

Hedge when you can, not when you must.



DeCarley Trading.

Futures, Options, Integrity



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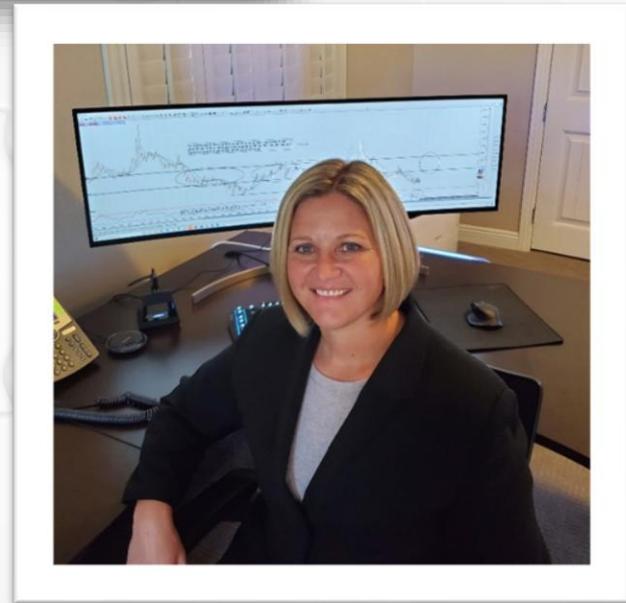
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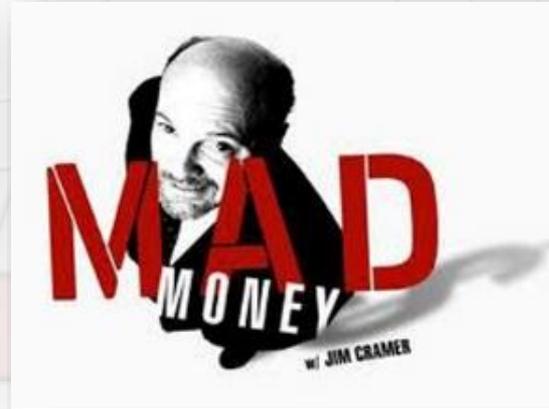
