

What Is An Alpaca

The Alpaca

The charismatic alpaca is a wonderfully gentle, intelligent, and curious animal. The alpaca is a member of the Camelid family which also includes the llama and the wild vicuna and guanaco. Native to the high Andes plateaus of Peru, Chile, and Bolivia, they have been imported to the U.S. since 1984. Ancient petroglyphs in Peru dated at over 4,000 years old show herds of alpacas being tended by their Peruvian herders.

Unlike the llama, which is used primarily as a pack animal, the alpaca is raised for its luxurious fine fiber. Alpaca fiber is soft yet durable and comes in a variety of colors; the worldwide market recognizes 22 natural colors of alpaca, from pure white through fawn, to a range of browns, and a true jet black.

The alpaca itself is a small and endearing animal, weighing between 120 and 175 pounds. They adapt easily to the Midwest area climate and require considerably less space and feed than horses or cattle. Their diet consists largely of pasture, and/or hay, and fresh water. Alpaca ownership is full of rewards and advantages.

There are two different breeds of alpacas: Huacaya and Suri. The more common Huacaya have full, fluffy, crimped fleeces and are known for their cute "Teddy Bear look". The unique rare Suri alpaca has long silky lustrous locks which hang downward creating a draped elegant appearance. Suri fiber is prized and commands higher prices in the world markets because of its luster and fine hand. Both Suri and Huacaya fiber are used throughout the world for the very warmest and finest quality garments. Alpaca fiber does not contain lanolin or any other oily body secretion. It can be worn by persons allergic to wool. Alpacas, when placed in a show ring, do not require grooming. Their fiber is simply picked clean. There are approximately 100,000 registered alpacas in the entire United States, of which, the rare suri number only 10,000.



Alpacas are a great investment

- Alpacas are valuable and demand exceeds supply worldwide.
- Alpacas can be insured and depreciated. All farming expenses can be written off on taxes.
- Alpaca breeding allows for tax deferred wealth building.

Alpacas are easy to handle and raise

- Alpacas are gentle, intelligent, and easy to handle.
- Alpacas do not bite, charge, or stampe. They are safe around even the smallest of children.
- They are social animals who communicate using a combination of body position and a gentle humming.

Alpacas are earth friendly

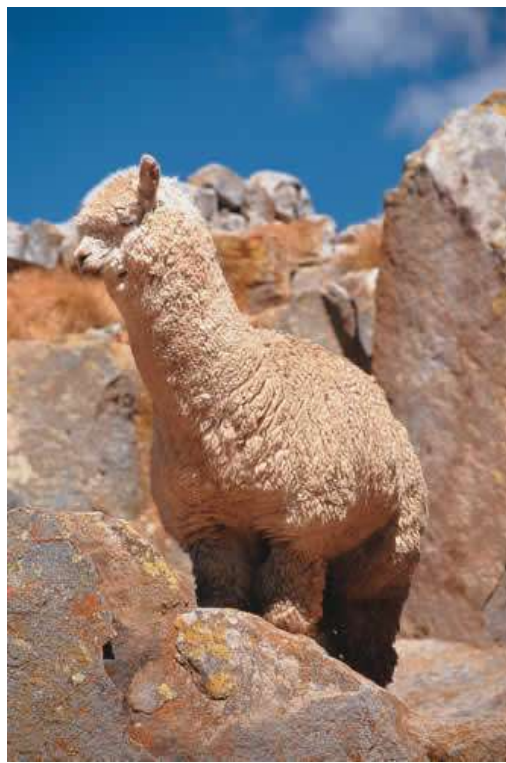
- The alpaca's feet are padded and leave even the most delicate terrain undamaged as it browses on native grasses.
- The alpaca is a ruminant with three stomachs. It converts grass and hay to energy very efficiently, eating less than other farm animals. (10 alpacas consume about as much as 1 cow.)
- Its camelid ancestry allows the alpaca to thrive without consuming very much water.
- The alpaca does not usually eat or destroy trees, preferring tender grasses.
- A herd of alpacas consolidates its feces in one or two spots in the pasture, thereby controlling the spread of parasites, and making it easy to collect and compost for fertilizer.

Alpaca fiber is naturally beautiful and valuable

- Alpaca is found naturally in 22 distinct colors. The fiber can also be blended.
- The fiber from alpaca is unusually strong and resilient.
- Raised at high altitudes in freezing cold, the alpaca has developed more thermal capacity in its fiber than almost any other animal. The fiber contains microscopic air pockets which create lightweight garments with high insulation values.
- Alpaca has a natural, rich luster which gives garments made from 100% Alpaca high visual appeal.
- Alpaca is easily dyed any color and always retains its natural luster.
- An alpaca produces enough fleece each year to create six or eight soft, warm sweaters.
- Alpaca fleece produces a high yield of clean fiber after processing: 87 to 95 percent for Alpaca versus 43 to 76 percent for sheep's wool.
- Alpaca is easier and less expensive to process than sheep's wool due to its lack of grease or lanolin, and Alpaca does not have to be de-haired like cashmere or camel.
- Alpaca can be scoured or cleaned without using chemicals.

BASIC ALPACA FACTS

- Lifespan: 15-25 years
- Average Height: 36" at the withers
- Average Weight: 100-175 pounds or about one-half to one-third the size of a llama
- Reproduction: average gestation 335 days; weight at birth 12-23 pounds. Females are first bred at 16-24 months; males are typically ready for breeding between 2-3 years. Because the females are induced ovulators, the actual process of breeding causes ovulation. This makes it possible for the breeder to time breedings and cria births to take place at any time of the year.
- Color: 22 basic colors with many variations and blends
- Terminology: Males are known as machos, herdsires, or studs; a castrated male is known as a gelding. Adult females are known as hembras or dams. A baby is known as a cria; weaned crias are known as weanlings or tuis.



The Suri Alpaca



There are two types of alpacas that are differentiated primarily by their fiber characteristics. The Suri's fiber grows parallel to the body and hangs in long, separated locks. Suri fiber-locks flow down the sides of the animal and gives it's distinctive look, much different but equally appealing is the soft, wooly look of the Huacaya alpacas. Suri fiber is high in demand for its superb luster, light weight and exquisite softness. The demand yields a premium in the market place due to the Suri fibers rarity.

