STEPS TO OWNERSHIP

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Get Familiar with The Racing Game

Read

Begin by reading or visiting the web sites of industry and trade publications such as: The Blood Horse, Daily Racing Form and Thoroughbred Times. In addition, many farms and racetracks have informative web sites.

Observe

Attend the races. Attend the sales. Observe owners, trainers, consignors, buyers, veterinarians and other professionals in action.

Network

Contact the owners and breeders organization in your state. Inquire about services offered and membership benefits. Become involved with the organizations and make personal contact with local horsemen.

Communicate

Ask owners, trainers and other industry insiders if you may speak with them regarding how you might get involved in the business.

Consult

Locate a consultant or more experienced owner who is willing to serve as a mentor. Be discriminating, and in the case of professional consultants, check references. Remember, the objective here is to identify someone you can trust. Listen to the advice given, but don't feel obligated to follow it, as ultimately every decision you make should be your own.

Participate

Participate in industry-sponsored events and educational programs such as the Thoroughbred Owners and Breeders Association’s (TOBA) seminars and clinics.

STEP 1: PRE-INVESTMENT INFORMATION

Becoming a successful owner requires thorough preparation, continuing education and common sense. Every owner can become a knowledgeable and successful manager if willing to take the time to learn about Thoroughbred ownership.

Always operate your horse business with the same level of business savvy that has afforded you the opportunity to become a Thoroughbred owner.

Define Reasonable Goals & Objectives

How much money can I afford to allocate to horse ownership?

Generally speaking, the level of investment is the primary consideration in determining the most appropriate means of becoming an owner. Determine the total amount of money that you are willing to allocate to this investment. Develop a budget, identifying the amount to be utilized for the initial purchase, and obtain realistic estimates of daily expenditures.

How much time do I intend to devote to my equine activities?

Unfortunately, to answer this question you will need to ask yourself: How involved do I intend to be? Will my schedule permit me to spend time monitoring my equine investment? For example, do you have the time to talk with the trainer, or to visit the stable area, racing office or track kitchen on a daily basis?

Do I prefer to participate as an individual or in partnership?

The level of investment and amount of time you have to spend on your equine activities should guide you in determining the appropriate form of ownership. TOBA recognizes, however, that personal preferences and past experiences may be equally important. Obviously, there are advantages and disadvantages to each form. What level of control do you wish to maintain? Are you the type of individual who must call all the shots, assume all the risks, and have all the glory? Or, are you the type who prefers to spread the risks and share the rewards?

What are my short-term and long-term goals?

How long are you willing to wait for a return (not necessarily financial) on your investment? Are you looking for the immediate action offered by racing or the long-term challenges of breeding and developing young horses? Thoroughbred racing and breeding offer both types of investment opportunities, challenges, and more!

What type of equine investment should I make?

If immediate action is what you desire, then your investment opportunities will be quite different from those interested in breeding and developing young stock. However, the opportunities are not mutually exclusive. You may consider diversifying your investment by purchasing a filly as a broodmare prospect, breeding her and selling the offspring, acquiring a stallion share, and/or owning horses of racing age.

Where should I conduct my equine activities?

It seems that every owner wants to be able to see their horse as often as possible, but that is practical for only a very few. However, if having convenient access to your horse is imperative, then you must think and act regionally. On the other hand, given that some states offer more lucrative racing and breeding programs, you may wish to consider how those programs could impact your investment. State owners' and breeders' organizations can provide a complete explanation of their respective state-bred incentive programs.

At what level am I looking to participate?

Everyone wants to own a classic winner. Unfortunately, not all horses have the ability to compete and win at the top level. There are many levels at which you can participate (i.e. the claiming, allowance, or stakes levels). You can compete on a regional and/or a national level. An owner's financial resources ultimately dictate the level at which one competes. Again, if action is what you want, your strategy will be different from someone seeking the classic horse. You will likely spread your money out over a larger stable, with more horses racing on regional circuits. If your goal is to find the big horse, you might have fewer horses which race less often.

Remember, the thrills of owning a claiming horse or breeding a maiden winner often match those experienced by the owners of more accomplished horses.

Write a Business Plan

A written business plan will help you stay focused, as well as assist in demonstrating active participation in the activity. Tax regulations and business sense require that you make the investment with the intent to make a profit.

In creating a business plan, remember that neither Thoroughbred racing nor breeding are static activities. A sound business plan is not necessarily an elaborate plan; however, it should be in writing and should:

Define the type of business form.

Is it a sole proprietorship, a corporation, a limited liability company, a general or limited partnership? If you opt for the latter, you should list the partners. Each form of business entity has specific economic and income tax attributes which should be considered in order to select the appropriate form of business for your particular circumstances.

Identify goals and objectives.

Besides the goal of having fun, is the business geared toward breeding to race, breeding to sell commercially, racing with hopes of developing breeding stock, racing to make a profit and sell at the end of its racing career, etc.?

Specify the type of consultants to be utilized.

Depending upon the circumstances, it may be appropriate to identify, by name, the professionals consulted, including a brief outline of their credentials.

Outline the means of acquiring the equine assets.

Will the horses be acquired through auction, claims, or private purchase?

Establish a timetable.

Indicate the location and scope of the activity.

Will the business operate on a regional or national basis?

Project expenditures and revenues.

Create a preliminary budget with reasonable projections. Budget line items should include, at the very minimum, purchase price; depreciation; typical operating expenses such as board/lay-up costs; breeding fees; training fees; transportation invoices; veterinary and farrier charges; nomination, starting and entry fees; administrative expenses; insurance; professional services; travel and entertainment, etc.

Provide the appropriate insurance.

Depending on the type of equine investment, you should consider obtaining insurance coverage for the risks inherent with that investment. For example, would commercial general liability, mortality, fertility, live foal, or transportation insurance be appropriate?

Articulate the term of the activity.

Do you intend to remain in the business indefinitely or are you limiting the term of your equine business activities? For example, if your goal is to race, you may want to articulate that your intent is to review each horse's performance at the end of each year. Based on that performance, decide whether to continue to race the horse, retire the horse for breeding purposes, or sell.