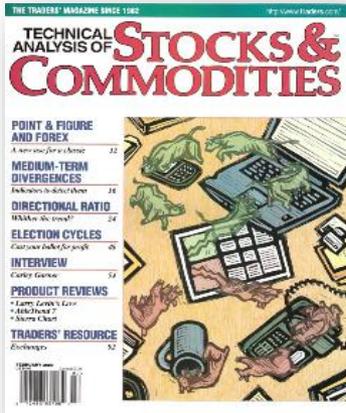
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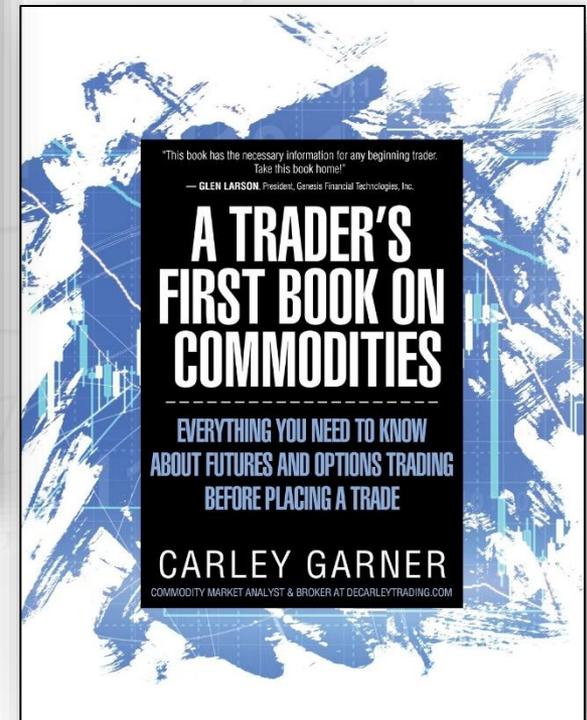
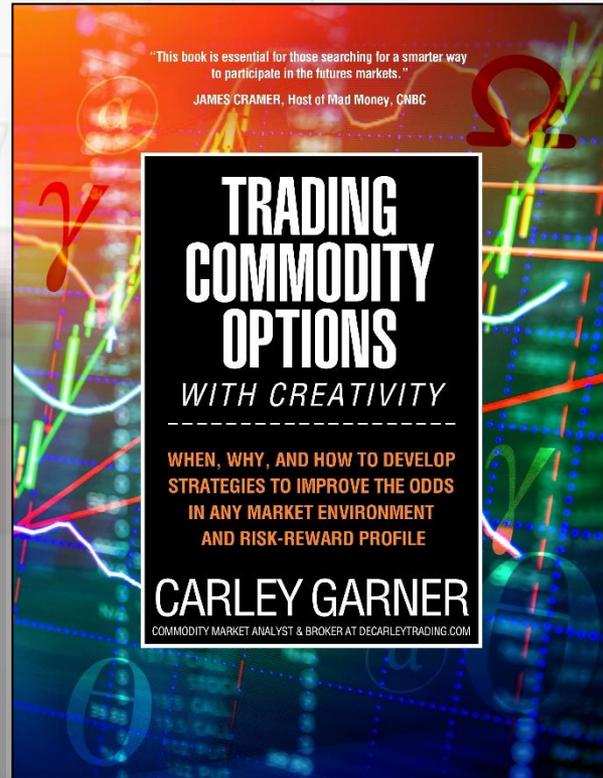
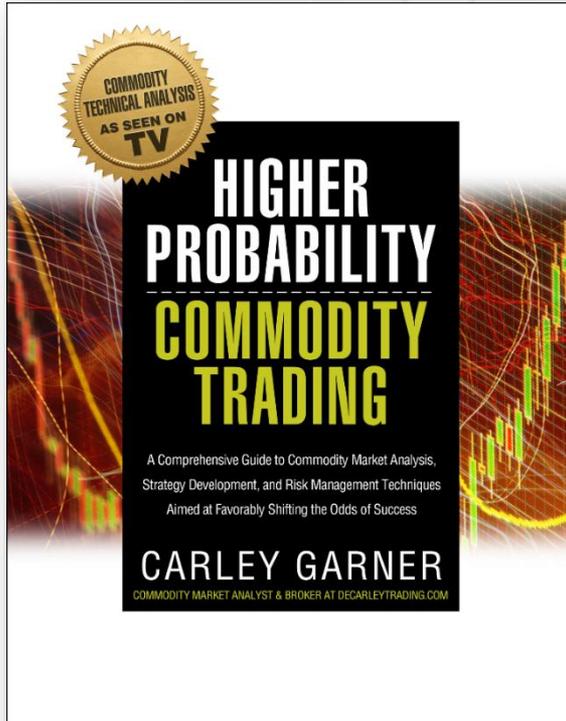




