

The clues are in the Dow Jones

Victor Sheahan explores the strong historical relationship between the fortunes of the Keeneland September Yearling Sale with the Dow Jones Index

THE KEENELAND SEPTEMBER SALE is the largest yearling sale in the world and of critical importance to US breeders. Livelihoods and jobs depend upon the prices achieved and the sale helps underpin the entire sector.

The numbers involved are staggering with over 4,800 lots catalogued in 2011 and a gross sale of around \$200 million in 2010. The ability to predict the likely outcome of the sale should therefore be of great benefit to worried vendors. Perhaps, surprisingly, I believe that the best way to predict the September sale outcome is to ignore everything that the bloodstock experts expect and instead buy a copy of the *Wall Street Journal*.

Findings

The table below (Fig 1) shows the results of

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the Keeneland September Sale since 1993, the first year in which there was not also a competing July Sales at Keeneland.

The table also shows the value of the Dow Jones Industrial Average taken at the beginning of September for each of these years.

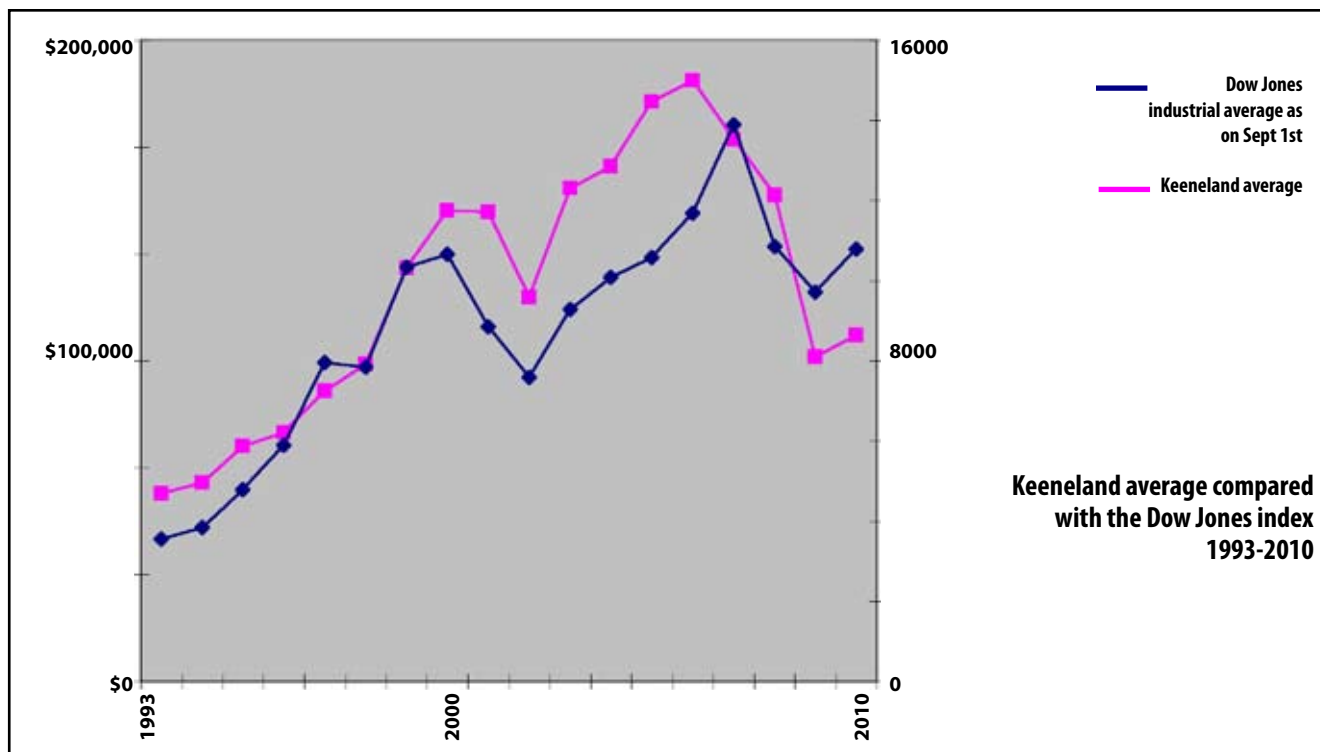
If we graph the Keeneland average and Dow figure, the relationship is striking (Fig 2)

Interpretation

It is clear that the Keeneland average and the Dow closely mirror each other. In fact, the exact statistical correlation is .85, which is extremely strong for two seemingly distantly related variables.

However, on reflection, the Dow is a very good indicator of the health of the US economy and it's future prospects. The

Keeneland average and Dow Jones index						
Year	Sept Gross (\$)	Lots	Average (\$)	Dow Jones, Sept 1st	Keeneland average / Dow	
2010	198,257,900	3,059	64,811	10788	6.01	
2009	191,859,200	3,159	60,734	9712	6.25	
2008	327,999,100	3,605	90,984	10851	8.39	
2007	385,018,600	3,799	101,347	13896	7.29	
2006	399,791,800	3,556	112,427	11679	9.63	
2005	384,349,900	3,545	108,420	10569	10.26	
2004	324,904,300	3,370	96,411	10080	9.56	
2003	274,125,300	2,969	92,329	9275	9.95	
2002	210,809,000	2,934	71,850	7592	9.46	
2001	254,190,600	2,895	87,803	8848	9.92	
2000	291,827,100	3,313	88,085	10651	8.27	
1999	233,020,800	3,011	77,390	10337	7.49	
1998	169,811,800	2,860	59,375	7843	7.57	
1997	154,666,800	2,844	54,384	7945	6.84	
1996	137,358,600	2,949	46,578	5882	7.92	
1995	130,121,300	2,958	43,990	4789	9.19	
1994	104,709,900	2,817	37,171	3843	9.67	
1993	87,710,100	2,494	35,168	3555	9.89	



importance of this forward-looking element should not be underestimated, as people (however wealthy) will only invest in a luxury item like bloodstock if they have confidence in their own future economic wellbeing.

The Dow provides a simple but effective proxy to gauge this sentiment.

Area of Concern

If we express the Keeneland average price as a multiple of the Dow value we can see that this ranges from 10.26 times in 2005 to only 6.01 in 2010.

The average multiple over the 18-year

period is 8.53 and it will be interesting to see whether the historical low in 2010 is the start of a new baseline, something which should be of great concern to the industry or whether values will return to historical norms.

Conclusion

The bloodstock world is a very insular place that sometimes forgets how closely linked its fortunes are to the wider economy.

Industry experts often focus on the strength of the buying bench which depends on the presence or otherwise of European, Arab, Japanese and domestic buyers.

The experts debate the impact of variables such as changes to exchange rates or tax charges, the size and perceived quality of the catalogue, or tinkering with the sales structure through select sessions. The presence of the offspring of star stallions or fashionable stallions may also be invoked as a way of explaining the likely sales outcome.

These factors are real and do have an impact but the best indicator currently available is much more straightforward - the Dow Jones Index. As Bill Clinton put it "It's the economy, stupid". ■

For more by Victor Sheahan, read www.montjeu.com

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