

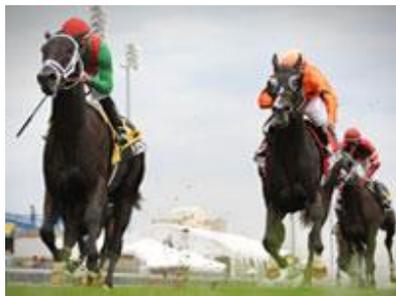
Horses Are An Investment You Can Ride

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By: Jessica Rao,
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If you want to make money on horses, you have two options: racing or breeding.

However, don't try to run or trot before you walk. Seek out someone who knows the thoroughbred business, develop a plan and don't be afraid to sell after you win a race.



Team Valor's Pluck, pictured far left, a 2-year-old colt that recently won the Summer Stakes at Woodbine in Canada.

A little luck never hurt either.

"This is a game where money invested should be thought of as disposable income," says racehorse expert and consultant Tony Cobitz. "Is it possible to make money? Yes. Is it possible to make a lot of money? Sure. But even the most sophisticated investors don't expect to do it every year."

Barry Irwin, Founder and CEO of Team Valor, a horse racing syndicate in Versailles, Kentucky, adds, "Don't get involved with horse racing unless you love the sport. The chances of losing are 90 percent."

While that's not a promising number, you can improve the odds by doing certain things. Whether you choose to race or breed, it is crucial to find an advisor with credentials and a proven track record to help you navigate your purchase. Prospective owners need someone to explain the basics, help orchestrate an investment approach, and decide on a stable and a trainer.

Bloodstock agents, consultants and trainers can all perform this role. However, choosing the same person to be your advisor and trainer may not be wise because of the old all-your-eggs- in-one basket rule.

Even though horse racing is speculative, it is smart to have a business plan. It is important to know how much money you can risk. You also need to identify your investment horizon goals.

"A lot of people think about the Kentucky Derby," says Cobitz. "That is not a terribly realistic goal."

Prices: Ticket To Ride

An initial investment can vary greatly depending on a horse's age, pedigree and racing history.

The average price is between \$20,000 and \$500,000 for a thoroughbred. It is possible, however, to buy a horse for as little as \$5,000, or easily pay \$1 million. In general, if you spend \$50,000 or more you can play the game at a higher level and have more upside potential. If, for example, you have \$200,000 to spend, says Cobitz, get four horses for \$50,000 each as opposed to one for \$200,000. It increases your odds of having a winner.

A good advisor will also ensure that a new owner recognizes all of the fees involved. The purchase price is just the beginning. It costs roughly \$35,000 a year to keep a horse in training. If your horse gets injured, you can forget about race money and the value of your horse may decrease.

Owners who are bottom-line oriented will often pay a premium for horses which have already competed and performed well, as opposed to those which have not: weanlings (under one-year old) or yearlings (one year old). The more information you have, the better.

Most beginners would be better off if they joined a partnership, says Irwin. Horse syndicates buy horses and offers prospective owners a 5- or 10-percent stake. It limits risk and exposure and gives new owners a chance to learn the ropes.

Racing: Buy Low, Sell High

"Even people who have been betting on horses for years, until they own one, they have no clue about what it takes," he says. How much you can make also varies race to race. In higher paying ones, known as stakes, there could be \$50,000 or more than a \$1 million in the purse. The winner generally gets 60 percent; second place, 20 percent, and third, 10 percent. Of the winner's money, the jockey and trainer each get 10 percent; the owner gets the rest.

Even if you win a couple million dollars at the Kentucky Derby, says Irwin, when your horse is a colt with stallion potential that dwarfs the size of the purse.

“That horse can be worth \$12 million to \$40 or \$50 million, depending on how good its blood lines are.”

It is important to note that there is a difference in the value of male and female horses—and not because one can run faster; a stallion can father 150 foals a year; a mare can birth just one.

“The best two horses in the country right now are female each worth about \$10 million. If they were male they would worth twice that,” says Irwin.

To make money, owners have to sell a horse at the most opportune time—usually after it has just won a race and is at peak value. That, however, is hard to do, because people fall in love with the animal. The longer they hold the horse, the less chance they want to sell and the less payoff there is.

“It is like selling a member of their family,” says Irwin.

Breeding: Buy And Hold

Although many people like to race because of the action, others find breeding to be less stressful. If you are a breeder, it is in selling foals that make you money, not prizes.



Visionaire winning the 2008 King's Bishop Stakes at Saratoga. He currently stands at stud at Crestwood Farm near Lexington, Kentucky.

Horse breeding involves taking a mare with a certain pedigree and matching it to a stallion, says Cathy Sweezey, thoroughbred breeder and co-owner of Timbertown farm in Lexington, Kentucky. You can either breed with the goal to race or to sell in the commercial market (at places like Keeneland or Fasig Tipton). The latter, Sweezey says, can be lucrative.

“I would get involved in breeding initially and racing down the road,” she says. “Too many people go to yearling sales, spend a lot of money and don’t get a good race horse.”

A good scenario, Sweezey explains, would be if you purchase a proven mare for \$300,000, and you are able to sell one of her foals each year (for about 13 years) for \$200,000. Yes, there are boarding costs and vet bills, but by year three or four, you should be turning a profit.

Although in this light, breeding may sound as if it has more potential than racing, Cobitz recalls a race horse, K.J.’s Appeal, which he acquired for an owner as a two-year old for \$125,000 with three races behind it. The owner raced him for two years, earned in excess of \$500,000 through stake-quality purses, and then sold him for

seven figures to someone in the Middle East.

“It doesn’t happen often, but it does happen,” says Cobitz.