Broker, Strategist, Author.



www.TradingCommodityOptions.com



*There is Substantial Risk of Loss in
Trading Futures and Options!*



Trading is not suitable for everyone.



*Hedge when you can, not when
you must.*

Never Underestimate the Inevitable.

The commodity business is one of euphoric highs and gut-wrenching lows; it always has been

- The feast or famine nature is felt all along the supply chain.
- Anyone linked to commodities in any capacity, whether farming, distribution, brokerage, risk management services, or even media, has likely experienced a personal boom and bust cycle capable of making grown men cry.
- High prices cure high prices, and vice versa.
 - This has always been true; sometimes, it just takes a little longer.

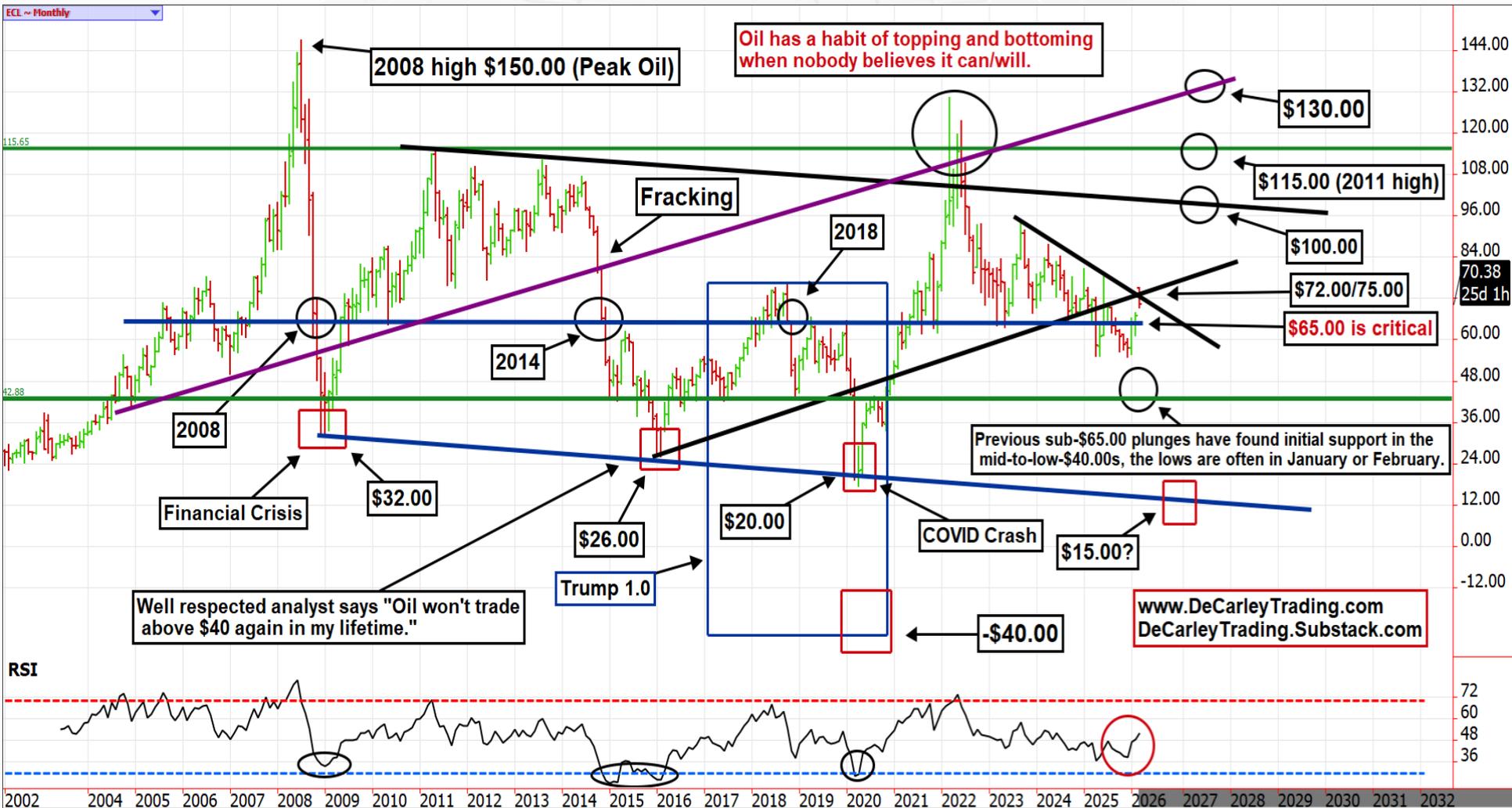
Take Opportunities to Manage Risk.

We can't predict or control market prices but are in charge of our own affairs.

- Commodities is one of the few businesses in which working harder and wiser doesn't guarantee more profits.
- Yet, we are all here today. Maybe we have chosen this life, or it has chosen us; either way, the goal must be the same
 - Hoard assets and manage risk when times are good so we can run operations skinny enough to survive when conditions are unfavorable.
 - It's a never-ending game of survival of the fittest.

The greatest danger occurs when the fundamental narrative is at its loudest and the trend seems obvious to continue.

