

Art as an Alternative Asset Class

What is art?

Painting is silent poetry.

Plutarch, *Moralia*

Painting is poetry that is seen rather than felt, and poetry is painting that is felt rather than seen.

Leonardo Da Vinci

Art is a socially acceptable form of conspicuous consumption.

Jim Chanos, Kynikos Hedge Fund

The beautiful and the sublime

Throughout history, art has been upheld as among the most sublime and meaningful creations of each Civilization. Great artworks have the power to capture aesthetic beauty, to move, to inspire, and to communicate the consummate nature of human experience. Art is a reflection of man's drive for excellence. Look at the visionary works of artists such as Kandinsky, Marc, Pollock, De Kooning; or the master engravings by Antonio del Pollaiuolo, Albrecht Dürer, Rembrandt and Goya.

'Artists are special people — they are capable of understanding the world with more acuity and sensitivity.'

François Pinault
major shareholder of Christie's,
Gucci and Château Latour

Art as the ultimate luxury

It is not surprising that the ultra-rich, opulent or potent, are attracted to great works of art: pharaohs and Kings of the ancient world; popes and Medici of the Renaissance; industrialists of the 19th century; and today, the modern day oligarchs. Having striven to reach the top they find affinity with the struggling artist, who, driven by his muse, strives to communicate the sublime.

Prolific genres and visionary movements

Delve into the artist's world and you will see the major genres of drawing, sculpture, printmaking, painting, photography, video and installations. Study the major eras and movements from the ancient world to the Renaissance to the present. Encounter the diversity of the Ming dynasty, Iznik art, Italian Rococo, and the myriad movements that encompass Western modernity: impressionism, post-impressionism, expressionism, cubism, surrealism, modernism, post-modernism.

Collecting art is not just for the modern-day Medici

To the neophyte art lover the world of art is a world of glamour, sophistication, luxury and romance. There is an inter-linking of the worlds of art, haute couture, haute cuisine, fine wine and celebrities and each enhances the lustre of the other, producing a seductive lifestyle that is attractive to those with the opportunity to collect. Whether attending Basel Art Fair or visiting the Punta Della Dogana, bidding competitively at Christie's against Big Larry G, Budi Tek or the Mugrabi family, art can give one a social 'high.'

'The allure of art is its marrying the qualities of luxury goods with promises of high investment returns and unrivalled social prestige.'

Art of the Deal,
Noah Horowitz

‘Holy Moly’ — A glimpse into the world of art with a competitive night at Christie’s NY

In her article, for the FT, Georgina Adams describes the sale of May 13th 2014 at Christie’s: ‘As afternoon turned into evening, limousines lined up outside Christie’s Rockefeller Plaza headquarters. Elegantly dressed visitors made their way past Marc Quinn’s eye-catching sculpture...’