Business Entities

There are various types of business entities utilized to conduct horse racing and breeding activities. It is important to understand the tax, legal and liability implications of each. The Racing Game suggests you consult with your tax and/or legal advisor before choosing a type of business entity for your equine activity.

Sole Proprietorship

Considered the simplest form of ownership, a sole proprietorship is a business owned by a single individual. The owner reports her horse activity revenues and expenses on her individual income tax return and pays the related tax. While the owner enjoys the advantage of making decisions without regard to other investors, the owner is individually liable for all business expenses.

General Partnership

A general partnership is the most basic form of a partnership. Typically, two or more individuals join together to operate as a single business entity. Income tax returns are filed by the partnership, but all gains and losses pass through to the individual partners. Tax treatment of the partners is essentially the same as in a sole proprietorship. The major advantage is simplicity. However, there is no protection for the partners. In other words, all personal assets of each partner, including non-partnership assets, are exposed in order to satisfy liabilities of the partnership.

Limited Partnership

This form of partnership limits partners' liability to those assets contributed to the partnership. The general or managing partner's liability is not limited. Since the general partner's liability is not limited, he is afforded greater power and control over the partnership assets and responsibility for most decisions. By turning decision-making power over to the general partner, other partners are considered non-active or passive participants. This means your horse operation losses can be offset only against other passive income, i.e., non-earned income and non-investment income. With regard to the partnership, losses can offset future income or can offset any income during the year the limited partnership ceases operation.

As with a general partnership, income tax returns are filed by the partnership. Organizational expenses will be incurred and most states require filing a certificate.

Syndicate

Commonly defined as a co-ownership group, a syndicate is a hybrid form of business entity, similar to a partnership that is created by contract among members of the syndicate. Syndicates are most often associated with breeding and racing ventures. They allow an investor to raise capital and sell interests in a specific asset. Each co-owner's or syndicate member's rights and obligations are defined by contract, with the syndicate manager appointed to exercise management duties.

There are no statutory requirements for such entities. Decisions may or may not be made in a democratic manner, and each syndicate member assumes responsibility for her income, expenses and tax consequences. Investors assume unlimited liability. It is important to note that a member's right to transfer her interest may be restricted. However, by carefully drafting the agreement, and allowing for operational flexibility and adjustments for changed circumstances, many potential pitfalls can be avoided and a syndicate can be a useful vehicle for ownership.

C Corporation

Generally speaking, a corporation is a separate legal entity. It is a separate taxpayer, filing separate returns and pays taxes at corporate rates. It can involve one or more investors or shareholders who, generally, are not at risk for corporate liabilities beyond their investment. Any corporate losses are "locked into" the corporation and cannot be used to offset other income of the individual shareholders.

S Corporation

This type of corporation represents a mix of corporate and general partnership characteristics. As with a C corporation, it can be comprised of one or more investors.

An S corporation generally offers three advantages: (1) shareholder liability is limited; (2) corporate income and losses pass through to the shareholders and are reported on their individual tax returns; and (3) investors can actively participate in the management decisions. S status is elected by the corporation and its shareholders by filing with the IRS. However, establishing the organization requires a professional's assistance and the associated costs could be significant in relation to the investment. Additionally, there are certain technical requirements for electing S status which cannot be met in every instance.

Limited Liability Corporation (LLC)

An LLC offers some of the desirable features of a corporation and a partnership, yet eliminates the normal restrictions. The LLC provides for pass-through tax treatment while maintaining limited liability, even for those who manage the business. Rules regarding allocation of gains and losses generally are more flexible than those pertaining to S corporations, and administrative requirements may be less burdensome.

LLCs are recognized in most, but not every, state. Rules regarding their operation and treatment vary. In some instances, it is possible for a limited liability company to be denied its pass-through tax treatment.

LLCs are becoming the entity of choice for many horse owners, but the decision to use this form should only be made after consulting your tax and legal advisors.

Limited Liability Partnership (LLP)

Although very similar to a general partnership, the LLP varies in that each partner is not vicariously liable for the wrongful acts of other partners. Only the partner or partners who performed the act that causes harm or incurs an expense are liable for its consequences. Furthermore, partners are able to actively participate in decisions if they so choose.

Pass-through tax treatment applies as it does with general partnerships. The main drawbacks are the administrative requirements and expense. Given that this form of business entity is a relatively new entity, it may not be recognized in all states. Therefore, the limitation of liability may or may not be effective when a limited liability partnership is operating outside the state in which it was created.

STEP 2: BUSINESS ISSUES

Insurance Concerns

As an owner, you will need to decide whether or not to insure your equine investments and activities. Insurance can be purchased or an owner can choose to self-insure. We recommend you consult with an equine insurance professional before deciding whether and how to insure your equine activity.

As an owner, you should be familiar with several types of insurance:

Full Mortality

This policy insures the horse in the event of death, not against injury. The premium varies with the horse's age, use (racing or breeding) and with the insurable value of the horse. For a policy covering a horse of racing age, premium rates range from 4.5% to 6.5% of the horse's value for one year's coverage. In most instances, coverage is subject to a veterinary examination.

Mortality insurance covers your horse in the event it is lost, killed or has to be destroyed for any reason, such as in transport, as a result of poisoning or kidnapping, or from severe injury or disease. However, any mortality that is inexplicable or could conceivably be "malicious or willful injury caused by the insured" -- i.e., a slaughter for economic motives -- will be heavily investigated, and the claim likely be denied.

Post-mortems are required in mortality claims. They must be ordered by you in a timely fashion and performed by a private vet at your expense. Also, "necessary destruction," whether on the track or in the barn, is not a matter of discretion up to you or your trainer: You must have two licensed racing veterinarians vouch -- either before or after the horse's destruction -- that your animal could not survive its injuries, or was in a state of suffering that could not be relieved. (You will need this proof not only for your insurance carrier, but also for the official veterinarian at the track, who will require a full inquiry into the death of any animal in his purview, whether it's an exercise pony or a million-dollar stakes horse.)

