

The New York Times

Look! That's Our Portfolio in the Winner's Circle

By TIM GRAY

AFLEET ALEX won the Preakness and the Belmont Stakes this year, but that is not his only distinction. He is also the second horse in the last three years to hit such a jackpot for a partnership of regular folks.

Alex is owned by five friends in the Philadelphia area who don't have the deep pockets of thoroughbred fanciers like the Crown Prince of Dubai or George Steinbrenner. Chuck J. Zacney, the lead partner, runs a medical billing company in a Philadelphia suburb. Other partners include the director of patient financial services at a hospital in Riverside, N.J., and a restaurant owner who also develops real estate. The friends call their partnership Cash Is King Stables; it bought Alex for \$75,000 in 2004. He has already won \$2.8 million.

Partnerships like theirs have given more people a chance to be owners in the sport of kings. Though Mr. Zacney gathered friends to form Cash Is King, racehorse partnerships are increasingly created by promoters who recruit others to put up the money for a horse.

Yet even some promoters acknowledge that the odds of turning a profit - even a modest one - are long. In some ways, investing in a racehorse is like buying a lottery ticket - though the ticket, of course, is hungry, thirsty and in need of grooming, exercise and medical attention.

"You shouldn't invest anything in a racehorse that you can't afford to lose," said W. Cothran Campbell, founder of Dogwood Stables in Aiken, S.C., and a pioneering organizer of partnerships.

Very few horses become champions, and even successful racers must recoup hefty costs before returning money to owners, said Mr. Campbell, who created his first partnership in 1969. What's more, horse partnerships are lightly regulated, compared with, say, mutual funds, and inexperienced investors may be easy prey for fraud.

"It's a red flag if anyone is pushing a partnership as a way of making money," said Stewart Nickel, president of Winners Circle Partners, a partnership organizer, in North Potomac, Md. "The honest ones will tell you that that's possible, but it's not the primary goal." Mr. Nickel promotes his partnerships as a way to redouble the rush of racing: owners can watch the horse in training, chat with the jockey and, if they're lucky, have their picture taken in the winner's circle.

Mr. Nickel organizes his yearling partnerships in a typical way. Investors buy shares at \$10,000 each. Once a partnership accumulates at least \$100,000, it buys a horse, often at an auction. Mr. Nickel requires that partners contribute quarterly for their share of the animal's upkeep; the amount depends on whether the horse wins any money to offset the expenses. If there are still winnings after expenses, he distributes them shortly after races.

Funny Cide, a gelding that also won two legs of the Triple Crown - in his case, the Kentucky Derby and the Preakness, in 2003 - offers more proof that thoroughbred ownership isn't just for the rich, Mr. Nickel said. A group of buddies from upstate New York had pooled their funds on their own and bought the horse as a 2-year-old for \$75,000. Funny Cide has won more than \$3 million.

The New York Times

Funny Cide and Afleet Alex were bought for moderate prices - some colts and fillies command more than \$1 million at auction. But price and family tree are not ironclad indicators of winning performance.

Breeders and professionals known as bloodstock agents study horses' lineage like monks praying over parchment. But a good pedigree ensures nothing, said John W. Greathouse, a breeder and co-owner of Glencrest Farm in Midway, Ky. Regardless of bloodlines, he said, "I can guarantee you, that, sooner or later, you'll have a horse that can't run."

Thoroughbred Times, a trade magazine based in Lexington, Ky., found that, of a group of thoroughbred foals born from 1985 through 1994, only 70 percent ended up racing. Of those that did, only 46 percent won even a single race. On average, foals in the entire group earned \$33,877 in purses over their racing careers, said Mark Simon, the magazine's editor. That is less than the typical price of a top horse - and may be less than the annual expense for training and maintenance, he said.

Racehorse expenses vary by region and by the level of competition. Trainers and jockeys at top tracks like Belmont Park and Churchill Downs typically charge more than those at lesser ones.

The owners of Afleet Alex - he trains in Delaware - pay about \$2,500 to \$3,000 a month in upkeep during the racing season and \$1,500 to \$2,000 during the off-season, Mr. Zacney said. Afleet Alex's expenses, besides those for food and shelter, include fees for the services of a trainer, jockey, veterinarian and farrier. Mr. Nickel, of Winners Circle Partners, estimated that he pays about \$2,000 a month, on average, to support a horse in Maryland and about \$1,500 in a smaller market such as West Virginia.

Regardless of performance at the track, partnership investors may be able to deduct their share of both the initial cost of a horse and its upkeep, said Mark D. King, a specialist in equine accounting at Naden/Lean in Timonium, Md.

But prospective owners should be aware that the Internal Revenue Service imposes strict tests before allowing deductions. "Any business where there's the possibility of it being a hobby, the I.R.S. is going to look closely," Mr. King said.

Owners must prove that they're not merely dilettantes. Investors must show that they participate in horseracing actively, not passively, Mr. King said, for the I.R.S. to let them deduct racing expenses from nonracing income. As a rule, the agency allows active status for people who spend at least 500 hours a year on racing-related business.

Time spent sitting in the stands at the track, clutching The Daily Racing Form, can count, but only when combined with other activities like writing a business plan and keeping comprehensive financial records and a diary of activities, Mr. King said. Gambling doesn't count. "The I.R.S. doesn't look at any one thing, but all the facts and circumstances," he said.

And you can't just rack up losses year after year. "If you've had several years of losses, you need to show that you're doing something differently to make money, just like any business owner would," he said.

The New York Times

The real payday for racehorse investors - if there is one - often comes after a horse retires from the track. An animal with good bloodlines and a record of wins can make tens of thousands of dollars a year as a broodmare or stud.

"If you get lucky, you have an annuity for the next 20 years," said Terrence P. Finley, founder and president of West Point Thoroughbreds in Mount Laurel, N.J. "You'll probably do a joint venture with a Kentucky farm. The people who owned the horse while he raced will keep an equity stake, and he'll be bred to about 100 mares in the first year."

A Kentucky stallion named Storm Cat - the grandson of Secretariat, the Triple Crown winner - is the current king of sires, thanks to his pedigree and his offspring's success at the track. One of them, Tabasco Cat, won the Preakness and Belmont in 1994. Storm Cat's owners pocket \$500,000 each time he breeds. In his book "Stud: Adventures in Breeding," Kevin Conley wrote in a profile of the horse: "The Kentucky Derby is often called the most exciting two minutes in sport; Storm Cat is probably its most expensive 30 seconds."

Mr. Simon, of Thoroughbred Times, estimated that Afleet Alex, with his racing record, might receive a stud fee of \$50,000. He estimated Alex's current value at \$20 million to \$25 million.

Robert Penchina, an intellectual-property lawyer in New York, wasn't worried about stud fees or even winning races when he first invested in 2001 in one of West Point's partnerships. A fan of horseracing, he had done legal work in the industry, and that had piqued his curiosity. He figured that if he invested in a partnership, he would learn more about the business.

He said he didn't plunk down money in the hope of making a return. But thanks to winnings at the track, he has broken even on his investments in seven West Point partnerships, he said.

Still, it's the thrill of thundering hooves, not the financial fundamentals, that he rhapsodizes about. "If you're interested in the sport, this is a way to get in, compete at the highest levels and have fun with it," he said. "My wife and I have been to Kentucky and Florida to watch our horses run, and every one of them that has run has won at least once."