*Big Bucks: The Explosion
of the Art Market in the 21st
Century*

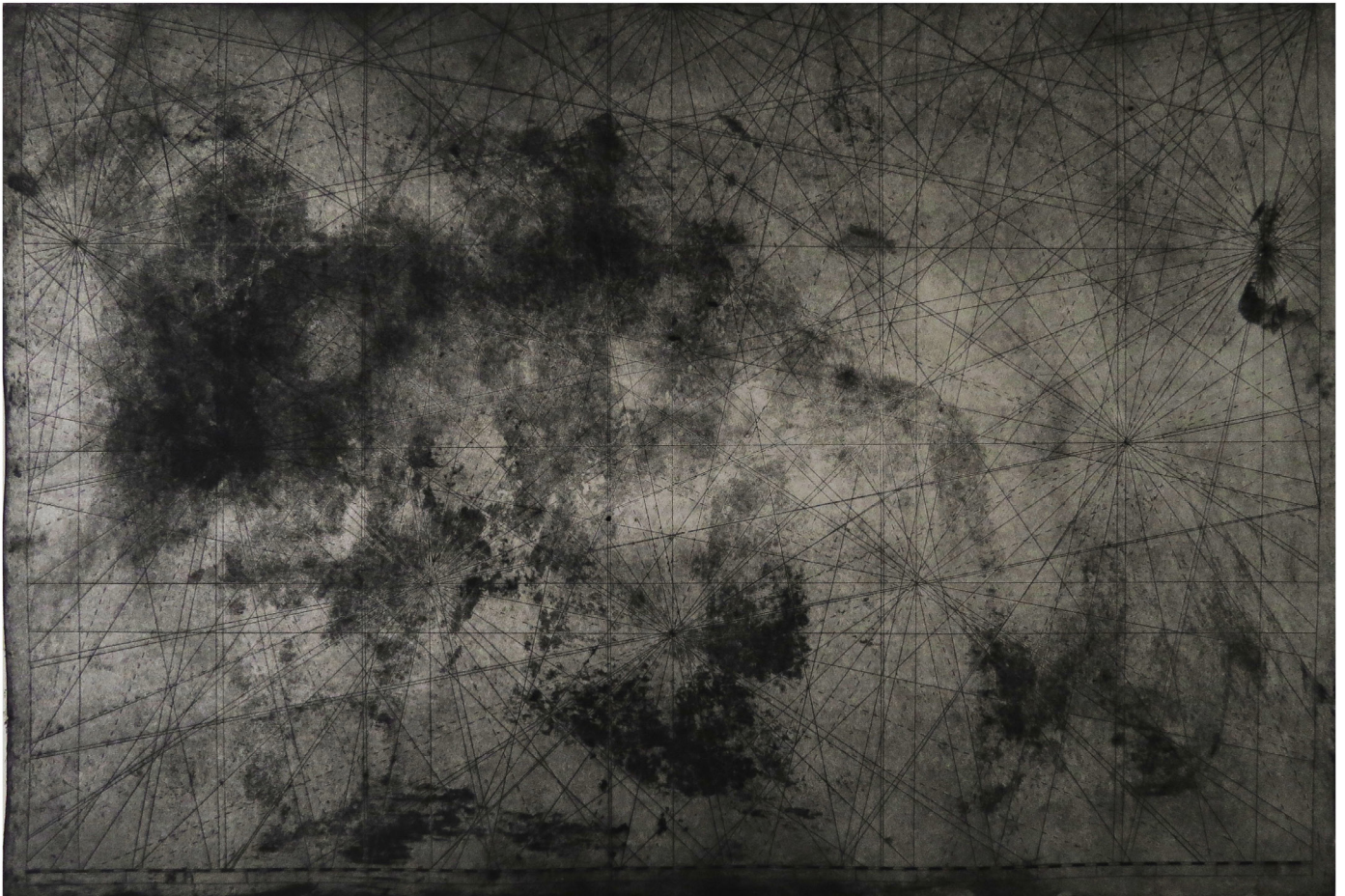
by Georgina Adam

‘The saleroom was packed. All the regulars were there: Larry Gagosian, kingpin of art dealers; members of the Mugar family, traders with a massive position in Warhol and Basquiat paintings; François Pinault, luxury-goods mogul, owner of Christie’s, collector, and founder of two museums in Venice. And the glitterati, too: designer Marc Jacobs; Olivier Sarkozy, half-brother of France’s former president Nicolas, snuggling up to his fiancée, the actress-turned-fashion designer Mary-Kate Olsen. And, above the main floor, in ‘light-boxes’ or private rooms with a view of the action, were the players who wanted to see but not be seen. The sale started in high gear; the records piled up; even seasoned dealers were stunned. ‘Holy moly,’ whispered dealer and collector Adam Lindemann to his neighbour as a Warhol White Marilyn zipped to \$41 million; by the end, the sale had totalled almost \$745 million — the highest-grossing ever.’