No matter what you consider the value of your horse and no matter what value the horse is insured for, the insurance company will assess the "market value" of your horse at the time of its death and may adjust the reimbursement DOWN accordingly. The insurance company, however, will NOT adjust reimbursement up if you have been paying the premium on a lower dollar amount than your horse was worth.

For example, you have a $50,000 mortality insurance policy on your racehorse. As racing luck would have it, he has not been competitive at higher levels and has been dropped into a $25,000 claiming race. If the horse dies as a result of the race, you will only be reimbursed $25,000, the market value of the horse at the time of death.

FLT

FLT (Fire, Lightning and/or Transportation) is a more limited policy of insurance than full mortality. It provides coverage only in the event of death due to fire, lightning and/or transportation accidents. It does not cover death due to sickness or disease and is therefore less costly than full mortality insurance.

Claiming Insurance

If you already have a horse (or horses) at that track which are covered by an annual policy, ask your broker whether or not your policy extends to other horses you may suddenly acquire. If not, you may want to inquire about claiming insurance before you enter a claim on a new horse. You may not be able to get it because claiming insurance is the loss-leader in equine insurance. It is extended only as an accommodation to owners with large stables already insured, or to trainers with good histories and good relationships with the insurance carriers. If you can get it, claiming insurance will generally cost 0.85% to 1% of the claiming price of the horse.

General Liability

A general liability policy protects a horse owner against liability arising form any loss, damage, accident or injury to persons or property caused by their horse. This type of coverage is almost never included within a standard homeowner's policy. Given that your stable constitutes a business activity, you will generally need to obtain a separate policy covering this commercial activity. General liability insurance is bought in increments (up to $2 or $3 million), with premiums based on the number of horses being insured at one time.

Workmen's Compensation

In some states, including Maryland, New Jersey and New York, the owner of a racehorse is considered the employer or the co-employer, along with the trainer, of the jockey. In those states, an owner is required to purchase workmen's compensation insurance. Regardless of the state in which you race, make certain your trainer has workmen's compensation coverage, and that coverage under that policy extends to you for any injuries to his/her employees. Keep in mind, rates and requirements vary by state, and coverage does not transfer from state to state.

Licensing

In order to race a Thoroughbred you must possess a valid owner's license from the state in which you wish to race. In many states, each member of a partnership or syndicate must be licensed. Licenses can be issued by state racing commissions or the **National Racing Compact**. The National Racing Compact is an independent, interstate governmental entity, composed of pari-mutuel racing regulators from participating states that can issue a national license which will be recognized by all participating states and other states that may elect to recognize the license.

Tax Issues

Pay particular attention to tax-related issues in operating your stable. Although some consider the applicable tax code provisions onerous, they are, in reality, manageable. However, it is most advantageous to be familiar with the provisions most commonly applicable to this business. They are the difference between long-term capital gains rates and ordinary income tax rates and the hobby loss and passive loss issues.

The Capital Gains Spread

The maximum federal income tax rate on long-term capital gains is 20%. Maximum ordinary income tax rates are up to almost 40%, so the spread between the two is significant. For certain taxpayers, the differential is made even greater by the effect of state taxes. Unlike other assets, the holding period to obtain long-term capital gain treatment on sales of horses is two years.

The Hobby Loss and Passive Loss Issues

The two problems most often faced by horse owners when audited by the IRS or comparable state taxing agencies are the "hobby loss" and the "passive loss" rules. To prevail, owners must demonstrate that they have exercised preventive planning, followed good business practices and have documented their business activities.

Hobby Loss Provisions

In general, the tax laws referring the hobby loss rule provide that to deduct expenses that exceed income, the taxpayer must demonstrate that she is engaged in her horse-related activity with the intention of producing a profit. Initially, the burden of proof falls upon the taxpayer. However, if a profit can be shown in two of seven consecutive years beginning with the first loss year, the burden shifts to the IRS to disprove the "general presumption of profit intent."

The IRS cites nine factors in determining whether an activity is a hobby or business. They are very basic business points covering management style, degree of knowledge of the taxpayer, utilization of expert advisors, time and effort the taxpayer spends in the activity, the expectation for asset appreciation and the presence or absence of recreational aspects. From the IRS' perspective, a hobby correlates with fun, while a business means work: In other words, it is okay to enjoy the business, but only if you have a convincing profit motive.

Material Participation "Passive Loss"

Under the "passive loss" provision, in order to deduct losses suffered as a result of equine business activities from other income, an owner must be able to prove that she is materially participating in the activity. Material participation is satisfied by establishing that the owner spends 500 or more hours actively participating in the business during any taxable year. If the owner does not meet the 500-hour test, she may qualify with 100 or more hours if she participates on a regular, continuous basis throughout the year and meets certain other criteria. However, satisfying the requirements of this test is more difficult.

Hours spent by a husband and wife can be combined to accommodate these requirements. If an owner cannot prove material participation, losses can only be taken against other passive income. The sale of the investment, however, triggers the deductibility of all past losses disallowed.

Treat your horse-related activities as you would any other business venture. Carefully plan your time and the timing of your horse-related income and expenses. Simple documentation will aid in proving your intent to make a profit and active participation.

Depreciation

Horses may generally be depreciated over three to seven years. Longer periods of depreciation may be elected, and always apply in the case of foreign-based horses. Racehorses over two years old and breeding horses over 12 are depreciated over three years; all others are depreciated over seven years.

At first glance it seems more advantageous from a depreciation standpoint to purchase a horse over two years old. In the case of IRS rules, note that age is determined by the actual date of birth, not the industry-accepted January 1 of each year. Furthermore, to prevent taxpayers from purchasing at the end of the year and obtaining a large depreciation deduction, more than 40% of the purchases during one year are made during the last quarter, reduced depreciation results.

STEP 3: SELECTING ADVISORS

Thoroughbred racing and breeding is a team sport. Success in the game is dependent on more than the natural talent of its equine athletes. The success of one's racing or breeding operation will depend, to a significant extent, on the makeup of the team. Exercise as much care in selecting a team of advisors as you would expect to exercise in the selection of your first horse.

