Sac	80.0	78.3	\$6,700	96%
Oct	Lyon	104.0	60.0	\$7,000	84%
<b>*Nov</b>	<b>O'Brien</b>	<b>61.7</b>	<b>69.7</b>	<b>\$6,025</b>	<b>96%</b>

Current Stalcup listing:

**Public Auction November 17**

**80 Acres**

**Logan Township**

**Ida County**

Log on to our website at [www.stalcupag.com](http://www.stalcupag.com) for listings and upcoming auctions.

Corn Suitability Ratings, problems with drainage, or in less competitive areas has struggled. Part of the reason for this is the impact of higher input costs on profitability. Seed, fertilizer, and fuel costs will likely move higher over time. A high quality farm has a much better chance of producing yields required to maintain profitability, while also benefiting most from improvements in genetics and technology.

Now more than ever, it is important to work with land professionals. If you are considering buying, we can help locate and evaluate farms that will meet your ownership objectives. If you are considering selling, we can give you a good idea of likely sales price ranges based on quality and location of your farm and put together a sales strategy best suited to maximize results.

## TAX UPDATE

*By Steve Peters, CPA*

Capital gains rates have been taxpayer friendly for several years now. They have been particularly favorable since 2008 when the maximum federal capital gain rates dropped to 0% (if within the 15% ordinary income tax bracket) or 15% (if over the 15% ordinary income tax bracket). As the law is currently written, those rates would remain the same for 2010 and would then revert to the old rates of 10% and 20% for 2011 and after. Of course, law changes (favorable or unfavorable) can come at any time, but that is how the law is currently written.

This impending change should be kept in mind if you have thoughts of selling land in the near future. If you intend to sell land soon, making sure that deal gets done before 12/31/10 may be advantageous, especially if your tax situation is such that you can achieve some of that gain at a 0% rate.

Everyone's tax situation is different, so

## STALCUP MANAGERS ATTEND LEADERSHIP INSTITUTE

Stalcup Ag Service managers Dennis Reyman and Nathan Deters attended the American Society of Farm Managers and Rural Appraisers Leadership Institute in Washington D.C. in September. The Leadership Institute is designed to give farm managers and rural appraisers the opportunity to meet with legislators and aides who help shape agriculture policy and give us a forum to make our views known.

The trip started with a trip to Wilmington, Delaware, where we met with several executives of DuPont/Pioneer, including CEO Ellen Kullman. Two very busy days in Washington D.C. followed. A partial list of the contacts we made include representatives of the FSA and NRCS, Office of Management and Budget, House Agriculture chairman Collin Peterson and ranking member Frank Lucas, and lobbyists for the National Corn Grower Association and the American Soybean Association. We also had the opportunity for contacts with the staff of Senators Grassley and Harkin as well as a meeting with our Congressman Steve King of Iowa's 5th District (western Iowa). Some of the issues discussed included pending Cap and Trade legislation, raising the inclusion rate of ethanol, and changes to Farm Service Agency and Natural Resources Conservation Service programs.

We came away from this trip with a new awareness of how involved Washington D.C. is in so many facets of agriculture, but also encouraged that face-to-face contacts can make a difference.

I would recommend talking to your CPA or tax advisor if you have any plans to sell land.

Another area of concern for land owners should be the Federal Estate Tax Exemption. For 2009 the Federal Estate tax exemption is 3.5 million. This represents the value of assets (less liabilities) you can die with and not pay any Federal Estate Tax.

The first area of concern is the value of your land. Because of the sharp increase in land values over the past couple years, land owners may have seen their taxable estate increase dramatically. An individual who had no issues with federal estate tax issues 5 years ago, may now have a significant problem. Estate taxes can be especially dangerous for individuals with a high percentage of their net worth invested in land. If you do end up being liable for estate taxes, your heirs may be forced to sell land to pay the tax. If you

have not visited with your attorney or CPA regarding your estate tax situation recently, it would be a good idea to do that soon.