If you consider yourself a philanthropic patron of the arts but lack deep pockets or a substantial bank account then you need not worry. You do not have to be a Carlos Slim, Getty, Gates or Buffet to emulate Giovanni di Medici.

Collecting works from unknown artists before they receive recognition amongst the cognoscenti can be both lucrative and enjoyable. The film producer Stefan Simchowitz is reported to have bought 34 paintings by the Colombian artist Oscar Murillo for a total of \$50,000 early in the artist's career; the works now make up to \$400,000 each at auction.

The aim is to find the most imaginative and talented artist and if you are successful you might discover the next Judd, Ai Weiwei, Cattelan, Tyeb Mehta, or Candido Portinari. This is where Liz Xi can help.



*'Progressive Navigation
1596 Art Collection'*
Theodore Ereira-Guyer
2015

Is art an investment?

Collectors have always valued art very highly and as early as 700 BC we see the beginnings of important collections: in Babylon, King Ashurbanipal (669–630 BC) constructs the famous library; Nebuchadnezzar (605–562 BC) collects objects.

John Evelyn the diarist, whose memoirs are contemporaneous with those of Samuel Pepys, observed in the 17th century that it was quite normal to find Dutch farmers paying the equivalent of up to £3,000 for paintings and then reselling them at ‘very great gains.’

In 1886 the writer Émile Zola observed of art prices: *‘Prices go up and up, and painting degenerates into something shady, a kind of gold mine situated on the heights of Montmartre, promoted by a number of bankers, and around which there is a constant battle of bank notes.’*

Guy de Maupassant’s character Monsieur Walter, the business Mogul in *Bel-Ami*, knew how to take advantage of these rising prices and reveals the secret of his art investment strategy: *‘at present I am buying the works of young men, quite young men and I shall hold them up in the private rooms until the artists have become famous... Now’s the time to buy pictures. The artists are starving, they haven’t a sou, not a sou.’*

What’s new?

Art and money have always been united and observations on this relationship go back hundreds of years. Giorgio Vasari, in the sixteenth century, promoted the status of the finest contemporary artists and their relationship to their patrons, the wealthy rulers of Italy, in his renowned ‘Lives of the Artists’; Émile Zola, writing in the 1880s, satirised a family *‘that cannot restrain itself in its rush to possess all the good things’*; art collector Richard Rush in the 1960s wrote *‘Art as an Investment’*; and art historian Gerald Reitlinger wrote *‘The Economics of Taste’* in 1961.

‘It is doubtful whether collectors have ever been unmindful of the investment value of art’

Art as an Investment
Richard Rush 1961

The late 1980's art market made investing seem a sure fire way to a financial killing.

Investors Chronicle

The art market is on the upswing and that's official.

Times

Art prices are poised for a 1980's style Renaissance.

The Economist

They can boast of a cosmopolitan appeal which nationally quoted equities can never hope to match and can be traded all over the world which makes them ideal for the expatriate investor.

F.T.

Contemporary art sales reach a new high in a sign of a huge increase in buyer's wealth, as well as a greater depth of supply. For buyers it's all about status and that in itself is an investment.

Colin Gleadell, May 2014

This year's art market report shows that in 2014 the global art market reached its highest ever recorded level, a total of just over \$68 billion worldwide.

TEFAF, March 2015

I think we're going to see a 10-year boom in the art market.

