op/ed
by barry irwin

Editor's note: Today, we debut our TDN Op Ed page, where a selected stable of writers will, from time to time, offer their opinion and perspective on matters concerning the racing industry. The viewpoints expressed herein are not necessarily those of the management, but promise to represent what we consider to be responsible comment. We hope you enjoy this new feature.

COLLAPSE OF THE PRIVATE MARKET

by Barry Irwin

As the first of the major yearling sales for 2008 is upon us, I would like to sound the death knell for the private market and suggest that a combination of a lack of private trade and institution of accelerated depreciation for yearlings as part of the federal government's economic stimulus package will help prop up the yearling sales in spite of a contracting economy.

Yes, you read that correctly--the private marketplace has collapsed. As one of the individuals responsible for the rapid rise of the private market beginning in the 1980s, I am here to tell you that this form of acquiring racehorses has all but ceased to exist in the United States.

The private marketplace, beginning towards the end of the 1980s, developed into a viable arena for the purchase of racehorses of all levels, but especially for the phenomena of ready-made Classic prospects.

When owners of racing stables began to realize that by paying a bit of a premium they could get their hands on a ready-made runner, the private market began to expand.

Coming out of the economic slowdown that began in 1987, owners and breeders of racehorses were all too willing to sell their promising young horses to willing buyers, take the money and either run or reinvest.

Owners that had used traditional methods to stock their racing stables, such as buying unraced horses, went to school when animals such as Lil E Tee, Thunder Gulch, War Emblem, Victory Gallop and Sarava won Triple Crown races after being purchased privately after their racing careers had commenced.

When somebody is able to buy a horse a fortnight before the Kentucky Derby and win the most sought-after prize on the American Turf, it has a tendency to make the owner wonder aloud why anybody would ever breed another horse or buy another yearling. And it made the rivals of that owner wonder the exact same thing.

War Emblem, probably more than any other horse, did more to fuel the viability of the private marketplace than any other horse.

So why, enquiring minds will want to know, has the private marketplace ceased to be a viable avenue for owners to continue to obtain high-quality stock?

The method of acquiring stock privately over the past 20 years has always been somewhat complicated by the "elephant in the room" syndrome. At one time or another, the role of this dominant force has been played by the likes of Jenny Craig, Sheik Mohammed, Gary Tanaka and, more recently, IEAH Stables.

What complicated the market was the willingness of these buyers to overspend to a lavish degree.

The willingness or ability of "elephants" to spend large amounts of capital to obtain the best racing prospects is certainly a legitimate exercise of their rights in a free marketplace and nobody begrudges them for it. The "elephants" have not killed off the market.

What has made the private market for high-quality Thoroughbreds collapse is a combination of unethical bloodstock agents and buyers that have distorted the culture of potential sellers, who in turn have inadvertently shut down the enterprise of trading horses privately between individuals because of greed and unrealistic expectations.

In order for trade to take place privately there has to be a willing seller and a willing buyer. One does not have to be Bob Barker to know from experience that anything can be sold if the price is right.

But today, in an uncertain economy, coming up with the right price for tangible goods is not such an easy task. Complicating the matter is the potential sale to an "elephant."

Unscrupulous agents have systematically, over the last couple of years, exploited the uncertainty of potential sellers by distorting the landscape of the private market to a point where it has all but ceased to exist.

Here's an example of how it plays out:

- A 2-year-olds wins a race impressively.

- No sooner has the youngster crossed under the wire then the trainer, the owner or the representative of the owner of the horse in question receives some phone calls.

- First there is the normal song and dance. Agent: "Wanna sell?" Seller: "Horse is not for sale, but for the right price it might be." Agent: "I represent a guy that can pay a lot of money." Seller: "What's a lot of money?" Agent: "A million and a half." Seller: "I might consider that."

- The agent actually could really be legit and represent The Maktoums or IEAH, in which case the actions of the agent and the principal are being conducted on an ethical basis and trade very well could be possible.

- But more likely than not--way, way more likely, I can assure you--the agent calling either has not spoken with his principal, may not have a principal and may, in some instances, be trying to tie up the 2-year-old so that he can "middle" a client.

- When an agent suggests to a potential seller that he might be able to get $1.5 million for a 2-year-old, he invariably has little or no intention of actually finding a client at such a price. But, by mentioning this figure, the agent eliminates any further competition from rival agents or buyers, and has managed to get the seller's complete attention.