Your particular team of consultants may be as few as one or may include any combination of the following: A bloodstock agent, a pedigree advisor, a trainer, a veterinarian and/or a mentor - someone already in the business such as a farm manager or more experienced owner.

Consider how this team will assist you. Will they merely participate in the selection and evaluation of potential purchases or in refining your business plan as well? Again, in making this decision, remember to exercise sound business judgment.

When selecting your team of professional consultants, keep in mind the following thoughts:

Thoroughbred racing and breeding are businesses; treat them as such.

Be rational, not emotional. Keep an open mind during the preliminary selection process.

Disclose your objectives from the start. Ascertain whether they are consistent with the areas of expertise of the consultants considered.

Stay within your budget created. Realistically evaluate your ability to invest in the industry at the level you have selected. If not certain, scale down your level of participation. Remember, it is just as much fun to own part of a horse as it is to own the entire thing.

Once your consultants have been selected, allow them to do their jobs. Stay involved, but allow the professionals to do what you have hired them to do - provide learned advice in areas where you have little knowledge or expertise.

Bloodstock Agents

Bloodstock agents are people who are paid a commission to buy and sell horses. A bloodstock agent assists owners in the evaluation of horses, based upon pedigree and conformation, for the purpose of buying and selling at public auction or private sales. Generally speaking, they may also facilitate the purchase process, including establishing credit with the sales company, finding an equine veterinarian and selecting an appropriate boarding facility.

It should come as no surprise that selecting the right bloodstock agent is not always as easy as it seems. However, as with any important business decision, consult industry-accepted reference materials.

Solicit recommendations from reputable industry insiders.

Ask other participants in the industry, including sales company executives, owners, trainers, racing officials or investigators, their recommendations and endorsements.

Contact local horsemen's organizations for recommendations of reputable agents.

Ask others within the industry about the reputation and character of your candidates. Remember, there will be a reluctance on the part of many to make less than complimentary remarks about an individual. Instead, they may refer you to someone else or offer an evasive answer.

Conduct actual interviews of potential bloodstock agent candidates.

Evaluate the candidates as you would any other financial advisor.

Discuss compensation.

Agents typically will charge a small commission (i.e., 5%) for the purchase or sale of a horse. Obtain assurances that your agent will fully disclose all commissions for every transaction. Determine if the agent regularly buys from the same consignor. This may evidence a good working relationship, and it should be discussed openly and frankly with your agent.

Request references.

Review their past purchases with the references. Have the horses been successful? Does this agent have experience buying within your price range?

Establish guidelines to resolve potential disagreements.

Above all, recognize it is your investment, your money and ultimately your horse. Retain the final say.

Trainers

If you elect to make your investment in racing, selection of a trainer is quite possibly the most important decision you will make.

The owner/trainer relationship is analogous to a marriage. An honest relationship is essential. Take your time and select the individual that fits your needs and personality. Be aware that as you interview the trainer, they may also be evaluating you as an owner/client, particularly your willingness and ability to accept advice.

The racing office at most racetracks can provide a stable list, including trainers' names, barns and phone numbers. This information may assist in locating a trainer for your stable.

In short, many of the recommendations made with regard to choosing a bloodstock agent, including the sources from whom to seek recommendations, apply equally to the trainer selection process. In addition to those cited above, here are a few additional thoughts to consider and questions to ask:

At what tracks are the trainer's horses stabled?

Do you want a trainer who excels with allowance, claiming or stakes horses, fillies/mares or colts, young racing stock, turf or dirt horses?

How much time do you expect your trainer to spend with you?

In the past, many owners were passive and interaction with their trainers was minimal. As owners have become more active, they have demanded greater communication. Some trainers resent these demands, but most have readily accepted owners' desires to more closely monitor their investment.

How much time can the trainer devote to teaching you more about horses and training procedures?

How often should you reasonably expect to communicate with the trainer?

Considering the size of your investment and the size of the trainer's stable, your expectation regarding communication must be realistic. Obviously, this is an important subject that should be discussed and understood by both parties from the outset of the owner/trainer relationship.

How often and under what conditions do you want to be consulted?

Do you want the trainer to automatically call you if the horse is going to work, or if it is sick, or if something is developing with its physical condition or training program? Do you want the trainer to include you, or consult with you, on the selection of races for your horse?

Do you want a more seasoned trainer or an up-and-coming new trainer?

Would you like your trainer to attend sales and assist in or make purchases on your behalf?

Is this trainer really as good as he says he is?

Consult statistics from Bloodstock Research, the Daily Racing Form and The Jockey Club Information Systems to verify suspicious representations. Keep in mind the size of the stable and the trainer's experience when evaluating this data.

Go to the paddock and observe trainers in action. How do the horses, the stable assistants and those associated with the operation appear? Does the trainer speak with the owner or the jockey? Those observations should provide an indication of the trainer's practices and character. Visit the stable area of tracks where you would like to race. Get the feel for the tidiness and staff.

What is the trainer's day rate? Does it vary from track to track?

Does the rate change if the horse is taking a break or is laid up for a month or so, yet still under the trainer's care? Are the feed, bedding, stable employees' wages, stall rent, exercise riders, ponies for workout, paddock and gate schooling, vitamins, bandaging and similar "supplies" all included in the day rate? Some commonly non-covered expenses in the day rate are, though not limited to: farrier expenses, veterinary costs and transport costs.

Review workers' compensation issues. Who is responsible and who pays?

Jockey's insurance; is it applicable and who pays?

What percent commission does the trainer charge for wins and other placings? Is there a bonus policy for the stable employees?

How long do they recommend giving a horse a chance to demonstrate its ability?

What are the trainer's views on medication?

What is the trainer's average vet bill per horse per month?

Review their policy regarding the medical care given to the horse. Does the trainer ask owners to authorize veterinary care expenses? Who maintains the horse's health records? Do they use certain medications regularly? Some trainers use vets almost compulsively, and with good results, while others use them sparingly and with equally good results. It depends on the trainer and, to some extent, the quality of horses he has to work with.

Asking these questions should give you a feel for the character, skills and beliefs of the candidates. If you are not comfortable with what you have learned, interview additional trainers until you have found the right one.