Philip Hoffman, CEO of the Fine Art Fund Group

New records are being set all the time:

'The art world shook on May 11th when a painting by Pablo Picasso — *Les Femmes d'Alger (Version 'O')* (below) — was sold for \$179 million at a Christie's sale in N.Y., the highest sum ever paid for an artwork at auction.' — The Economist, 16 May 2015



'Last month an anonymous buyer paid \$300 million for Paul Gauguin's *'When Will You Marry?'* (next page)— the highest price ever paid for a work of art. A few days later another record was broken when an American paid £30 million for a painting by Gerhard Richter — a record for a living European artist. On average prices of contemporary and post-war art have risen by 19% over the past year.' (source: The Economist, 4 April 2015)

'Les Femmes d'Alger'
(Version 'O')
Pablo Picasso 1955

A balanced voice from Liz Xi

Despite the hullabaloo and amid reports of surging returns we at Liz Xi would urge collectors to take care and not rush into collecting art without much deliberation. The starting point is always the acquisition of knowledge and cultural ambition, which will always yield a greater variety of fruit than a mere mercenary approach. Start by reading our online articles; study our specialist reports: *'How to Develop an Eye for Art'* & *'How to Build a Successful Collection.'*

[How to Develop an Eye for Art – direct link to the course](#)

Many buyers of art consider their works to be an investment. A survey carried out by AXA revealed that private investors consider art to be a more important investment than either government bonds or equities.



'When Will You Marry?'
Paul Gauguin 1892

Buying art to make money is nothing new. The aristocracy and cultured professional classes have been collecting art for generations and continue to do so. As well as the Medici's and the Roman emperors.

Roald Dahl and Sir John M. Keynes were both collectors. Roald Dahl, the children's author, was astute to buy Bacon's *'Study for Head of Lucian Freud'* in 1967 for £2,850 with the proceeds from his book *'Charlie and The Chocolate Factory.'* It was sold recently at Christie's for £11.500.000: Whipple-scrumptious! By way of a comforting sense of schadenfreude, Dahl should have bought Bacon's 1969 triptych of portraits of Lucien. This piece sold for \$142.4 million in 2013 breaking the record set by Edvard Munch's *'The Scream'* which fetched \$120 million. Doubly whipple-scrumptious.

Sir John Maynard Keynes is not only a legendary economist; he was also a successful investor who amassed a fortune. In addition, he was an avid collector of art who built a substantial collection of priceless works: Edgar Degas, Amedeo Modigliani, Braque, Picasso, Seurat and Cezanne (who's *'Still-life with Apples'* he acquired for £500 after the National Gallery declined to buy it). These works can be appreciated, thanks to the great economist, at the Fitzwilliam Museum in Cambridge. How much would his collection be valued at today? The works are priceless but comparative estimates indicate billions.

'Don't forget what happened to the man who suddenly got everything he wanted: he lived happily ever after.'

Mr Wonka, *Charlie and the Chocolate Factory*, Roald Dahl

*'There's nothing wrong
with things ending well'*
Cătălin Petrișor 2001



How large is the Art market?

The European Fine Art Foundation commissions the definitive report on the global art market and as mentioned earlier the 2014 report estimates that the market reached its highest ever-recorded level of just over \$68 billion.

'The net effect is that more money, from more places, has poured into the art market than ever before, inspiring ever more creative ways to put this capital to work.'

Some key findings from the TEFAF report:

The global market was dominated by three major art markets: USA (39%) CHINA (22%) and the UK (22%) in 2014.

Noah Horowitz
The Art of the Deal

Dr Claire McAndrews commented, 'the art market reached its highest ever recorded level of sales with the continuing strength in modern, post-modern and contemporary art.'

In 2014, post-war and contemporary art continued to dominate the art market. They constituted 48% of all fine art sales, with sales of modern art accounting for 28% of the global auction market.

At the end of 2013, the population of HNWI's (investable wealth of over \$1 million) was approximately 13.7 million, advancing 15% year on year while their wealth grew 14% to \$53 trillion.

The USA was the key centre for sales of post-war and contemporary art with a share of 46% of the market.

The price of traditional Chinese works of art rose by 163% during 2005-2013, according to Coutts Index. As an example of rising prices, in Sotheby's Hong Kong sale in Autumn 2013, the 'Last Supper' by Zeng Fanzhi sold for \$23.1 million – a record price for contemporary Asian art. A Swiss collector had bought the piece in 2001 for just \$20,000.

