Investing like an Old Master

By Douglas Rowat

Art investors combine their passion with the potential for financial gain.

In February, when Sotheby's put up for auction an Alberto Giacometti life-sized bronze sculpture, *L'Homme qui marche I (Walking Man I)*, it was widely assumed that there would be a flurry of bidding and that the final sale price would be impressive.

What probably caught most observers off-guard was just how impressive this price would end up being. When the gavel finally came down, the sculpture had sold for US$104.3 million — becoming the most expensive art object ever sold at auction, going for more than three times its estimated value and breaking the previous record for a Giacometti of $27.5 million. The record lasted less than three months. In May, a Picasso painting, *Nude, Green Leaves and Bust*, sold for US$106.5 million.

Is art a good investment?

While these are dramatic examples of singular art value, do they indicate that artwork overall is a good investment? The answer, like the answer to many investment-related questions, is, it depends.

Surprisingly, the art market is actually quite small. According to Bloomberg, the global art market is valued at about US$43 billion. While this might seem large, when put in context, it amounts to only a tiny fraction of the US$10.7 trillion total market value of the S&P 500 at the time of this writing.

In other words, when the investment community looks for opportunity, it rarely turns to art. Further, as Don Thompson points out in his recent book about art economics, *The $12 Million Stuffed Shark: The Curious Economics of Contemporary Art*, when analysts discuss appreciation of the art market, they frequently cite the Mei/Moses Index, which measures art price trends.

However, Thompson highlights that this index only records the more valuable works sold at auction and doesn't represent lower tiers of artwork that frequently decline in value.

There are also a variety of costs associated with art investing, including taxes, insurance, and transaction fees, which detract from profit. And there are major risks, not the least of which is forgery, which can eradicate value in an instant. But if you're an art lover, don't despair — this doesn't mean art has no place in your portfolio.

IMAGE COURTESY OF SOTHEBY'S

L'Homme qui marche I (Walking Man I)
by Alberto Giacometti

According to Viola Raikhel, Director of International Art Advisory at 1858 Ltd., which advises HSBC's high-net-worth clients on art investing, 3% to 5% of a client's portfolio should be in alternative investments such as artwork.

Reduce your "investment" risk

Raikhel also stresses that, as with any investment, there are ways to reduce risk.

For instance, some artists, such as Pablo Picasso or Andy Warhol, are considered "blue chip," with a much higher likelihood of their works appreciating in value.

Investors should also strive to purchase the very best representation of an artist's work within their budget. According to Raikhel, it is much better from an investment perspective to own one high-quality piece than two lower-quality pieces.

For investors on a limited budget, Heidi Lee of New York-based Heidi Lee Art Advisory suggests considering the print market, which features limited-edition "multiples" of noteworthy artwork that often sell for less than 10% of the cost of an original but can still appreciate in value and are still considered high-end investments. Jasper Johns prints, for example, routinely sell for more than six figures.

Ultimately, though, the purpose of art is enjoyment. Says Raikhel: "If you don't love it, you probably shouldn't buy it."

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