Once you have made a selection, be certain that the two of you have a clear understanding of each other's expectations and responsibilities. Don't begrudgingly turn over the responsibility to them to do their job. Be positive and enjoy the experience.

Finally, consider whether a written contract would be appropriate. Note: Written contracts are not common practice on the racetrack, and the mere proposition of one may evoke a less than positive response. Nonetheless, if you feel you must have one, find a trainer who is willing to enter into a contract.

Farms or Boarding Facilities

If your preference is to first invest in the breeding side of the industry, through owning broodmares or younger stock, one of the first decisions you will make is the selection of a farm or boarding facility. Again, as with selecting other advisors, you should follow the same sound business principles and pose the same types of questions. While the circumstances may be a bit different, the issues are essentially identical.

Despite the similarities, there are some important differences. Keep in mind the following thoughts and questions:

1. What are the costs involved and what do they cover?
2. What types of services does the farm offer?
3. Is there a veterinarian on staff?
4. What facilities does the farm offer: barns, sheds, training track, etc.?
5. What is the employee/horse ratio?

Review your concerns, goals and objectives to make sure they are compatible

STEP 4: PURCHASE OPTIONS

A horse may be purchased in any of three ways: through public auction, claim and private sale.

There are advantages and disadvantages associated with each approach. Regardless of the approach taken, the team, whether it is you and your trainer or you and a group of advisors must work together, utilizing each member's skills in devising a strategy for acquiring the equine assets.

Public Auction

Auction sales offer the widest selection and often assure fair market values for horses. It is safe to say that they are the option of choice for many buyers.

The table below summarizes the advantages and disadvantages ssociated with purchasing a horse at the various ages:

Age / Type	Months of Sales	Advantages	Disadvantages
Yearling	Jul - Dec	Large selection; can oversee all breaking and training; pinhooking options.	8-12 months until ready to race and will incur expenses during this time.
2-year-old	Feb - May	Ready to race; more developed; better able to assess ability.	Smaller selection; horses may be rushed through training for sale.
Weanling	Oct - Feb	Reasonably priced; pinhooking options; can oversee growth.	Hard to evaluate ability this early; 18 months until ready to race.
Broodmare	Oct - Feb	Choose matings; can sell foals or enjoy success of homebreds. Mares can be purchased in-foal (foal in utero), barren, or with a foal at her side.)	Pregnancy can be complicated; lots of risk, time and cost involved.

To familiarize yourself with the sales process, we suggest you attend several as an observer; consider it a dry run. This exercise should include selecting horses to inspect, evaluating them based upon their pedigree and conformation and estimating their selling price. As you compare your figures to the actual selling price, a sense of the market will develop. In addition, through attending the sale, you will gain an understanding of the auction environment.

The auction purchase process can be separated into three stages: Before, during and after. However, each phase is dependent on the other. The after phase is somewhat a misnomer as proper provisions for this final stage, such as payment, insurance needs and boarding arrangements, should be made in advance.

Before the Auction: Preliminary Work

Time is precious at the sales. It is essential that you arrive as prepared as possible. The pre-sale work can often be more important than that done at the sale or on the grounds.

First, review the catalogue. A catalogue can be obtained from the auction company. It is generally available several weeks prior to the sale and is always complimentary. In addition to a horse's pedigree and hip number, the catalogue contains explanations of the Conditions of Sale -- the terms which control the sale's proceedings.

1. **Complete the paperwork.**

   Establish credit. The first section of the catalogue contains information regarding payment, including sales tax requirements. To secure credit with the sales company, a credit application must be completed. If another party, such as your agent or trainer, will bid on your behalf, the Authorized Agent form must also be completed. Copies of both forms are contained in the catalogue.

   Review the Conditions of Sale. Each condition should be read carefully and understood. Pay special attention to the warranties and the types of defects that enable buyers to rescind the purchase of a horse, as they differ from company to company and between the different ages of horses.

2. **Select horses.**

   Study the catalogue and select, based upon pedigree, the horses in which you are interested. Nomination information is typically listed at the bottom of each catalogue page. Note, those nominated to state-bred programs and to the Breeders' Cup.

3. **Meet with your consultants.**

   A team of professionals should greatly facilitate the sales purchase process.

   Assign responsibilities. Bidding arrangements, pre-purchase veterinary procedures, pedigree research and post-sale accommodations should be discussed for each horse identified. Each member of the team should fully understand their responsibilities.

   Devise a first-look list. The team should revise the preliminary list, adding to or eliminating horses in a manner consistent with your plan and budget. Keep in mind that the list is likely to be narrowed as each horse is physically inspected.

Secure the services of a veterinarian. If a veterinarian is not already part of the team, consider consulting one to assist in the selection process. Fees should be discussed and agreed upon in advance.

During the Auction: Duties at the Sale

For maximum efficiency, be well-organized and stay focused on your objectives.

1. **Inspect the horses.**

   Physically inspect the horses on your first-look list. To avoid confusion, take notes and assign a grade on the corresponding catalogue page. Based upon the inspections, it is quite probable that you will further cull the list of potential purchases to a short list. Inspect your final candidates several times. Don't be afraid to go back for a second or third look.

2. **Consider performing pre-purchase veterinary examinations.**

   Depending upon the degree of interest in a horse on the short list, your budget, and the estimated sales price, you may wish to have a veterinarian perform a pre-purchase exam. Such an examination may include x-rays, an endoscopic exam and a physical exam.

   On occasion, a veterinary examination may be required by the sales company before a horse is accepted or offered for sale. The type of examination required can be found in the Conditions of Sale. If a consignor offers x-rays and/or other test results, such as endoscopic exams, for your review, be certain to inquire as to the age of the information, as the information only has value if it is truly recent. Remember, horses are not machines, their physical condition can change overnight.

3. **Bid.**

   It is easy to get caught up in the excitement and atmosphere at a sale. Do not permit yourself to get carried away when bidding. It is imperative that you follow your initial plan and stay within the identified budget. Bid only on horses on the short list, exercise control and stay within the pre-determined price limit for that horse.

   Remember, both title and risk pass at the fall of the hammer. The buyer becomes totally responsible for the horse and its actions at that moment.