It is known from archeological records that Alpacas have been domesticated for 6,000 years. Early depictions of Suri Alpacas dating between 5 and 20 thousand years ago can only be found on the Western slopes of the Andes mountains in Peru. The Suri appears as a distinct breed in pre-colonial textiles, pottery and jewelry. The word Suri appears to originate from the Aymara language and refers to the lustrous quality exhibited by the feathers of a South American cousin of the ostrich.

The most important differences between Huacaya and Suri are:

- Less modulated fiber, giving a better handle
- High luster of the Suri fleece
- Suri fleeces have no crimp, which suit them for worsted fabric

Suri Alpacas were first brought to the United States in 1991. Importations have brought Suri Alpacas from Bolivia, Chile, and Peru.



Suri Genetics

(Brought to us from Australia, The Suri Alpaca Co.)

Although this information is yet to be published or reproduced in any great way and is still controversial, preliminary results in Australia yield this fascinating genetic information.

There have been many debates about the genetic inheritance of the Suri. Most of what we know is based on observation and experimentation rather than actual scientific research. Australian geneticists seem to agree on the following principles.

SURI/HUACAYA FLEECE TYPE

The gene that determines fleece *type* (suri/huacaya) is found on a single locus on the chromosome. The gene has two different alleles: Suri (denoted by S and showing a fleece type that hangs down in locks) and Huacaya (denoted by s and showing a fleece type that grows perpendicular to the body in bundles). The alleles interact with each other in a dominant-recessive manner.

In determining the fleece type, there are two phenotypes (what the fleece looks like). Suri and Huacaya. However, there are three genotypes (the genetic makeup of the fleece). Because the huacaya fleece is seen when only the recessive allele is present, the genetic make-up of the huacaya fleece type must be ss. The suri fleece type is dominant and will be seen whenever there is an S allele present. Therefore, we have two genotypes...SS and Ss.

We know that the offspring receive a *random* sample of half the genes in a series from each parent. When an animal has an identical pair of alleles (i.e. SS or ss) it is said to be homozygous for that trait. When an animal receives different alleles from each parent (i.e. Ss), it is said to be heterozygous for that trait. Perhaps a graph will illustrate this better:

Two homozygous suris (SS) will always result in homozygous offspring. The parent's genes are on the edge of the graph and the offspring are in the boxes.

SS	SS
SS	SS
SS	SS

Two heterozygous suris (Ss) will result in one chance of a homozygous suri (SS), two chances of a heterozygous suri (Ss) and one chance of a huacaya (ss).

Ss	Ss
SS	Ss
Ss	ss

A homozygous suri (SS) crossed with a huacaya (ss, always homozygous) will result in a heterozygous suri (Ss) every time.

SS	ss
Ss	Ss
Ss	Ss

A homozygous suri (SS) crossed with a heterozygous suri (Ss) will result in two chances of a homozygous suri (SS) and two chances of a heterozygous suri (Ss).

SS	Ss
SS	SS
Ss	Ss

In crossing suri and huacaya phenotypes, we do NOT embark on several generations of upgrading from a huacaya to a suri. The suri gene is seen in the first generation of offspring. A third or fourth or even tenth generation suri is no better than a first generation suri with regard to fleece TYPE. A huacaya produced from two suri parents will never throw a suri offspring as it does not have a suri gene. A homozygous suri is not necessarily better than a heterozygous suri. The **quality** of a fleece is determined by the fleece **characteristics** not by the fleece **type**. These genes that determine fleece quality are separate from the gene that determines fleece type.

SURI/HUACAYA FLEECE QUALITY

The genes that determine fleece **characteristics** (fineness, density, character, etc) are separate from the gene that determines fleece type. They are large series of gene pairs. The genes interact in a co-dominant manner and contribute incrementally to the traits. The **quality** of the offspring's fleece will usually fall *between* the quality of the sire and dam.

Again, findings from research on alpacas have yet to be published. Most of what we know is derived from experimentation and adapted from other fleece industries (mainly sheep

and goats). Whether Huacaya or Suri, the goal is to produce animals that are homozygous for traits that determine fleece quality. We want fine animals to produce low micron offspring EVERY time. We want to improve density and fleece weight in our herds by using sires that improve this trait EVERY time. We are working on producing Huacayas that pass on crimp to all their offspring and Suris that have penciled locks all the way to the skin. When our animals produce offspring with improved traits in these areas every time, then we are producing homozygous animals for all these traits. This homozygous animal is far more valuable than one that is just homozygous for fleece type.

Genetics is a confusing issue, especially as we don't have all the facts and often play guessing games based on experience. However, as more research is done on larger numbers of animals, our guesswork will be replaced by a true understanding of the underlying gene action that produces outstanding animals.

The Alpaca Lifestyle

Why Raise Alpacas?

There are many different reasons people get into Alpaca farming. The following are a few of the more common reasons cited:

The Lifestyle: The recent demographics tell the story. People living in the city are moving out into rural areas in large numbers. Single family new homes are being built at record levels. Many of these homes are being built on small parcels of land outside many of our cities. Families are seeking refuge from the hustle and bustle of the city and looking for a wholesome way of life for their children. Alpaca farming has made this dream financially possible for many seeking this lifestyle change.

At home small business opportunity: Raising Alpacas provides a great small business opportunity for those looking for a low maintenance secondary source of income while still maintaining a primary career. Alpacas are very easy to raise and require very little time to maintain. Alpaca ranching is a business that truly the whole family can get involved in. The tax advantages to farming also bring many people with high income primary careers into Alpaca ranching to shelter their income from heavy tax burdens.

Enjoying the Animals: Alpacas are very gentle, quiet animals that are safe around even small children. Many find that Alpacas are a very soothing therapy after a long stressful day at work. They truly are relaxing to watch and can be a stress reliever.



Low Maintenance: Whether you choose to raise Alpacas on your own farm, or board them with an experienced breeder, raising Alpacas provides a great home business opportunity. Alpacas are an extremely low maintenance and very healthy animal. Since, they are so easy to raise they require very little time or effort.



Financial Considerations: Investing in Alpacas can provide very lucrative returns. The tax benefits allowed to farmers can enhance the investment opportunities.

Low Risk: Alpacas can be fully insured protecting the owner in case of loss. The insurability of the animal decreases the risk associated with your Alpaca investment.