- When, and if, the agent returns for a second conversation with the seller, a new and lower price may be offered. Invariably, the seller walks away, having first heard the greater price and his natural greed not allowing him to adjust to the lower figure.

- There are a few really unethical agents that try to get a seller to sign a contract in which the agent acts like he is buying the 2-year-old for his own account. The agent then scurries around trying to "resell" the 2-year-old while the process of vetting the youngster takes place. If the agent can find a buyer at a figure higher than that which he agreed to buy the 2-year-old, a deal actually takes place. But if the agent fails to find a buyer, the 2-year-old suddenly fails the vet.

The main complication that results from these machinations is that precious little trade is taking place, especially in North America. There are fewer willing sellers, because sellers are waiting for a legitimate call from The Maktoums or IEAH Stable. These two entities do not buy enough horses on an annual basis to satisfy the requirements of private sellers, so their horses are not sold to the "elephants."

Once a sale to an "elephant" is no longer a possibility, a seller is, as an illiterate college professor friend of mine once stated, "in the hands of the Philippines."

And just exactly who are these so-called "Philippines" and who, if anybody, do they represent?

In some instances, the agents are just that--agents; independent bloodstock agents that do not represent any principals per se, but try to find horses that might be for sale and match them up with people that buy horses to race.

In some instances, the agents are paid employees of trainers that hire the agents to make phone calls and try to "tie up" 2-year-olds so that the trainers can then present them to a client.

In some instances, the agents actually work for owners that are trying to buy horses privately to race.

But, such are the methods employed by these agents, that potential sellers are given such absurdly high expectations that very little trade takes place, because the owners' unrealistic expectations can rarely, if ever, be met.

As unethical and unscrupulous as the agents and trainers with principals or without principles are in these instances, the sellers are not exactly blameless, because they turn a suggested price into gospel and internalize the price to such an extent that it does not allow them to adjust when crunch time arises. Furthermore, in any conversations that follow a failed sale, the owners love to invoke either the names of the "elephants" or the phony prices as a means of trying to give legs to future transactions.

What, one may want to know, is the difference between how horses are being bought now and, say, 10 or 20 years ago in the private market?

Back in the day, when somebody interested in buying a horse privately contacted a seller or a trainer or an owner's rep, that buyer started low and eventually was able to reach a reasonable agreement on price through negotiation. Sellers invariably wanted to hear from buyers and engage in trade.

Today, mostly what occurs in the song-and-dance phase of what now passes for negotiation is that a potential seller comes away from a failed transaction with what he considers to be a valuation for his horse, which is really all that some wealthy owners want from such brushes with the private marketplace, because they are not really willing sellers unless the price represents a killing for them.

The days of the willing seller, except to an "elephant," are virtually extinct.

In the burial grounds of this market, you can find one guy that probably sold more Classic winners and Classic-placed horses than anybody in the United States during the heyday of the private market. This year his sales have dwindled to a point where he has managed to complete just one sale higher than $1 million. His occasional sales now take place in the lower depths of the marketplace. Another big player from a few years ago has moved into a different phase of the horse business.

Unlike regulated markets, such as real estate and stock exchanges where sales activity is reported, the private marketplace is like six guns in the wild west. The primary conduit between buyer and seller is the agent, whose evidence of price is mostly anecdotal and of questionable quality in aiding either buyer or seller in forming an opinion of value.

In time, like all markets, this one will correct itself, when the sharks and barracudas move on to another feasting ground because the market has dried up and the game is all but played out.

As for me, I have alternatives. I have decided to take a position of not engaging in any private domestic acquisitions for the balance of 2008. I have done so a) to send a message to sellers that this chump is no longer available for gouging and b) to take advantage of the special bonus depreciation available in buying yearlings.

If Uncle Sam wants to be my 50-percent partner this year in buying yearlings, who am I to turn him down? Make no mistake--I am not doing this out of some form of misguided patriotism. If The Man makes me a deal even The Mafia cannot refuse, I plan to embrace that high-hatted feller at the yearling sales. And I suspect others just like me will be there for the same reasons, because with accelerated depreciation from the Feds and hundreds of willing sellers, I betcha I might could find some horses to buy!

Comments? Please respond to TDN management at suefinley@thoroughbreddailynews.com.