After the Auction: Post-Sale Procedures

Successful bidders must make the necessary arrangements for the board and care of their purchases. This includes purchasing insurance, where appropriate, making payment and securing transportation and boarding accommodations.

1. **Make payment.**

   Payment should be consistent with the arrangements made with the sales company. If credit was not established prior to the sale, payment is generally due within 30 minutes of the fall of the hammer. It is not uncommon for consignors to continue to care for the horse while the buyer makes settlement with the sales company and secures transportation services. Ensure this is the case by asking the consignor. Upon settlement, buyers will be given a stable release and later the proper Jockey Club Registration Certificate from the sales company.

2. Remove the horse from the sales grounds.

Van companies have representatives at almost every sale. Select a carrier and provide them with a copy of the stable release. The carrier will need that form to remove the horse from the grounds.

Note: Taking possession constitutes delivery and acceptance. Consequently, it is imperative that, prior to removal of the horse, a veterinarian examine the animal as to the conditions warranted in the Conditions of Sale. Persons purchasing mares in-foal should confirm their pregnancy status. Under most Conditions of Sale, the purchaser's right to rescind a sale is prefaced upon a veterinary examination occurring on the grounds.

Claim

Claiming races constitute the majority of Thoroughbred races. Each horse entered in such a race is subject to sale, or claim, at the value stated in the conditions of the race. However, all purse money earned is the property of the person in whose name the horse started.

The primary advantage to claiming is that it offers immediate racing action. Likened to purchasing a used car, the buyer may be obtaining a horse which, with a change in training routine, may develop and excel or may turn out to be nothing more than a lemon. Unlike purchasing a horse at public auction or privately, the buyer is not entitled to perform a veterinary examination prior to the purchase.

If you elect to pursue this option, you should employ a trainer who excels in this aspect of the business. With your trainer, devise a strategy for selecting potential claims.

Consider the following points prior to claiming a horse:

Review the jurisdiction's claiming rules.

Claiming rules differ from state to state. It is important to note: (a) The point at which the horse becomes the property of the new owner - when it steps onto the track before the race, when it leaves the starting gate or at another point; and (b) the conditions under which the horse must make its next start.

Complete the paperwork.

Obtain the proper owner's license. To be eligible to claim, you must possess the proper owner's license from the state in which you intend to claim. Licensing is controlled by the particular state's racing commission or board. If you are not licensed in that state, you are required to complete the application process, receiving either a permanent or temporary license.

Most states now have rules authorizing open claiming, thus permitting licensed owners who do not currently have horses stabled at the particular racetrack where the horse is running to claim a horse.

Establish an account with the racetrack's paymaster or horsemen's bookkeeper. Prior to the claim being made, an owner's account must have sufficient funds to cover the transaction: the claiming price plus state sales tax. Sales laws and bookkeeper's procedures differ from state to state and from track to track. If you intend to have your trainer make a claim on your behalf, there must be an authorized agent form on file. Contact the Horsemen's Bookkeeper and/or Claims Clerk for more precise information on these matters.

Complete the claims slip. Claims must be made on the day of the race and filed prior to the start of the race in accordance with the rules of the specific jurisdiction. Claiming forms are available in the racing office. The information on the claim form must be absolutely correct; a misspelling can invalidate a claim. A person is not permitted to enter a claim for more than one horse in a race. If more than one person wishes to claim the same horse, a random selection system is used to decide the new owner. The system is commonly referred to as a shake.

Take possession of the horse.

Title and risk pass to the new owner immediately upon selection as the successful claim. As the new owner, you will be expected to take possession of the horse at the conclusion of the race or after completion of any post-race tests.

The Art of Claiming

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Everyone hopes to own a stakes horse, or better yet, a graded stakes horse. However, the reality is that most of us own claiming stock. Despite that fact, it seems that in terms of personal satisfaction, we jump just a high and smile just as broadly when one of our claimers wins a race as those owners lucky enough to own a stakes winner.

While some owners are consumed by the desire to find and race only stakes horses, there is a significant number of horsemen who prefer to devote their time and energies to developing a powerful and lucrative stable of claiming horses. Sometimes this "preference" is driven by a personal desire to compete as often as possible, but in most instances it is purely a question of economics, i.e., what is most affordable to the particular owner. In addition to financial considerations, and given the predominance of claiming races and the relative "abundance" of claiming stock, a prudent owner should always consider the inherent advantages and disadvantages of any claim. These considerations apply equally to both individual claims and to the claiming process in general.

General Advantages

It is widely accepted that claiming horses have established values. In other words, their performance on the track and the levels at which they are competitive are clear objective indications of a horse's value.

Purely from an investment stand-point, this makes the claiming horse a "less risky" investment; the speculative nature of assessing and establishing a horse's value is significantly reduced.

General Disadvantages

It is commonly recognized in the industry that there is a shortage of quality racing stock. In the claiming business this fact translates into more and more competition at the claiming box. Consequently, "getting outshook" is the fact of life.

Owners must also keep in mind that the competition for good horses coupled with better purses makes all of us more willing to make riskier claims.

Opportunity to Invest

In comparison to equine purchases made at auction sales, in the claiming game there is a ready supply of horses available for purchase everyday. Accordingly, an owner can essentially change his/her stable's inventory on any given day.

Likewise, there are so many varied claiming levels that the average owner enjoys a diverse "menu" from which to select. If one is willing to look for horses to claim at racetracks other than the closest track, your opportunity to find a useful horse could be improved.

Common Mistakes to Avoid

Don't make desperation claims. Each horse must be fairly and reasonably valuated as to performance, available conditions, pedigree, and demonstrated earnings. Spend only as much as the evaluation indicates the horse is worth. Try to claim only horses at or near that price, and, above all, make certain they are as sound as possible.

Relying on "gut instincts". To some extent, every claim represents some level of intuition or "gut instinct." However, that does not imply that the decision is in reality nothing more than a guess. To the contrary, in this context, intuition represents experience and innate skill.
No claim should be made unless the basic questions regarding value, condition, pedigree, etc. have been addressed. However, from that point forward, intuition is about as valuable as any other factor.