Livestock Investment



The Greatest Livestock Investment

<u>Introduction</u>	<u>A Brief History</u>	<u>The Earth Friendly Farm Animal</u>
Why do people in so many countries call alpacas the world's finest livestock investment...	Alpacas have coexisted with humankind for thousands of years...	Alpacas have been domesticated for more than 5,000 years...
<u>The Alpaca Advantage</u>	<u>Who Buys Alpacas?</u>	<u>Alpaca Supply and Demand</u>
Alpacas are safe; they don't bite or butt. Even if they did, without incisors, horns, hoofs or claws, little harm can be done...	Alpaca breeders come from many walks of life. For some, alpacas are a source of income, for others a source of pleasure...	The developing market for alpacas has been restricted by lack of supply. There are approximately 12,000 alpacas in North America and about 15,000 in Australia...
<u>The Alpaca Registry</u>	<u>Investment Qualities</u>	<u>Alpaca Compounding</u>
The alpaca industry is new to the U.S., but it has had the foresight to create a basic condition for maintaining the value of its bloodstock, namely, a breed registry...	An alpaca rancher with a small herd on a small acreage can expect to harvest his animals' fleece and sell their offspring profitably..	A major investment benefit of owning alpacas is based on the concept of compounding. Savings accounts earn interest, which if left in the account, adds to principal...
<u>Capital Requirements</u>	<u>Hands-On Alpaca Ownership</u>	<u>Financial Observations</u>
Many breeders start investing in alpacas by purchasing several females and one male. Others wait to purchase a quality breeding male...	There are essentially two ways to own alpacas. The first approach is to simply purchase the animals and begin raising them...	The average annual before-tax cash flow return on the original investment is 26% (27% in years 2-10)...
<u>Tax Consequences</u>	<u>Methods of Financing</u>	<u>Creating a Herd</u>
Raising alpacas at your own ranch, in the hands-on fashion, can offer the farmer some very attractive tax advantages...	Most alpacas are sold for cash. Many buyers convert other assets to purchase their first alpacas...	First, determine your goals for alpaca ownership. Would you like to own an inexpensive pair of gelding males for fiber production or as pets for you and your family...
<u>Alpaca Purchase Contracts</u>	<u>The IAA Investment Advantage</u>	
Every purchaser should require a purchase contract when acquiring an alpaca. A typical contract will call for a veterinarian exam certifying the alpaca's health at the time of purchase...	IAA would like as many people as possible to enjoy the many benefits of the wonderful Alpaca...	

Introduction

Why do people in so many countries call alpacas the world's finest livestock investment? For any investment to be valuable, it must possess certain qualities which make it desirable. Gold is scarce, real estate provides shelter, oil produces energy, bonds earn interest, stocks are supposed to increase in value, and diamonds symbolize love. Alpacas share many of these investment attributes.

Around the world, alpacas are in strong demand, and people pay high prices for them. They are scarce, unique, and the textiles produced from their fiber are known in the fashion centers of Paris, Milan and Tokyo. There are excellent profit opportunities and tax advantages available to alpaca breeders. Historically, the alpaca's value has sustained ancient cultures, such as the Incas of Peru, and today alpacas are the sustaining economic force for millions of South Americans. History has validated the value of the alpaca.

Livestock, or animals raised for profit, was an investment long before financial stocks were sold on the New York Stock Exchange. The richest families of ancient times counted their wealth by the size of their flocks of sheep or herds of cattle. Today, wealth as a result of livestock ownership is not as common, but tending to a graceful herd of alpacas can also be an exciting way to earn a substantial cash flow and live a rewarding lifestyle.

Alpaca breeders enjoy nurturing their animals every bit as much as receiving the profits they provide. The man who created the Beefmaster cattle from imported Limousine stock made the following observation: I know a lot of doctors and lawyers who would like to be cowboys, but I don't know any cowboys who would trade places with them. A retired doctor who is now a full time alpaca breeder had this to say: I would rather raise alpacas than anything I've ever done. Breeding alpacas is a labor of love and very profitable.

Since 1984, alpacas have appeared, almost simultaneously, in several countries where they had never been seen before. The U.S., Canada, New Zealand, France, Australia and England have all acquired the foundation animals for national herds. What makes this animal so desirable? Bottom line: alpacas are both profitable and enjoyable.

A Brief History of Alpacas

Alpacas have coexisted with humankind for thousands of years. The Incan civilization of the Andes Mountains in Peru elevated the alpaca to a central place in their society. The imperial Incas clothed themselves in garments made from alpaca and many of their religious ceremonies involved the animal. Museums throughout the Americas display textiles made from alpaca fiber.

The Spanish conquistadors failed to see the value of alpaca fiber, preferring the merino sheep of their native Spain. For a time, alpaca fiber was a well-kept secret. Beginning in the mid 1800's, alpaca was rediscovered by Sir Titus Salt of London, England.

The newly industrialized English textile industry was at its zenith when Sir Titus began studying the unique properties of alpaca fleece. He discovered, for instance, that alpaca fiber was stronger than sheep's wool and that its strength did not diminish with fineness of staple. The alpaca textiles he fashioned from the raw fleece were soft, lustrous, and they soon began making their mark across Europe. Today, the center of the alpaca textile industry is in Arequipa, Peru; yarn and other products made from alpaca are sold primarily in either Japan or Europe.

Outside of their native South America, the number of alpacas found in other countries is extremely limited. In fact, 99 percent of the world's approximately three million alpacas are found in Peru, Bolivia, and Chile.

The Earth Friendly Farm Animal

Alpacas have been domesticated for more than 5,000 years. They are one of Mother Nature's favorite farm animals. They are sensitive to their environment in every respect. The following physical attributes allow alpacas to maintain their harmony with our Mother Earth.

- The alpaca's feet are padded and leave even the most delicate terrain undamaged as it browses on native grasses.
- The alpaca is a modified ruminant with a three- compartment stomach. It converts grass and hay to energy very efficiently, eating less than other farm animals.
- Its camelid ancestry allows the alpaca to thrive without consuming very much water, although an abundant, fresh water supply is necessary.
- The alpaca does not usually eat or destroy trees, preferring tender grasses which it does not pull up by the roots.
- South American Indians use alpaca dung for fuel and gardeners find the alpaca's rich fertilizer perfect for growing fruits and vegetables.
- A herd of alpacas consolidates its feces in one or two spots in the pasture, thereby controlling the spread of parasites, and making it easy to collect and compost for fertilizer.