The art market in 2014 was made up of some 309,000 companies employing an estimated 2.8 million people.

We are witnessing, in our art meccatuna, a positive shift in market paradigms: growth of the plutocracy; globalization of Museums (Guggenheim-Krens Consequence); globalization of galleries (Larry G Leverage); globalization of art fairs (Basel-Frieze effect); the proliferation of art foundations (Cartier-Perrin Pull); the emergence of art market indices (Mei Moses Moment); the rise of private museums (Gallatin-Liu Yiqian inspiration); the profusion of corporate art collections (Rockefeller Dictum) and innovative curating (Obrist-Valmorbida spark) resulting in a market with more depth, liquidity and transparency.

ELIZABETH XI BAUER

Meccatuna: universe or the whole shebang

Country spotlights

The Gulf States – Qatar

From nowhere, the tiny Emirate Qatar has become the world's biggest art buyer after the Royal Family inaugurated an ardent spending spree to enhance its portfolio of art for the 2022 World Cup. In 2012, Edward Dolman (poached from Christie's) was appointed as Acting Chief Executive Officer of the Qatar Museums Authority (QMA). He stayed in this position for three years and oversaw drastic development. He humbly remarked: *'We had a good and strong relationship with them. They felt it was time to increase investment in senior management.'*

He oversaw the new acquisitions for Qatar's museums: the Arab Museum of Modern Art and the Museum of Islamic Art. He was able to develop a wide-ranging ten-year strategic plan for the development of arts and culture in Qatar and focused on the development of a cultural diplomacy programme, which included the highly successful 2013 Qatar/UK Year of Culture.

'The astonishing firepower of the Gulf states which are frantically building new museums, as well as amassing collections of art, is changing the market in more ways than one.'

Georgina Adams

With its oil and gas riches, and a resident citizen population of about 250,000, Qatar is estimated to have spent billions of dollars on cultural development. Recently acquiring Paul Cézanne's *'The Card Players'* (below) for \$250 million, double the previous world record. It has also acquired from the famous collections of Claude Berri and Ileana Sonnabend and it is understood to have bought Bacon's *Three Studies of Lucian Freud* for a record \$140 million.

'The Card Players'
Paul Cézanne 1890



The Gulf States – UAE

Similar cultural initiatives are taking place in other Gulf States. Although associated with lavish tourist destinations, it is now fast becoming a cultural epicentre in its own right.

The emirate Abu Dhabi is developing an entire region called Saadiyat Island into a cultural capital. One of the key institutions will be a branch of the Louvre (designed by the prestigious architect Jean Nouvel). In 2007, Abu Dhabi signed a deal with French officials worth over £663 million to buy the use of the Louvre's name, to construct the museum and to facilitate special exhibitions and cultural loans from French institutions.

The island also has the 450,000 square foot Guggenheim museum (designed by the infamous architect Frank Gehry). It is the largest Guggenheim in the world. It houses its own major modern and contemporary art collection and presents special exhibitions that will include works from the Guggenheim Foundation's extensive collection. It will have global art, exhibitions, and education programs with a particular focus on Middle Eastern contemporary art.

It also inspires to promote artistic creation through on-site commissions: 'Artists will be invited to produce site-specific commissions for the collection and for the exceptional spaces in the museum building. In addition, the museum will be a catalyst for scholarship in a variety of fields, chief among them the history of art in the Middle East in the 20th and 21st centuries' – Guggenheim Abu Dhabi's website mission statement.

Furthermore Abraaj Capital, the largest private equity group in the Middle East, has become a major beneficial force for artistic creation in the Middle East. It has established the Abraaj Capital art prize and is the main pillar of support for ART Dubai.

It is: 'only recently that a lavishly funded programme of art fairs, museums and art galleries has made the UAE a recognisable cultural force in the art world, rather than a geo political one.'

