Surveys suggest that farmers believe market advisory services are important in managing price risk, implying a need for information on the performance of market advisory services to assist in the selection and use of advisory services. The Agricultural Market Advisory Service (AgMAS) project at the University of Illinois has evaluated the pricing performance of market advisory services for the 1995 through 2003 corn and soybean crops, with no fewer than 23 market advisory programs included each year.

The AgMAS project subscribes to each of the advisory programs and calculates the net price received by a subscriber who implements the recommendations of the service. Two types of benchmark prices are developed for comparison to the advisory service net prices. The first is the average price offered by the market for the crop year, including pre-harvest forward contract prices and post harvest spot cash prices. Both a 24-month and a 20-month market benchmark are calculated for comparison. The second is a farmer benchmark price based on the USDA’s average farm price calculation.

Four indicators of performance are calculated. The first is the proportion of advisory programs that beat benchmark prices. For the study period (1995-2003), between 50 and 59% of the programs have corn net prices above market benchmarks and 68% have prices above the farmer benchmark. Between 65 and 72% have soybean net prices above the market benchmarks, but only 54% have prices above the farmer benchmark. Between 59 and 68% have revenue (combined corn and soybean results) above the market benchmarks, while 62% have revenue above the farmer benchmark.

The second indicator is the difference between the average advisory program price and the benchmarks. Average differences from market benchmarks for corn range from 1 to 3¢ cents per bushel, but is 8¢ for the farmer benchmark. Average differences from market benchmarks for soybeans range from 14 to 16¢ per bushel, but was -1¢ for the farmer benchmark. Average differences for advisory revenue range from $4 to 7 per acre for market benchmarks and $7 for the farmer benchmark.

The third indicator is the average price and risk of advisory programs relative to benchmarks. The results indicate that consideration of risk weakens evidence about the pricing performance of advisory programs in some cases. For example, based on average price alone, advisory programs in soybeans significantly outperform both market benchmarks, but when both average price and risk are considered, advisory programs no longer dominate due to substantially higher risk.
The fourth indicator is the predictability of advisory program performance. The conditional probability of programs being in the top half or bottom half of price performance from year-to-year is only slightly higher than 50% and provides little evidence that pricing performance can be predicted from past performance. There is some evidence that performance is more predictable over longer time horizons, particularly at the extreme top and bottom of performance rankings.

In conclusion, the results provide limited evidence that advisory programs as a group outperform market benchmarks, particularly after considering risk. The evidence is more positive with respect to the farmer benchmark. This raises the possibility that even though advisory services do not “beat the market,” they provide the opportunity for some farmers to improve performance relative to the market.