An alpaca produces enough fleece each year to create several soft, warm sweaters for its owner's comfort. This is the alpaca's way of contributing to community energy conservation efforts.

The Alpaca Advantage

- Alpacas are safe; they don't bite or butt. Even if they did, without incisors, horns, hoofs or claws, little harm can be done.
 - Alpacas are small and easy to handle.
 - Alpacas are useful: they produce fine and valuable fleece as well as make wonderful pets.
 - Alpacas are intelligent, which makes them pleasant to be around and easy to train.
 - Alpacas are beautiful, come in 22 colors, and are clean and pleasant to be near.
 - Alpacas do not require butchering in order to be profitable.
 - Alpacas do not require special shelter or care.
 - Alpacas are considered disease-resistant animals, which lowers insurance and veterinarian costs.
 - Alpacas are adaptable to varied habitat, successfully being raised from Australia to Alaska and from 15,000 feet to sea level.
 - Alpacas are rare outside of South America and cannot be mass produced.
 - Alpacas require minimal fencing.
 - Alpacas can be pastured at 5-10 per acre.
 - Alpacas are easy to ship, which allow them to be traded across the country or around the world.
 - Alpacas have a relatively long and trouble-free reproductive life span.
 - Alpacas can be insured against loss.
-

Who Buys Alpacas?

Alpaca breeders come from many walks of life. Many are doctors, financial advisors, educators, or cattle farmers, to name a few. For some, alpacas are a source of income, for others a source of pleasure. Some raise alpacas as a full-time business, others commit part-time. From young families to empty-nesters, phased retirement to full-retirement, raising alpacas offers countless options for everyone. Young couples with children might own three or four alpacas and enjoy caring for them. Retired couples, who have raised their kids, sold their business, and retired to the country, are often owners. The family whose members include a hand-spinner might own two or three animals for fiber production. Several large breeders are veterinarians who found the ownership of alpacas to be more rewarding than practicing veterinary medicine. Many herds are owned by families, where one spouse has a city job, and the alpaca business is managed by the other on their small acreage in the country. A large number of breeders are working couples who tend their herd in the evening after work. All of these alpaca breeders, big and small, enjoy their animals and feel good about owning an investment they can hug.

Some owners don't actually raise their animals on a day-to-day basis. They live in the city, and are building their herd toward the day they might change careers or retire to the country life. For all owners, alpacas offer a great way to diversify their financial portfolio with a commodity that is both rare and in demand worldwide.

There are big ranches with over 100 alpacas, and small farms of only two or three alpacas. The average alpaca herd is made up of about eight to ten alpacas. Most herds start out small and evolve to the size which fits the breeder's farm and financial goals.

Almost all breeders are in business for the long haul; they believe in the future of the animal. With the small number of alpacas currently available, there will be an extended and steady demand for breeding stock to continue meeting the needs of our growing industry for many years.

It is important to recognize that alpaca ownership has inherent risks as do all livestock and financial investments. It is recommended that you talk to breeders to familiarize yourself with the risks as well as the rewards of alpaca ownership.

Alpaca Supply and Demand

The developing market for alpacas has been restricted by lack of supply. There are approximately 100,000 alpacas in North America. Until recently, there has been little aggressive marketing of the animal, very few auctions, and very little national media attention for the alpaca. Yet both North America and Australia have experienced exceptional demand for alpacas at very high prices. Canada has an active alpaca market..

Supply will continue to be restricted in the near future for a number of reasons:

Alpacas reproduce slowly.

Many breeders retain their offspring, building their herds.

The U.S. Registry (ARI) has closed to new imports. Only cria born from 2 ARI registered parents are accepted into the ARI registry.

Import of the animal from South America is very restricted, as well as difficult, risky and expensive. The importer risks losing his entire investment if the animals develop health problems in the quarantine or experience any number of other potential problems.

Mass production of cria, or babies, via embryo transplant is not feasible, since ARI does not recognize these cria and will not accept them into the registry.

The limited size of the national herds in each country outside of South America will restrain growth for some time to come.

Some South American countries have developed export limitations to protect their national herds.

Demand for alpacas has increased dramatically every year since their introduction outside of South America. The American and Australian breed associations each publishes a full color Alpacas magazine which is available to its members.

Not only are there more breeders entering the alpaca market each year in established countries such as Canada, New Zealand, Australia, and the U.S., but there are more countries competing worldwide to establish alpaca herds. Japan, Britain, Israel and France now have alpacas. This growth is sure to continue as the alpaca gains international recognition.

The demand for alpacas is part of a larger appetite for investment in rare breeds. Whole industries have sprung up around ostriches, miniature donkeys and even Tibetan yaks. Investment in rare livestock coincides with people's desire to live in the country, raise their children on a farm, or retire to a rural lifestyle.

Alpacas offer an outstanding choice as a livestock investment. They have long been known as the aristocrat of all farm animals. But most of all, alpacas are easy keepers; they have a charismatic manner, do very well on small acreages and produce a luxury product which is in high demand.

Consumers are drawn to alpaca sweaters with just one touch. Alpaca is several times stronger and much warmer than sheep's wool. The fiber itself is semi-hollow and makes into very light, thermal garments. Alpaca fleece is easy to process and readily spins into both woolen and worsted yarn. Fabrics made from alpaca are sewn into the finest European suits and jackets.

Historically, alpaca production has been concentrated in the high Andes Mountains where there is limited pasture. The worldwide population of alpaca is barely three million animals. As a result, alpaca is considered a specialty fiber with limited available supply. Alpaca fleece is comparable to cashmere in softness and is often mixed with other fibers, such as mohair, to vary the texture of the yarn produced. A future domestic commercial market for large volumes of alpaca fleece is easily envisioned and plans for a national fiber co-op are well under way.

The potential market for an animal with the characteristics of the alpaca is vast. Alpacas are loved by their owners and respected by those who process or wear products made from their fleece. They are truly the world's finest livestock investment.

The Alpaca Registry (ARI)

The alpaca industry is still relatively new to the U.S., but it has had the foresight to create a basic condition for maintaining the value of its bloodstock, namely, a breed registry. The alpaca registry is a state of the art and highly sophisticated system to document bloodlines.