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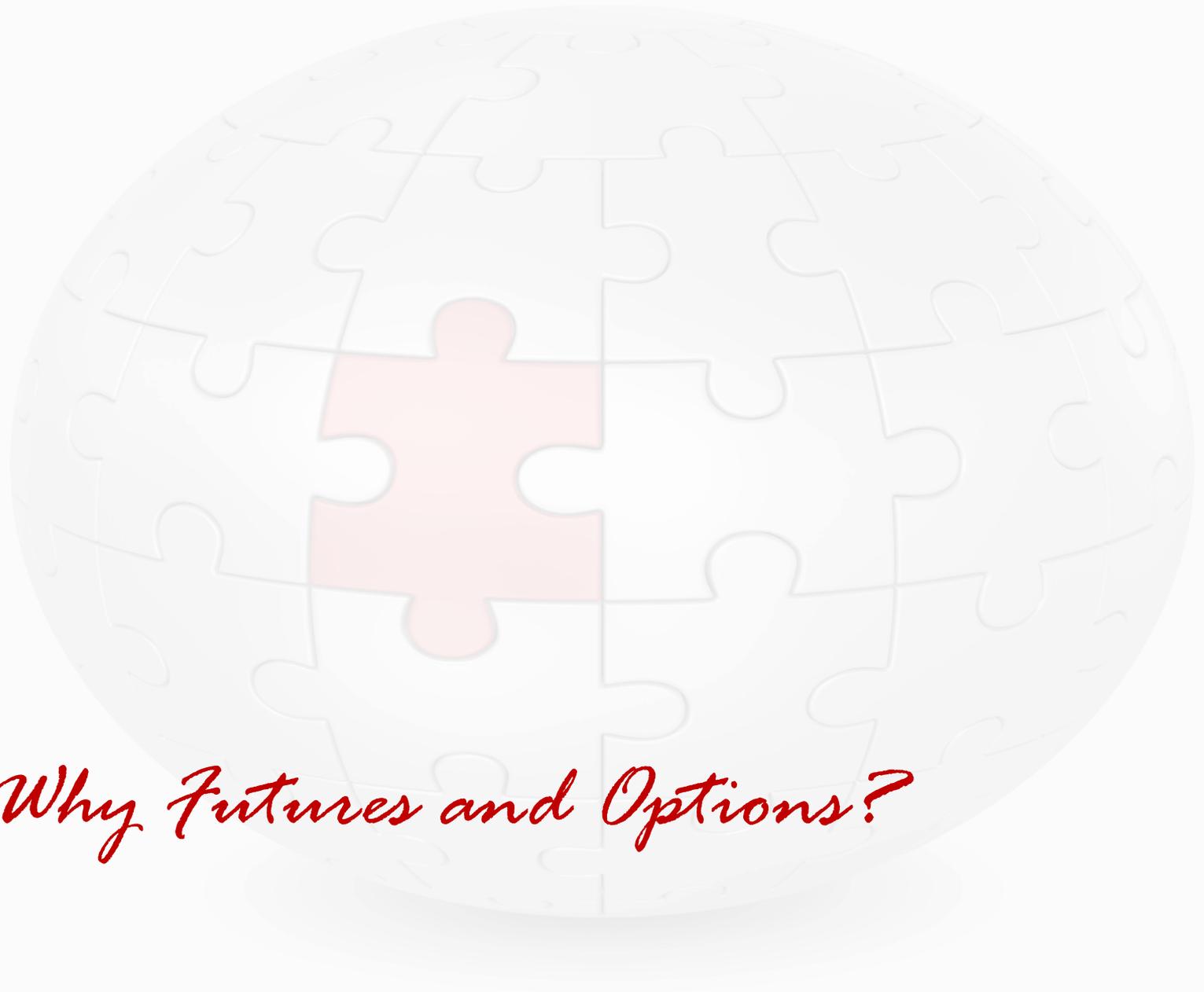


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Why Futures and Options?

Why Futures and Options?

There is more than one way to skin a cat. Farmers/producers and roasters manage the price risk by –

1. Changing occupations
2. Diversifying trading partners and strategic inventory management
3. Buying commercial insurance
4. Hedging with futures and options



ICE EXCHANGE COFFEE (C-MARKET)

Market hours – 3:15 am Eastern through 12:30 pm

- **37,500 pounds**

- Nominal: \$112,500 with coffee futures priced at 300.00
- Margin: \$7,600
 - Good faith deposit, not an expense
- Options Available
- One size only. No mini or micro contracts.



