

2-1-2011

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Recommended Citation

Yost, J. (2011). Tips for Organizing an Educational Agricultural Commodity Trading Club. *The Journal of Extension*, 49(1), Article 29. <https://tigerprints.clemson.edu/joe/vol49/iss1/29>

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February 2011
Volume 49 Number 1
Article Number 1TOT6

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Tips for Organizing an Educational Agricultural Commodity Trading Club

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Abstract: Educational commodity marketing clubs have been an effective tool for producers to develop their grain and livestock marketing skills. These groups are further enhanced when the participants engage in "actual trading" versus "paper trading" techniques. When a club chooses to try actual trading, it becomes more complicated than pooling monies together. Group members need to think of personal liability and state and government regulations with which they need to comply. This article attempts to assist Extension educators as they guide groups through the steps that will limit their personal liability and bring them into compliance with federal regulations.

Introduction

It has been shown that educational marketing clubs are an effective means for providing hands-on experience in using marketing tools. The most effective clubs are those that use "actual trading" versus "paper trading" techniques (Jones, 1993). While these clubs help overcome issues of member participation and lack of "emotional and financial consequences," they present legal and logistical challenges during establishment. This article will guide Extension professionals through the process so that they can assist local marketing groups.

Characteristics of a Well-Run Club

Information on what is needed to establish a successful marketing club is readily available (Jones, 1993; Smith, 1998). The key ingredients are: interested/active members, a facilitator who handles the "behind the scenes" details, and a leader who will direct the members and encourage equal participation. Clubs have been proven unsuccessful when: members treat meetings as a class rather than an opportunity to share opinions and advise, a facilitator attempts to fill the roll of the leader, the broker attempts to sway the groups opinion instead of being a resource, and the group attempts to stay together just for the sake of tradition.

Experience has proven that a strong leader is the most important component of the club. The leader should not only have experience in leading a group, but also in trading commodities. An inexperienced leader will not be able to encourage equal participation, and, most important, will not be able to lead the group to a consensus when considering trading proposals.

Each club meeting should contain an educational component. While the sharing of opinions and advice will be the most beneficial, the facilitator should develop an educational component for club meetings that will supplement the conversations and group research. Educational opportunities will assist in bringing each member to a similar level of knowledge and should be focused on the tools available when marketing agricultural commodities.

Club By-Laws

As with any group, especially when money becomes involved, by-laws are important. The group should attempt to think of every possible scenario. What will the name of the group be? How many participants and how much will each participant contribute? Will you allow new members to join after the group has been formed? Where and how often will you meet? These are the normal questions for any group. With a marketing club you should also include details on how monies will be used. Who can sign the checks? Who is responsible for executing your market transactions? How do you address someone who wants to leave the group or is expelled? Do the officers have the power to exit a position without the vote of the group?

Participant Liability

Producers of agricultural commodities are inherently risk adverse. Every habit they have developed over the course of their life has been focused on limiting the risk in their operation. While the amount of money they are contributing toward the club is small, they may feel there is benefit from providing protection to their home operation. It is recommended that the group form a Limited Liability Corporation (LLC). Forms can be accessed from your Secretary of State's office. The cost of filing will be dependent on whether you choose to file the paperwork yourself or to seek legal assistance.

Once you are approved for the LLC within your respective states, you will need to request a federal tax ID number. This number will be needed to establish checking and brokerage accounts in the group's name. LLC's are required to file an annual tax return regardless of income. The tax preparer for the LLC will give each partner a K-1 statement to file along with his or her personal tax documents.

Commodities and Futures Trading Commission

The Commodities and Futures Trading Commission (CFTC) was created by Congress, in 1974 to regulate commodity futures and options markets in the United States. Its primary mission is to protect market users and the public from fraud, manipulation, and abusive practices related to the sale of commodity and financial futures and options, and to foster open, competitive, and financially sound futures and option markets. As this relates to marketing clubs, the CFTC registers individuals that operate commodity pools for profit.

The operator of an educational marketing club can file an exemption from registration if the club meets the criteria outlined in CFTC Regulation 4.13(a)(1)(i). The regulation states, "A person is not required to register under the Act as a commodity pool operator if:

- It does not receive any compensation or other payment, directly or indirectly, for operating the pool, except reimbursement for the ordinary administrative expenses of operating the pool;
- It operates only one commodity pool at any time;

- It is not otherwise required to register with the Commission and is not a business affiliate of any person required to register with the Commission; and
- Neither the person nor any other person involved with the pool does any advertising in connection with the pool."

Filing an Exemption

Exemptions are filed online at the National Futures Association website <<http://www.nfa.futures.org>>. Requests for exemption are found under the compliance tab at the top of the page. Whoever is completing the form for the group will need to register before being logged on to the system. Once logged on you will need to supply:

- The name of the group requesting exemption
- Name of the marketing pool which must be different from the group requesting exemption (example: The Fayette County Investors Group, LLC requests exemption for the Fayette County Educational Marketing Club)
- Group contact person
- Contact Information
- Request exemption from CFTC Regulation 4.13(a)(1)
- Federal tax ID number

References

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