Appleyard and Salzmann
Corporate Art Collections
Handbook

'Louvre Abu Dhabi will offer a global vision of history of world art, one that will inevitably evolve over time. This evolution will be shaped by different loans and gradual enrichment of the collection, and, above all, by acquisition of new knowledge and adoption of fresh approaches.'

Louvre Art Abu Dhabi's website
mission statement

Others — Iran

Empress Farah Pahlavi, the wife of the late Shah of Iran, was an avid collector and patron of the arts. The Tehran Museum of Contemporary Art (TMoCA) was inaugurated by the Empress in 1977. It is one of the largest museums in Iran and features works by Monet, Van Gogh, Renoir and Pollock. Although held in storage the collection is said to be worth \$2.5 billion. Therefore, it is considered to have the most valuable collection of modern Western masterpieces outside Europe and North America.

Its former director Ali-Reza Sami Azar, who has previously worked for Christie's as its Iranian representative, is a powerful patron for artistic development in Iran. He has recently founded his own auction house Tehran Auction. Last year, the Modern and Contemporary Iranian Art auction made £4.3 million almost doubling predictions.

Certain artistic hotspots have emerged in Iran. Such an example is the Artist's Forum in the Honarmandan Park, Tehran, around which a distinct art scene has been developing becoming a sanctuary for artists to congregate. Young Iranians have turned contemporary art into a powerful social force.

Now that Iran's nuclear accord with world powers has won approval of the Islamic republic, Iranian artists are being acknowledged outside of Iran too, particularly in London. Such artists include Golnaz Fathi who is represented by October Gallery. This new recognition is expected to act as a fillip to the interest in the Iranian art market. One such example is the approaching Sotheby's London sale; the first single-owner Iranian Modern and Contemporary Art sale *'Alchemy: Objects of Desire'* with artworks from established Iranian artists such as Farhad Moshiri.

'The growing art market in Iran is significant and is sustained by a new generation of local collectors. The recent Tehran auctions have been showing consistently strong prices. There has been notable interest in Iranian modern masters like Sohrab Sepehri, Marcos Grigorian and Parviz Tanavoli.'

Shiva Balaghi, a cultural historian of the Middle East at Brown University

'It's striking that, in general, Iranians are very daring in photography and video, and tend to be less innovative in traditional media such as painting and sculpture. Somehow new media lend themselves to the issues that Iranian artists are tackling, and Iranian artists, or the best Iranian artists, are very issue-based.'

Ali-Reza Sami Azar

China

The Chinese government has declared its intention to dedicate 5% of GDP to cultural industries by 2016 making it a 'new pillar industry for the economy.' Corporate collecting is booming in China, for example the recent display of emerging artists by China's Zhong De Securities; plus the collections of the Taikang Life Insurance Company and Minsheng Banking Corporation.

The Hurun Report reports that China now has 568 billionaires (versus the United States' 535), meaning it has the most billionaires in the world despite the country's economic slowdown, crackdown on corruption and stock market plunge. The richest man in China Wang Jianlin, chairman of the Dalian Wanda Group (real estate and cinema titans) is worth over \$26 billion. He spent over \$28 million at a Christie's auction for '*Claude et Paloma*' by Picasso. The artwork will reportedly be part of a larger museum collection he is planning in Beijing. He also purchased Monet's '*Bassin aux nymphéas, les rosiers*' for \$20.1 million at the New York Impressionist & Modern Art auction at Sotheby's. It is also thought to become part of Dalian Wanda Group's collection.

China had a five-year plan to have 3,500 museums. However, it achieved this target three years early and now the figure is approaching 4,000. A new museum opens almost every day. The State Council declared that culture is the 'spirit and soul of the nation.' They have a long way to catch up with the Americans who have 35,000!

Two new museums of contemporary art in Shanghai provide good examples: The Long Museum was established by Liu Yiqian (he will come into focus once again later on) and Wang Wei, a billionaire couple who love contemporary art, and the Yuz Museum is the brainchild of Budi Tek, a wealthy Indonesian Chinese businessman.