Each animal is blood-typed prior to registration. Alpaca crias (babies) cannot be registered unless their dam and sire are also registered and their parentage is proven by the blood test. The owner of each registered alpaca receives a certificate which documents its bloodlines and serves as evidence of ownership for the animal.

The value of this registry cannot be overstated. Almost every alpaca in the U.S. is registered. Alpacas without registration papers are difficult to sell. As a result of the registry, bloodlines have been kept pure, and cross breeding with other camelids has been virtually eliminated. Every alpaca breeder's investment benefits from this bloodstock registry.

Investment Qualities

An alpaca rancher with a small herd on a small acreage can expect to harvest his animals' fleece and sell their offspring profitably. The value of alpaca fleece is the economic underpinning of the future market for alpacas. Breeders outside of South America are beginning to organize wool co-ops for the commercial processing of the fleece. Domestic fiber is often sold to cottage industries which revolve around hand-spinning and weaving. Most alpaca ranchers readily sell their fleece for \$2 to \$5 an ounce to local artisans. Each animal will produce five to eight pounds of fleece a year. A North American fiber co-op (AFCNA), endorsed by the Alpaca Owners and Breeders Association (AOBA), is in its formative stages and very soon will provide a commercial outlet for all breeders.

The current alpaca industry is based on the sale of quality breeding stock, which demands premium prices. Female alpacas begin breeding at between 14 and 18 months of age; males breed beginning at about three years. The females produce approximately one baby per year during a reproductive life of about 20 years.

The factors which influence individual alpaca prices include color, conformation, fleece quality and quantity, age, and sex. Females sell for more money on average than males, but herdsire quality males command the highest individual prices.

Breeders often prefer one alpaca color to another. However, the parents' color does not necessarily guarantee a cria of the same color. Correct, well-conformed alpacas sell for higher prices. Fleece density, uniformity and fineness also affect the animal's price.

The range of value for females is currently between \$12,500 and \$40,000. Females with unique attributes have sold for more than \$40,000. Young, unproven, high quality stud prospects routinely sell for between \$7,500 and \$25,000. Quality males, with unique characteristics or exceptional offspring on the ground, have sold in excess of \$50,000. Many breeders start with several breeding age females and perhaps a male. Other new breeders may elect to start with several young animals or a breeding pair. There is an approach suitable for your level of interest and financial position. The financial analysis found in this brochure incorporates animal prices which a buyer can expect to pay for good quality, sound breeding stock.

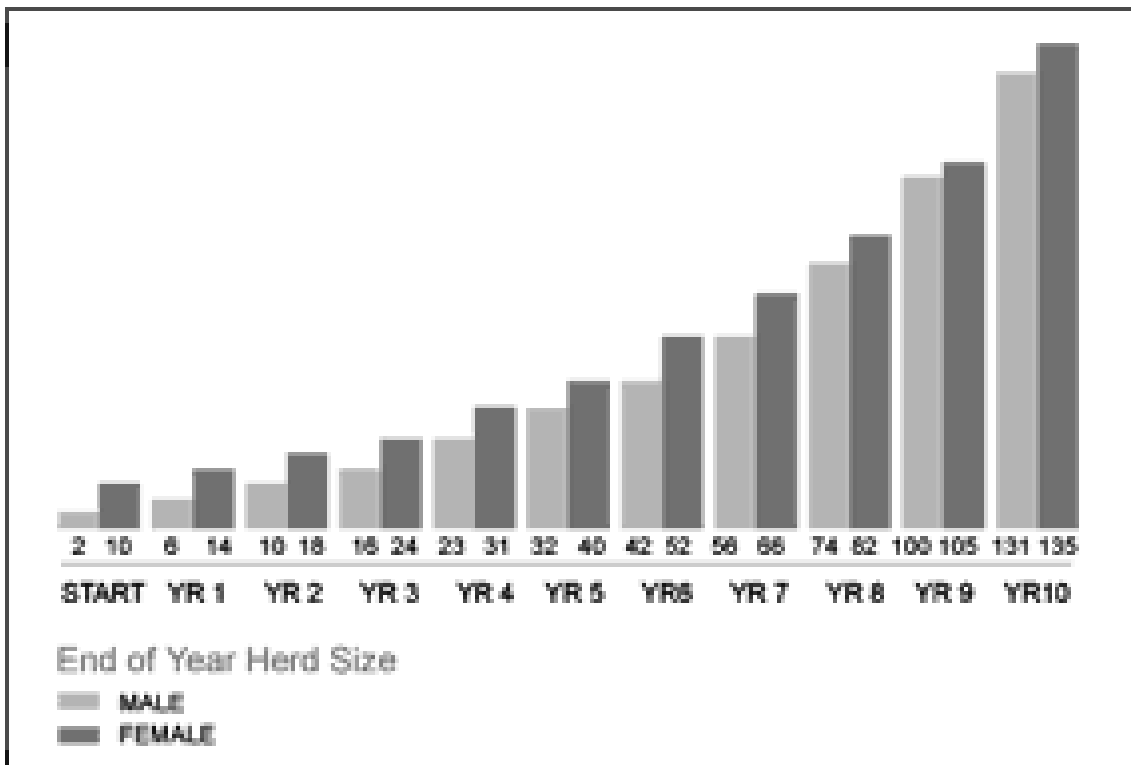
Alpacas are much like diamonds. The market pays a premium for flawless examples of the breed.

Alpaca Compounding

A major investment benefit of owning alpacas is based on the concept of compounding. Savings accounts earn interest, which if left in the account, adds to principal. The increased principal earns additional interest, thereby compounding the investor's return. Alpacas reproduce almost every year, and about one-half of their babies are females. When you retain the offspring in your herd, they begin producing babies. This is Alpaca Compounding. Tax-deferred wealth building is another Alpaca advantage. As your herd grows, you postpone paying income tax on its increasing value until such time as you begin selling the offspring.

The following graph illustrates how a herd might grow in size over a ten-year period, assuming you begin with five pregnant females and two males. The herd growth depicted represents alpaca compounding at work. The initial herd grows to 135 animals, assuming an 80% reproduction rate and a 50% male/50% female birth ratio. Not many investments appreciate at the same rate.