Building your stable through claiming. Only you and you alone should decide if this is your preferred method of operation. However, many horsemen, owner and trainer alike, have built successful stables on the athletic prowess and ability of the claiming horse. It is the most affordable means of developing or expanding one's stable.

Conclusion

Luck and skill are essential to the success of just about every business. However, the success of any claim relies primarily on the skill of the individual making the claim.

There is no simple means to teach one how to become adept in the claiming game. What must be taught is that there is no substitute for study and learned evaluation of a horse's potential and actual performance. As with any science or art, those who experience success and recognition are generally the hardest workers.

Factors to Consider When Claiming a Horse

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Even though most of the news in horse racing is about the high-profile horses, most of the races are for claiming stock.

While claiming is sometimes called a lessor way to participate, it helps owners because the value of the horse has been more clearly established. Additionally, the majority of these horses are ready to race within three weeks after they are claimed.

Following is a partial list of factors to consider when claiming a horse:

1. Can an equipment change improve the horse?

2. How about a surface change (dirt to turf)?

3. Will a different distance work?

4. How about different training techniques?

5. Are there any obvious physical problems?

6. What is the age of the horse?

7. Does the horse appear to be in good condition?

8. Do you like the way he or she walks?

9. What race conditions is the horse eligible for?

As you can readily conclude, it is very important to have a professional point of view to help make these decisions. Hence, the quality of the owner-trainer relationship will insure long-term involvement and success.

Private Sale

While auctions and claims are the two most popular methods of acquiring horses, they may also be purchased privately. Private transactions offer the buyer value and opportunity as well as the option of a pre-purchase exam. Furthermore, the purchaser is not restricted to only those horses offered for sale, but may make an offer on any horse considered desirable, including those which are not necessarily advertised for sale. Again, consultants play a vital role in finding, selecting and inspecting prospects.

As with other purchase options, proper pre-purchase arrangements must be made and various factors should be considered.

Make an inquiry regarding purchase opportunities.

If you are interested in purchasing a particular horse, contact the horse's owner, trainer or owner's agent and inquire if the horse is for sale.

Inspect the horse.

After ascertaining that the horse is for sale, a thorough physical examination should be conducted. Follow the same guidelines as those associated with inspecting horses at public auction. If you are serious about the purchase, employ a veterinarian to perform a physical examination evaluating the soundness, general health, wind capacity and reproductive ability of the animal.

Negotiate price.

The sale price should reflect the quality of the horse's pedigree, conformation and race record. To determine an offering price, evaluate the following factors in addition to the three previously mentioned:

The level at which the horse has been competing: If the horse competed in claiming races, what was the claiming price?

The future earning potential: How much longer will the horse be able to race and at what level?

The residual value: Will the horse be of value as breeding stock?

When a purchase price has been determined, make a formal offer.

Present a Written Agreement of Sale or Purchase and a Bill of Sale.

A written Agreement of Sale or Purchase should be prepared and should include the names of the parties, identification of the horse, terms of sale, warranties of sale, contingencies and deadlines and site of the transaction, as sales tax may be a factor. It may be prudent to also include a procedure for resolving disputes, as well as a provision acknowledging the right for a complete veterinary examination. In most cases a veterinary examination is required by insurance providers before a policy will be issued. Where questions or suspicions exist, good business practice suggests that a title search should be made to ascertain that the seller's title is free of liens.

Upon acceptance of the offer, the purchaser should request a Bill of Sale. A Security Agreement may be imposed by the seller to secure payment if the seller finances any portion of the purchase price. At the closing, the purchaser should receive the horse's Jockey Club Certificate, as well as copies of its health records.

Partnerships

There is little debate that the thrill of owning part of a racehorse matches that of sole ownership. Because of this, and other more practical considerations, many first-time owners elect to become involved in racing through a partnership. The proportional initial capital expenditure, combined with reduced recurring expenses, affords most an economical entry into the business.

There are generally two paths to becoming involved in equine partnerships:

1. Purchasing shares in an existing partnership, or

2. Forming a partnership with a group of friends or associates.

Investing With an Established Partnership

Many partnerships are looking for new investors. As a prospective investor, you should investigate the partnership, particularly the individuals involved. Naturally, some are more reputable than others. It is important to select a partnership with goals and philosophies that match your own, and whose financial requirements are within your budget.

The considerations identified below may assist in selecting a partnership.

1. Compare Partnership Prospectus

To find the names of existing partnerships, contact local horsemen's associations, trainers and other industry professionals. Additionally, the TOBA Membership Directory and The Source published by The Blood-Horse, Inc. offer comprehensive lists of individuals who operate partnerships, including their addresses, telephone numbers and e-mail addresses.

Compile a list of partnerships to contact and request a copy of their written plan or prospectus. In reviewing this material, determine if the partnership is (a) oriented in the area of the industry in which you wish to participate: racing, breeding, racing and breeding or pinhooking*; (b) involved at the level at which you desire to be involved: claiming, allowance or stakes horses; and (c) a limited or general partnership, as this distinction will affect your expense liability and your right to participate in the making of certain decisions.

* "Pinhooking" is the term utilized to describe the practice of purchasing a young horse, either a weanling or yearling, for the purpose of selling that horse during the next sale season. Pinhooking is a very speculative venture and may not be the best introduction to Thoroughbred ownership, as it requires in-depth knowledge and skill.

2. Meet with the Managing Partner

After identifying the partnerships most appealing to you, arrange to meet with the managing partners. Don't be afraid to ask them the same questions you would ask of any other potential partner. Determine up front the answers to questions that could develop over the course of the partnership.

3. What are the goals of the partnership and what is the plan to achieve those goals?

The managing partner should be able to clarify the objectives and the manner in which he intends them to be achieved. Is there a developed plan? Does the plan appear realistic? What about the partnership's goals? Are they consistent with yours? Will the success of the partnership be determined by profit alone, caliber of races won, by social activity, etc.?

