Chapter 8

Losing is not Winning

Most new owners start in racing by claiming horses. This is an apparently inexpensive way to start, immediately get into the action and learn something about the business. They might join a partnership group or club and therefore reduce their expense risk even further.

When folks begin by claiming I have always offered the same advice. Claiming horses at or near the bottom of the claiming ranks is almost inevitably a no win proposition. How do I know? I started exactly this way and found that the folks I first worked with believed that my desire as an owner was to simply collect a few win pictures, have fun at the track, pretend I was somebody in racing, and gather a few memories. More importantly, they believed that profitability was not that important. Why? Because my actions, not words, clearly demonstrated what I was all about. Profit simply could not be that important to me BECAUSE I was claiming at the bottom!

I know that my earlier description of what some folk's desire is exactly their truth. That's great, and I always wish them well if they think they are just in it for the fun of it. I also always suggest they join a club or an LLC with many partners so that they limit their financial exposure. Why? Because, claiming a horse at the bottom offers the worst possible profit potential to owners. They have no ability to drop their horse down to a lower claiming level and even more importantly, ongoing training costs cannot be effectively leveraged against future purses, because they are so low. Frankly, losing money never seemed like winning to me, and I didn't need a frickin picture of me standing next to a horse in the winner's circle to prove I was somebody.

Today, new owners come to me asking how to get involved in racing. After a whole series of questions are finally answered, I often find that new owners do not have enough capital to really engage as an owner on their own. They think they have enough money because they have the purchase or claiming price of a horse. I try to explain that they have to understand the real costs of racing have very little to do with the initial price of the horse or horses they may be interested in. To create understanding, I utilize actual spreadsheets to explain “cost leverage” in racing, and what follows are a couple different examples from those spreadsheets.

Let’s just say for the sake of argument a new owner has enough money to claim a Non-Winner of 2 races, $6,250 claimer, early in the 2014 Minnesota racing season. In other words, this horse has broken its maiden but is still searching for its second win by running near the bottom of the claiming ranks. Let’s also say that a new owner can claim such a horse early in the Minnesota racing season and it runs four more times this summer, once every three weeks or so. I am also going to use a positive example and say this horse has no nagging issues, though many bottom levels horses do. Lastly, this claimed horse runs four more times running a second, a third and finally gets its second win at the $6,250 claiming level.

Now many folks who want to claim horses think they are smarter than everybody else. They will, no doubt, think my scenario is not optimistic at all. In fact, they will think they are so smart that their claimed horse should win 3 more times over the summer, moving up to the non-winners of 3 level, and then securing an open level claiming win. Of course, I’ve heard all this crap before because some knuckleheads who claim think they know more than people who have been doing this all their lives.

In truth, a claimed horse that runs a first, second and a third in its next four starts, is an amazingly positive anomaly. Think about it! That bottom tier claiming horse goes on to have a 25% win percentage and a 75% in the money percentage in its next four races, and never misses a start! Trust me, my scenario is very optimistic.

Using this scenario, and knowing that the 2014 purse for a NW2 $6,500 claiming race is $10,500, here are the estimated owner revenues that would be generated:

	Gross Purse Earned	**Jockey Earnings**	**Trainer Earnings**	**Net Owner Purse**
Win	$6,300	$630	$630	$5,040
Second	2,100	125	210	1,765
Third	1,050	100	105	845
Total:	$9,450	$855	$945	$7,650

Of course, many new owners forget they only get a percentage of the gross earned purses because the jockeys get 10% for a win and a scheduled amount for the other finishing positions. Trainers also get near 10% of gross purses, so the net owner take in this scenario is only about 81% of the gross purse amount. Also, during the 3 months where the purses are earned, the basic costs for this horse are reasonably estimated to be:

Expense Category	Costs
Trainer at $65 per day	$5,915
Farrier	250
Vet Costs for a Bottom Claimer	1,400
Misc. Costs/Licenses/Etc	150
Groom's Tip	100
Total:	$7,815

So, with a very positive result of a win and two other in the money finishes at the level of the claim, the owner would realize a $165 loss. His $6,500 claim, plus the costs of $7,815, put his total capital risk outlay at $14,315. If he or she enjoys this optimistic scenario, they would generate a 1.2% net loss against their risked capital during the three month period.

Now let's consider a comparable claim on a $20,000 Non-Winner of 2 claimer. We will use the exact same assumptions, running four times in the next three months, and finishing with a win, a second and a third at the same level at which the claim occurred.

	Gross Purse Earned	Jockey Earnings	Trainer Earnings	Net Owner Purse
Win	$11,400	$1,140	$1,140	$9,120
Second	3,800	190	380	3230
Third	1,900	100	190	1610
Total:	$17,100	$1,430	$1,710	$13,960

The cost scenario will be same with one major exception. I have found that veterinary costs actually go down as the quality of the horse goes up. In other words, it actually costs more in ongoing training and maintenance costs, the cheaper you go. As a result, here are mt cost estimates for the $20,000 claimer:

Expense Category	**Costs**
Trainer at $65 per day	$5,915
Farrier	250
Vet Costs for a Bottom Claimer	600
Misc. Costs/Licenses/Etc	150
Groom's Tip	100
Total:	$7,015

In this second scenario, the $20,000 claimer would generate a $6,945 profit against the entire capital risk outlay of $27,015, or a 25.7% profit over the three month period. Remember, this is the exact same result scenario as the scenario presented for the $6,250 claimer, in the next four races after the claim. Do you now see the leveraging effect when the costs are the same or greater for a cheap horse that has less earning potential?

Of course I realize that a $27,015 capital outlay is almost double the $14,315 outlay for the cheap claimer. However, you really should never expect to approach breakeven profit results in racing if you do not understand leverage and percentages. This is why I always suggest a club or multiple partnership structure when owners only have capital sufficient to allow for bottom level claiming. Better yet, get into a partnership arrangement where the group's funds are adequate enough to create a small stable of higher quality horses.

With all of this said, I know most owners who get in the game as individual owners do not get in racing to get rich but, they do want to get some serious play for their money. I can't begin to tell you how many new owners have come and gone in just the last decade in Minnesota. This attrition is often because leverage, actual per start earnings goals and realistic cost/revenue scenarios were never part of their initial education process. They leave the game with a memory and maybe a win picture or two on the walls, never imagining how much more fun the racing game could have been if they only got more play for their money. Unfortunately, low level claimers are far too often part of those memories.