A 3D-rendered globe composed of numerous white puzzle pieces. One piece in the center is missing, revealing a white space. The globe is set against a white background and casts a soft shadow below it.

Strategic Hedging.

Introduction to Hedging.

Hedging is offsetting risk in a related asset or security to reduce the peril of adverse price movement.

- The futures markets were created for hedging.
 - Futures and options help shift price risk to the speculator from the hedger.
- Hedging is analogous to purchasing insurance.
 - Risk shifts from consumer to insurance company.
- Not hedging price risk is cash market speculation.
 - That type of stress is no way to live.
- Hedge aggressively when prices are favorable.
- **YOU WANT YOUR HEDGES TO LOSE MONEY.**



What is a perfect hedge.

The perfect hedge doesn't exist, but it would eliminate all price risk if it did.

- Markets are not perfectly efficient (emotions overshoot reality/capitulate).
- Assets are rarely perfectly priced (local price vs futures).
- Transaction costs, slippage, etc., interfere with the theory of a perfect hedge.



What is a perfect hedge.



There is a substantial risk of loss in trading commodity futures and options. Copyright DeCarley Trading 2026.



*The fallacy of simply buying calls
and puts as insurance.*

Buying insurance outright is inefficient.

The most common form of a producer or roaster hedge is the purchase of a call or put option as insurance against adverse price movements.

In many scenarios, this strategy is flawed

- Options (calls or puts) are expensive
- Options only benefit the hedger if offset at a profit.
 - Most traders watch their calls and puts gain in value but hold them to expiration rather than taking the profit on the hedge.
 - » Most puts expire worthless.
 - Costly and no true reward/hedge.



Buying insurance outright is inefficient.

Buying calls or put options outright is the equivalent of catastrophic insurance. It comes with perpetual costs that rarely pay off (particularly for roasters who face higher-priced options relative to producers).

Example:

July Coffee 320 calls w/ 103 days to expiration and futures @ 275 = 8 cents or \$3,000 to hedge 37,500 pounds.

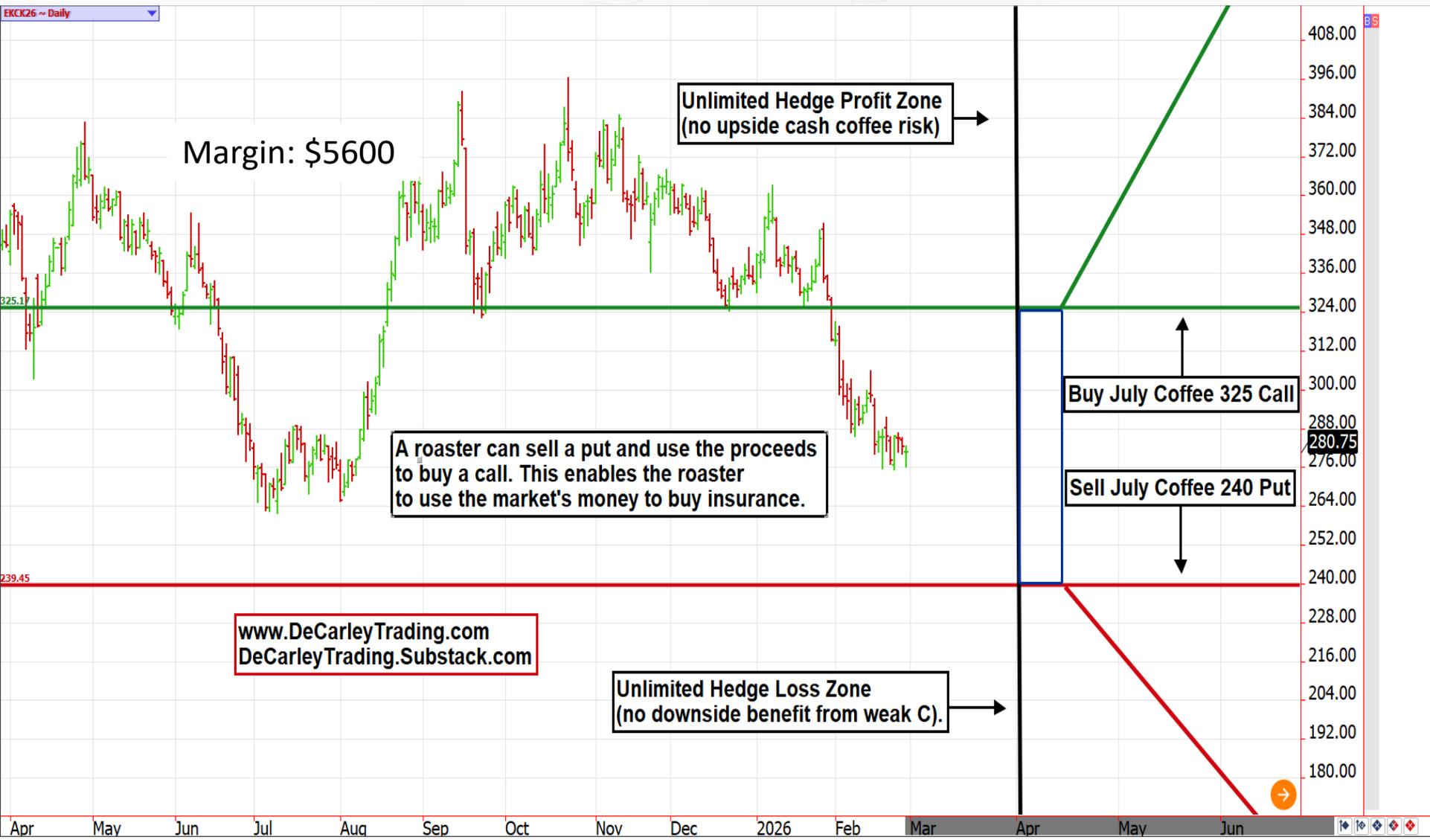
July Coffee 240 puts w/103 days to expiration and futures @275 – 8 cents or \$3,000 to hedge 37,500 pounds.