4. Who are the players?

Managing partner: depending on the type of partnership, one individual or a group of individuals will have primary decision-making authority. The success and overall profitability of the partnership are dependent on the skill of the managing partner. Consequently, determine to your satisfaction what the managing partner's credentials and experience are I

5. What type of entity is used?

Equine partnerships can be formed in a variety of ways. Your personal expectations and comfort level should be considered along with the tax and liability implications associated with the form of partnership utilized.

6. How are the finances handled?

- Managing partner's compensation: frequently, the managing partner seeks to be, and is, compensated for his experience, time and related expenses. Compensation may either be a management fee, an equity percentage in the horse or a commission for finding or selling the horse. As an investor, it is essential that you are informed and aware of the arrangement.

- Your initial investment: ascertain what is included in the offering price and the number of horses in which you are purchasing an interest. Some partnerships offer "packages" while others are for individual horses.

- Expense allocation and income distribution: in addition to the cost of a share in the horse, there are other expenses such as training or board, veterinary charges, farrier fees, accounting bills, vanning fees, stud fees (if applicable) and licenses for which you will be responsible. Be certain who authorizes these expenditures and how investors will be notified and billed.

When income is recognized from purse money or sales, does this income flow directly to investors or is it maintained in an account to cover future expenses? At what point does the partnership settle up? Is it monthly, quarterly or annually? Is each partner provided a statement reflecting cash receipts and disbursements? If so, how often?

7. How are decisions made and by whom?

As indicated above, depending upon the degree of knowledge and expertise of the partners, it may be desirable for the managing partner to have the final say. However, it is imperative that you know going in whether decisions will be made in a democratic manner or whether the managing partner has full authority.

8. What are the services provided to investors?

Communication/correspondence: at what intervals will reports on the condition, progress and location of your horse(s) be sent? Who will be responsible and via what mode (written or oral communication) will this information be disseminated?

Perks: as you may be paying a premium, will you be provided with special racetrack accommodations on race days? Will you be given access to the stable area? Are you welcome to visit your horse? Will you be supplied with some sort of income or other financial statement for your tax purposes?

Licenses: according to the Association of Racing Commissioners International Model Rules, each person who has a five percent (5%) or more ownership or beneficial interest in a horse is required to be licensed. Names of owners of less than five percent (5%) must be disclosed in an affidavit filed by the partnership which also states that these persons are not presently ineligible for licensing or suspended in any racing jurisdiction.

9. What are the conditions for transfer of shares and dissolution of the partnership?

Many partnerships require investors first offer their shares to the existing partners; however, determining a transfer or sale value can be difficult. On occasion, the partnership will employ an expert to determine this issue, but it is far more common to disburse partnership interests at public auction.

As an investor, you may know how long you are committed to participate in the investment. If you are involved in a racing partnership, what happens when the horse retires from racing? Is the horse to be maintained for breeding purposes? Will it be sold publicly or privately?

Other Options

You may also wish to explore forming your own partnership or seek a consultant, trainer, or bloodstock agent to match you with other interested investors. Be certain to discuss these issues with your partners.

Clearly, this option is more time-consuming; however, the advantages may outweigh the disadvantages. For example, common goals and criteria can be established and a plan developed from the outset with which each partner feels most comfortable.

STEP 5: THOROUGHBRED RETIREMENT

The vigilant owner must be a consistent monitor of the horse's condition. Once the physical signs of deterioration begin to show up, decisive action must be taken. The question the owner must now face when, the horse's career is threatened by serious injury is, what do we do? It is particularly difficult when the horse is unfit for breeding. Experienced owners often have people willing to give the horse a home, where it may be used as a riding horse after six or so months of recuperation and retraining.

For those who own farms as well as thoroughbreds, the question of maintaining an injured horse is the decision to provide food and pasture. A large majority of owners do not have the luxury available. A minimum fee for care at a boarding farm is between $3 and $8 a day. Given a life expectancy of 15 to 20 more years (after its brief racing career), a retired horse becomes a major non-returnable investment.

But there is an investment you can make that insures a workable future for horses who can no longer race and cannot or should not be consigned for breeding. The NTRA's Racehorse Adoption Referral Program serves as a clearinghouse to facilitate the adoption of Thoroughbreds with no future in racing or breeding. One toll-free call to 877-576-NTRA (6872) gives a Thoroughbred owner access to a database of nearby organizations that place ex-racehorses in good homes.

An important note: *There is an unexpected "black market" in retired racehorses. It can happen that the horse you think you have retired and given or sold to a private individual is re-sold, either for slaughter, for (in the case of broodmares) a cruel practice known as "hormone milking" for Premarin - or strangely enough, for continued racing at obscure tracks elsewhere. If you do not personally know the individual to whom you are transferring your horse, check him or her out. In the case of the "continued racing" black market, there is a prescribed and workable solution: If you know your horse is no longer fit for racing or for racebreeding and want to make certain it IS retired, return the horse's "Certificate of Foal Registration" to The Jockey Club with an accompanying notation that the horse was transferred, or sold, "without pedigree" (Thoroughbreds cannot be raced or bred to produce foals without their pedigree papers). This notation must state the date the horse was transferred, and must be signed by the owner or the owner's authorized agent.*

Equine Adoption Agencies

The National Thoroughbred Racing Association (NTRA)'s Charities serves as a clearinghouse of information for people interested in adopting racehorses throughout the country. They have provided us with the following list of organizations that provide equine adoption, retirement, rescue, and rehabilitation services. All agencies could use financial aid….

For additional information, contact the NTRA Racehorse Adoption Referral Program at 877-576-NTRA (6872), or the Thoroughbred Adoption and Retirement Association, Inc. (TARA) at (859) 865-4577.

TARA Monitors Adoption Agencies / Promotes Thoroughbred Horse Shows for Ex-Racers

Understanding the need for equine adoption agencies to conduct themselves using sound business principles, the Thoroughbred Adoption & Retirement Association (TARA) has been established to apply and monitor standards of accreditation to Thoroughbred adoption and retirement organizations. Currently five agencies have been approved by TARA, meaning these organizations have met a set of accreditation standards. Other agencies are constantly being added, so contact TARA directly at (859) 865-4577 for their latest list of accredited equine adoption and retirement agencies.