It should be noted that this graph, while clearly illustrating the principle of Alpaca compounding, does not depict the average owners' approach to alpaca ownership. Most breeders elect to sell all or some of the annual offspring production for practical reasons, such as recovering their initial cash flow, acreage and building limitations, and time constraints.



Capital Requirements

Many breeders start investing in alpacas by purchasing several females and one male. Others wait to purchase a quality breeding male. Prices can vary substantially depending on color, conformation, fleece quality, quantity, age and sex.

A small barn or shelter, built especially to house 15 to 20 alpacas, might cost about \$10,000 to \$15,000 if you contract for its construction. Fencing could add several thousand more dollars to your budget.

If you manage the herd yourself, you'll require an inventory of halters, shears, toenail clippers, lead ropes and other miscellaneous gear. These items would probably add \$500 to your initial costs. Insurance is a consideration, and a year's supply of feed and grain will probably be required.

If a person were to begin raising alpacas at his own ranch, a typical start-up budget might look like this:

Acquisition of One Pregnant Female and One Young Female	\$40,000
Insurance, One Year 1	\$300
Equipment	\$500
Small Barn and Fences	\$12,000
One Year's Feed	\$300
Veterinarian and Miscellaneous Reserve	\$900
TOTAL	\$55,000

Hands-On Alpaca Ownership

There are essentially two ways to own alpacas. The first approach is to simply purchase the animals and begin raising them. The second approach is to purchase the animals and place them in the care of an established breeder. This arrangement for care and boarding of an animal on behalf of another is known as agistment. Under this method you, as owner, would still make the important decisions about care, breeding, sales, etc.

This brochure will focus on the owner raised scenario. Many breeders will work with you to develop an analysis designed for your particular situation; however, you are encouraged to independently develop your own financial analysis utilizing professional support, if necessary. Expenditures of funds indicated in this brochure warrant a full assessment of risks and the buyer needs to establish a comfort level that this is the right investment for their lifestyle.

Analyzing the feasibility of alpaca ownership requires making a set of assumptions. Determining the costs associated with raising the animals and how much they might sell for in the future are the basic elements used in projecting a return on the investment. The assumptions found in this brochure are estimates based on many breeders' experiences.

The hands-on method of raising alpacas, as either a part or full time business, requires that the alpaca breeder own a small farm or acreage. The property would need to be properly fenced and have a small barn or shelter. Many new owners already have outbuildings suitable for alpacas. The alpaca owner is presumed to supply the day-to-day labor.

The analysis in this brochure is easily adapted to any size herd, whatever your financial situation and lifestyle may support. Many new buyers start with a breeding pair or with two females (and purchase stud services). The financial returns are similar at different ownership levels, so don't feel that you have to be a large farm to participate.

Two different financial analyses have been provided to illustrate this point. The [first analysis](#) was selected to reflect a program designed around selling all offspring to provide the shortest payback period to recover the initial outlay. The [second analysis](#) blends selling offspring and adds an element of herd growth. Both approaches have been utilized successfully within the industry. You can examine each approach and determine which scenario is most appropriate for your situation.

Major Assumptions Of Both Scenarios:

The sale price of a female offspring (of breeding age) you raise is equal to the original cost per female in your initial herd. Younger offspring that are not of breeding age sell for less than mature animals. In this analysis, five pregnant females were purchased for \$22,500 each. There are two herdsire quality males included in your initial purchase at \$15,000. The sale prices for the males you produce were assumed to average \$5,000 each. This allows for the fact that all males produced and sold would not be of herdsire quality.

You insure the herd for full mortality. Smaller herds are often fully insured against all risk, with no deductible, for about 3.25 percent of value.

It is assumed that you would have \$12,500 in start-up costs for such things as barns, fences and equipment.

These improvements should also add value to your real estate and could be depreciated for tax purposes.

Financial Observations

Flat Herd size scenario

The average annual before-tax cash flow return on the original investment is 26% (27% in years 2-10). This is an impressive return, but remember to consider all the hard work your family puts into nurturing this investment, although most alpaca breeders delight in the fact that they are being paid so well to live the lifestyle of their choice.

The payback period, based on before-tax cash flow, is slightly over 4 years, with the original herd still intact.

Growth Herd scenario

Cash flow return %'s are fixed at 27% in the Flat Herd size scenario. The cash flow return %'s in the Growth Herd scenario increase to 64% by year 10.

The 10 year cumulative cash flow is \$93,000 higher than the flat herd size scenario. Cash flows are lower in years 1-3 and higher in years 4-10. The payback period, based on before-tax cash flow, is 5 1/2 years, which is one year longer than the Flat Herd scenario. This is a result of foregoing short term sales in favor of putting additional females in production.

8 breeding females have been added to the herd, a value of \$180,000 at the end of year 10, which is in addition to the overall cash flow benefit as compared to the Flat Herd size scenario.

Growing the herd size is a tax deferred method of wealth building.

Both Scenarios

There are opportunities to increase profits by boarding animals (\$600 to \$1,200 per animal per year depending on geographic area), or by standing a superior male at stud (\$1,000 to \$2,500 per stud service). Your willingness to board could be a huge marketing advantage as many prospective customers do not have the facilities in place for animal care.

The major tax advantages of alpaca ownership include the employment of depreciation, capital gains treatment, and if you are an active hands-on owner, the benefit of offsetting your ordinary income from other sources with expenses from your farming business. See Tax Consequences of Owning Alpacas section of this brochure.

The financial return using the agisted approach, should you elect to board your animals, is also very good, not often matched by other investments. There are breeders who would be happy to discuss agisting alpacas on behalf of prospective owners.

Quality, color, sex of offspring, and strength of the overall industry could influence results positively or negatively.

It is important that you make a purchase decision using assumptions that reflect your personal tax and financial situation, as well as your own assessment of the alpaca industry.

Tax Consequences of Owning Alpacas

Raising alpacas at your own ranch, in the hands-on fashion, can offer the farmer some very attractive tax advantages. If alpacas are actively raised for profit, all the expenses attributable to the endeavor can be written off against your income. Expenses would include not only feed, fertilizer, veterinarian care, etc., but depreciation of such tangible property as breeding stock, barns and fences. These expenses can also help shelter current cash flow from tax.