Executing a similar long option (insurance) hedge throughout the year would give up roughly 24 cents or more!



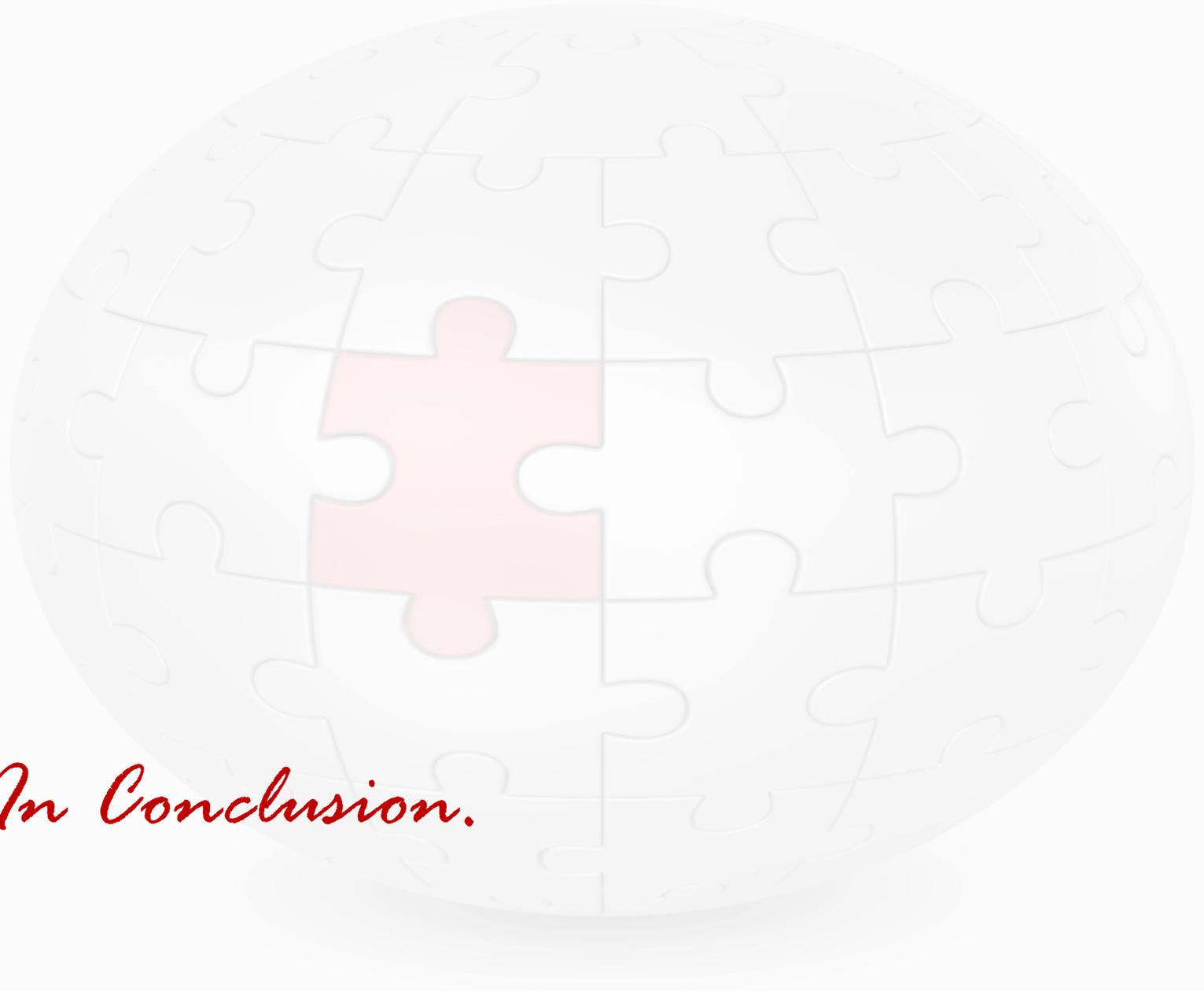
There is a better way to hedge.