The other issue with estate taxes to watch out for is the Federal Estate Tax Exemption amount. As I stated, that is at 3.5 million for 2009, but will be repealed in 2010 (meaning there will be no Federal Estate Tax) and will be reinstated with a 1 million dollar exemption for 2011. Speculation has been that congress would not allow the 2010 year to arrive without changing this law, but they have not acted yet. The general consensus is that this exemption will get set at somewhere between 3 – 5 million and indexed for inflation. Without some help from Congress, it is extremely hard to adjust your estate plan. The best advice I can give is to keep in contact with your CPA over the next few months to see if anything is changing.

# NORTHWEST IOWA CROP PROGRESS AND GRAIN MARKETS

By Lyn Berkland

Cool and wet was the dominant October weather pattern. Soybean harvest got off to a slow start, but some areas made good progress by October 1st. Since then, rain showers have passed through every day or two. Opportunities for harvesting have been limited to one to two days before the next system moves through. One weather reporting station received measurable precipitation 24 of 31 days in October. Temperatures averaged 7° below normal while many areas set or challenged all-time monthly rainfall totals. In general, the eastern portion of our trade area (east of Highway 71) has about 75% of the soybeans harvested while the western portion is lagging at about half done. Yields are variable depending on drainage, disease pressure, and variety maturity, with later maturities yielding more than early maturities. Most producers are satisfied with their yields.

Corn harvest is off to an extremely slow start. The cool growing season and wet fall have led to very poor field drying conditions. Drying costs will be well above normal by the time the crop is finally put away. Early yield reports are



good to very good. However, there is concern over increasing field loss since a large portion of the crop will not be harvested until mid-November or later. There are also quality concerns beginning to develop with moldy and light test weight corn. Northwestern Iowa is not alone with the slow harvest. As of November 2nd, 51% of the national soybean crop and 25% of the national corn crop was harvested. Normally, 87% and 71% would be harvested by that time.

Harvest concerns and improving outside influences have moved the grain markets significantly higher over the last month. Markets bottomed in mid September when it became apparent we avoided any early freeze damage and when crop estimates looked the highest. Since then, corn and soybeans have both gained nearly a dollar. A rally of this magnitude is unusual this time of year, and there will likely be a correction lower once the 2009 crops are harvested.

The USDA's latest estimate of crop production confirmed expectations of a record national corn yield of 164 bushels per acre and a very good

national soybean yield of 42 bushels per acre. However, usage is forecast to stay strong next year. A slowly improving world economy and a continually weakening U.S. dollar have made our grain attractive to foreign countries, and export demand should remain strong. Higher gas and oil prices have helped to pull ethanol prices up, and the ethanol industry has returned to profitability, translating into more corn usage next year. Livestock producers have had a very tough year, but there is hope that reduced numbers and an improved economy will improve the outlook for next year. Feed demand is still the largest user of our grain, and especially here in northwest Iowa the strength of our grain markets is dependant on a healthy livestock industry.

While big crops will be a reality this year, demand has kept pace. The recent concerns of a late harvest underline how important continued production of large crops is. With the strong demand base built over the last several years, any perceived shortfall in production can lead to a quick rally in prices.

*Since 1942 Our Business Has Been To Improve The Business Of Farming*

- Real Estate Brokers
  - IA, NE, SD
- All types of Sales
  - Public auction
  - Private treaty
  - Sealed bid
- Tax Free Exchanges



910 Flindt Drive • P.O. Box 67 • Storm Lake, IA 50588  
(712) 732-4811 • Fax (712) 732-7371  
stalcup@stalcupag.com  
www.stalcupag.com

## **Stalcup's Team**

Rex Wilcox, AFM  
Lyn Berkland, AFM  
Terry Argotsinger, AFM, ARA  
Kent Smith, AFM  
Dennis Reyman, AFM, ARA  
Nathan Deters, AFM  
Andrew Phillips

**Farm Management • Real Estate • Appraisal • Consultation**