The less active owner using the agisted ownership approach may not enjoy all of the tax benefits discussed here -- but many of the advantages apply. For instance, the passive alpaca owner can depreciate his breeding stock and expense the direct cost of maintaining the animals. The main difference between a hands-on or active farmer and a passive owner involves the passive owner's ability to deduct his investment losses against his other income. The passive investor may only be able to deduct losses from his investment against gain from the sale of animals and fleece. The active farmer can take the losses against his other income.

Alpaca breeding allows for tax-deferred wealth building. A small owner can purchase several alpacas and then allow his herd to grow over time without paying income tax on its increased size and value. If the same amount of money was invested in a Certificate of Deposit, any interest earned would be currently taxable. In addition, the C.D. could not be depreciated, thereby offsetting the tax due on current income.

We recommend that you engage an accountant for advice in setting up your books and determining the proper use of the concepts discussed in this brochure. A very helpful IRS publication, #225, entitled, *The Farmers Tax Guide*, can be obtained from your local IRS office. The aim of this discussion of IRS rules is to make you more conversant in the issues of taxation as they relate to raising alpacas.

To qualify for the most favorable tax treatment as a farmer, you must establish that you are in business to make a profit. You cannot raise alpacas as a hobby farmer or passive investor and receive the same tax preferences as an active, hands-on, for profit farmer. A farming operation is presumed to be for profit if it has reported a profit in three of the last five tax years, including the current year.

If you fail the three years of profit test, you may still qualify as a for profit enterprise if your intention is to be profitable. Some of the factors considered when assessing your intent are:

- You operate your farm in a businesslike manner.
- The time and effort you spend on farming indicates you intend to make it profitable.
- You depend on income from farming for your livelihood.
- Your losses are due to circumstances beyond your control or are normal in the start-up phase of farming.
- You change your methods of operation in an attempt to improve profitability.
- You make a profit from farming in some years and how much profit you make.
- You or your advisors have the knowledge needed to carry on the farming activity as a successful business.
- You made a profit in similar activities in the past.
- You are not carrying on the farming activity for personal pleasure or recreation.

You don't have to qualify on each of these factors -- the cumulative picture drawn by your answers will provide the determination. Once you've established that you are farming alpacas with the intent to make a profit, you can deduct all qualifying expenses from your gross income.

If you are a passive investor, you are still allowed the tax benefits discussed below. The issue is whether you will be able to take the losses on a current basis. All the losses can be taken against profits or upon final disposition of the herd. The discussion from here forward presumes you are a

cash basis taxpayer and you keep good records. Accrual basis taxpayers would also be allowed the same tax treatment, but their timing might be different.

First, the following items must be included in both a passive investor's and a full time farmer's gross income calculations:

- Income from the sale of livestock
- Income from sale of crops, i.e. fiber
- Rents
- Agriculture program payments
- Income from cooperatives
- Cancellation of debts
- Income from other sources, such as services
- Breeding fees

The following expenses may be deducted from this income. Please note, if you are agisting your animals, not all of these deductions may apply on a current basis.

- Vehicle mileage for all farm business miles (IRS publishes current rate)
- Fees for the preparation of your income tax return farm schedule
- Livestock feed
- Labor hired to run and maintain your farm (remember, you must not deduct the expense of maintaining your personal residence)
- Farm repairs and maintenance
- Interest
- Breeding fees
- Fertilizer
- Taxes and insurance
- Rent and lease costs
- Depreciation on animals used for breeding
- Real property improvements such as barns and equipment
- Farm or investment-related travel expenses
- Educational expenses, which improve your farming or investment expertise
- Advertising
- Attorney fees
- Farm fuel and oil
- Farm publications
- AOBA (breed association) dues
- Miscellaneous chemicals, i.e., weed killer
- Veterinarian care
- Tools having a useful life of less than one year
- Agistment fees

Please note: For hands-on farmers, personal and business expenses must be allocated between farm use and personal use; only the farm use portion can be expensed for such expenses as telephone, utilities, property taxes, accounting, etc.

Once active alpaca farmers have determined their net income or loss, it is included on their tax return as an addition to or a deduction from their ordinary income. Losses can be carried back for three years and forward for 15 years. To deduct any loss, you must be at risk for an amount equal to or exceeding the losses claimed. The at risk rules mean that the deductible loss from an activity is limited to the amount you have at risk in the activity. You are generally at risk for:

- The amount of money you contribute to an activity
- The amount you borrow for use in the activity

The passive owner's losses which are in excess of current income can be carried forward and taken against future income. In other words, the passive owner does not lose the deductibility of expenses, but the timing of the losses may be different.

All taxpayers must establish the cost basis of their assets for tax purposes. This basis is used to determine the gain or loss on sale of an asset and to figure depreciation. In determining basis, you must follow the uniform capitalization rules found in the IRS code. Animals raised for sale are generally exempt from the uniform capitalization rules, and there are other exceptions for certain farm property. You need to become familiar with these rules.

Once you've established the cost basis of your various assets, you take a deduction for depreciation against your annual income. This process allows you to expense the historic cost of an asset to offset present income. The effect is to create non-taxable cash flow on a current basis. This benefit is especially attractive in an environment of higher taxes.

Alpacas in which you have cost basis can be written off over five years if they are being held as breeding stock. There are several methods of writing them off, beginning with the straight-line method which allows you to deduct one-fifth of their cost each year, except the first year, in which the code allows for only six months of write-off. There are also several accelerated schedules which allow for a larger percentage of the asset to be written off early. Alpaca babies produced by your females have no cost basis and cannot be written off, although they may qualify for capital gain treatment on sale.

Capital improvements to the active or hands-on alpaca breeder's ranch can also be written off against income. Barns, fences, pond construction, driveways, and parking lots can be expensed over their useful life. Equipment such as tractors, pickups, trailers and scales each have an appropriate schedule for write-off. The depreciation schedule for each asset class varies from three years to 40 years.

There is also a direct write-off (expense) method known as Section 179 that allows a substantial deduction each tax year for newly acquired items that are normally long-term depreciable assets. While this is subject to several limitations, it is widely utilized by small farms to accelerate expense, if that is appropriate for your tax situation. It is often used by owners that are currently in high tax brackets that are changing their lifestyle in the next several years to a lower income level.