Risk Reversal.



Collar.





In Conclusion.

The Market doesn't Owe you Anything... Hedge and diversify!

Operate or hedge within your means

- We can't control prices; we can only control our own behavior.**
- We can't see the future, but we can learn from the past.**
- Markets aren't always fair; they don't care about production costs or margins.**
- Futures are efficient but sometimes difficult to manage.**
- Risk reversals allow hedgers to use the market's money to buy "insurance" via put options.**
- Collars allow futures hedges without the peril of unlimited loss on the hedge.**



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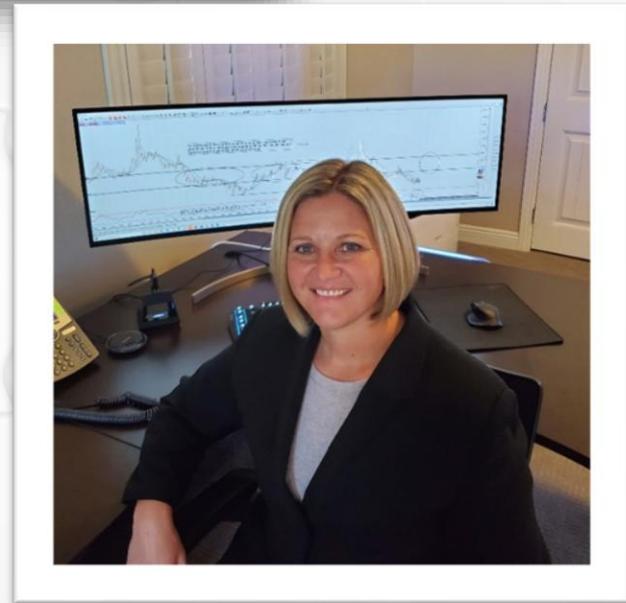
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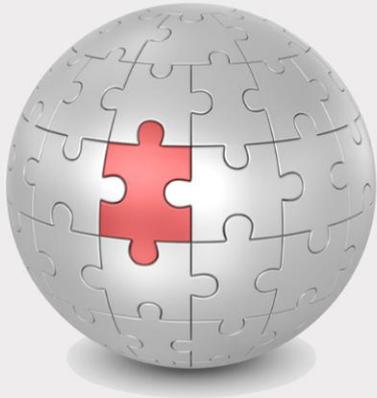
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