The original cost basis of an asset is reduced by the annual amount of depreciation taken against the asset. Other costs add to basis, such as certain improvements or fees on sale. The changes to basis result in the adjusted cost basis of the asset. Upon sale, excess depreciation previously expensed must be recaptured at ordinary income rates. The recapture rules are a bit complex, as are most IRS rules, but the IRS Farmers Publication mentioned earlier explains them well.

When an asset is sold, say for instance a female alpaca which was purchased for breeding purposes and held for several years, the gain or loss must be determined for tax purposes. If an alpaca was purchased for \$20,000, depreciated for two and a half years, or say, 50 percent of its value, and then resold for \$20,000, there would be a gain for tax purposes of \$10,000. In other words, your adjusted cost basis is deducted from your sale price to determine gain or loss.

Once you've determined the amount of a gain, you must classify it as either ordinary income or capital gain. Ordinary income is currently taxed at a maximum rate of up to 31 percent and capital gains are taxed at rates of up to 20 percent. The sale of breeding stock qualifies for capital gains treatment (excepting that portion of the gain which is subject to depreciation recapture rules). Any alpacas held for resale, such as newborn cria which you do not intend to use in your breeding program, would be classified as inventory and produce ordinary income on sale.

The capital gains treatment of sale proceeds has become an even more attractive benefit of investing in alpaca breeding stock due to the 1997 Tax Act reduction in the capital gains tax rate to a top rate of

20% (from 28%) for assets held long-term. It also created a new 10% capital gains tax rate for taxpayers in the 15% ordinary income tax bracket. The holding period to qualify for capital gains treatment lengthened to 18 months from 12 months. The tax break provides a slightly lower maximum rate (18%) in future years for investments held at least 5 years.

There are other tax-saving strategies that can be utilized in concert with investing in alpacas. For instance, you generally can deduct the fair market value of a capital asset which you contribute to a qualifying charity or institution. You can also exchange like for like assets and avoid the tax of a sale. An example of this strategy would be an owner who wanted to diversify his bloodstock. If he sold his alpacas and simply bought more, he would be required to pay tax on his gains. If he exchanged his alpacas for others, there would be no tax due. Employing the exchange concept can be very beneficial; for it to work efficiently, a third-party buyer is usually introduced into the transaction. The model for this type of transaction would be a real estate exchange. A CPA would be familiar with the use of like kind exchanges and how it might benefit you.

Installment sale rules allow you to defer income to future years. If you sell an alpaca with credit terms, you can defer your gain until you receive payment (excepting that portion of the gain which is subject to depreciation recapture rules). If an animal dies of disease and is insured, you can use the involuntary conversion rules in the code. These rules allow tax-free replacement of your animal.

This discussion of tax issues omits a number of rules which could impact your taxes. Tax preference items, alternate minimum taxes, employment taxes and other concepts of importance were not discussed. Whether we like it or not, this is a complicated world we live in; it often requires CPA's and on occasion an attorney.

In summary, the major tax advantages of alpaca ownership include the employment of depreciation, capital gains treatment, and if you are an active hands-on owner, the benefit of offsetting your ordinary income from other sources with expenses from your farming business. Wealth building by deferring taxes on the increased value of your herd is also a big plus. It pays to keep your eye on the tax law changes instituted by Congress. On occasion, you may find a silver lining in the clouds of government.

Methods of Financing

Your Alpaca Purchase

Most alpacas are sold for cash. Many buyers convert other assets to purchase their first alpacas. Some people have a line of credit for investment purposes; others use their equity in real estate to secure funds.

Some breeders offer financing for your purchase. It is typically short term and involves paying for the animals before you take delivery of them. For instance, many breeders will accept the following arrangement:

1. Purchase price \$22,500
2. Down payment <9,000>
3. Three installments of \$4,500 each <13,500>
4. Balance at delivery -0-

A breeder may require that the purchaser obtain insurance for the animals with any balance still owing.

Creating a Herd

First, determine your goals for alpaca ownership. Would you like to own an inexpensive pair of gelding males for fiber production or as pets for you and your family? Are you going to be a full-time or part-time breeder? Will you invest in alpacas for current financial returns or are you going to build a herd toward the day you retire?

Once you've decided on your goal, the path to alpaca ownership will be more easily defined. Maybe you've decided to start a small herd and let it grow over a period of time before retiring and living off the income the herd produces. If so, you'll have the power of compounding on your side.

If you're interested in acquiring a producing alpaca herd with immediate sales, you may want to consider a larger initial outlay. You would probably buy a number of pregnant females who would deliver a cash crop of cria immediately. This larger expenditure might also encourage you to become more involved in the industry and spend more time marketing your herd. Some breeders with bigger herds have full-time ranch managers or hire additional labor to assist them with the day-to-day chores.

However you choose to be involved, there is an Alpaca Approach suitable for you. The industry is very young and represents a ground floor opportunity. Very few investments have the potential to reproduce themselves every year -- as an alpaca does. Today's smaller breeder can choose to be almost any size in the future. An owner, who likes the return alpacas offer, or the lifestyle they provide, can choose any level of investment.

Alpaca Purchase Contracts

Every purchaser should require a purchase contract when acquiring an alpaca. A typical contract will call for a veterinarian exam certifying the alpaca's health at the time of purchase. Other clauses might warrant that a breeding male will, in fact, settle females and that he is not sterile as a condition of birth. A contract for purchase of an alpaca female will often warrant that she is anatomically complete and capable of producing live offspring.

Contracts will specify the financial terms involved and include small details such as who delivers the animals. It is important to know what happens if there is a future problem with the alpaca that you purchase. For instance, a young male could grow up to be sterile. This condition may not be known for one or two years after purchase. Most breeders will agree to replace the animal if this happens.

Contracts are important so that all the elements of a purchase can be accounted for. It is also very important to deal with a breeder of good reputation. Ask for references if you feel the need. You are making a large investment when you buy alpacas and it's important that you feel good about it.

The IAA Investment Advantage

Value = Price + Quality

Indiana Alpaca Association would like as many people as possible to enjoy the many benefits of the wonderful Alpaca and the lifestyle associated with it. Therefore we have a wide variety of ways for you to invest in Alpacas. Our farms have a large selection of animals priced from \$800 and up. Give us the opportunity to show you how we have some of the best values in the marketplace.

The Following are some of the advantages from purchasing Alpacas from Indiana Alpaca Association Members:

- -
 -
 -
 -
 -
 -
 -
 -
-