'Since the purchase of Picasso's '*Claude et Paloma*' in 2013, we have been devoted to collecting original and important works representative of key developments in art history...Wanda Group will continue to enrich its collection with works by the most significant artists in the world and remain devoted to raising the awareness and knowledge of mainland Chinese collectors in Western art.'

Guo Qingxiang, who oversees Wanda's art collection

The Alchemists of Money: Asian Collectors

Yang Bin (China)	Collects Anish Kapoor and Jörg Immendorff
Pierre Chen (Taiwan)	Peter Doig's <i>Swamped</i> (1990) \$26 million
Kim Chang-il (South Korea)	Collects Andy Warhol, Damien Hirst, Gerhard Richter, Cindy Sherman and Nam June Paik
Adrian Cheng (China)	K11 Art Foundation
Hikonobu Ise (Japan)	Ise Cultural Foundation
Wang Jianlin (China)	Pablo Picasso's <i>Claude and Paloma</i> (1950) \$28.2 million & Claude Monet's <i>Bassin aux nymphéas, les rosiers</i> (1913) \$20.1 million
Yan Lugen (China)	Collects Pablo Picasso, Auguste Rodin, Claude Monet, Pierre-Auguste Renoir and Paul Gauguin
Yusaku Maezawa (Japan)	<i>Untitled</i> Jean-Michel Basquiat 1982 \$57.3 million
Zhang Rui (China)	'Super-collector' with a collection over around 800 artworks
Budi Tek (Indonesia)	Yuz Foundation
Liu Yiqian (China)	Amedeo Modigliani's <i>Nu Couche</i> (1917) \$170.4 million
Wang Zhongjun (China)	Pablo Picasso's <i>Femme au Chignon Dans un Fauteuil</i> (1948) \$29.9 million & Vincent van Gogh's 1890 <i>Still Life, Vase with Daisies and Poppies</i> \$61.8 million
Qiao Zhibing (China)	Qiao Space
Richard Chang (China)	Collects Anselm Kiefer and Sigmar Polke

Indonesia

In Jakarta, Tek is creating what he calls a 'museum-type office' by relocating his company and the Yuz Museum to a new space; of this, an area of more than 1,000 square metres will be reserved for a permanent exhibition. Via his not-for-profit Yuz Foundation, Tek is a powerful patron. He not only funds the Asia Art Archive but the Indonesian Pavilion at the Venice Biennale.

USA and UK

While shiny new constructions rise across the Middle East, Asia and South America, US museums seem to be in a state of constant growth. Despite the worst US recession since the Great Depression, the US has spent over half of the total worldwide museum spending (\$8.9 billion was committed to expansions by 75 museums worldwide between 2007 and 2014). The US spent or pledged \$4.95 billion on 26 museums projects such as the \$305 million Snøhetta-designed extension of the San Francisco Museum of Modern Art (SFMOMA), which opened on 14th May.

The Museum of Modern Art (MoMA) in New York is in the midst of its second expansion in a decade. The Los Angeles County Museum of Art (LACMA) had begun to plan its Peter Zumthor-designed project, which is due to open in 2023, a year before it completed a 45,000 square foot pavilion by Renzo Piano in 2010. The museum's director, Michael Govan, likens the process to: 'renovating a house with a growing family'; as soon as one building is finished (or even before it is finished) another needs to be planned straight away.

Lagging behind, but only by sheer comparison, is the UK. Between 2007 and 2014, 15 UK institutions spent \$1 billion, with the average UK project costing \$69 million (compared with \$190 million in the US). The Royal Academy is planning a £50 million expansion as it prepares for its 250th anniversary. The redevelopment will be finished by 2018. The renowned architect Sir David Chipperfield RA plans to connect the two main sites linking Burlington House (Piccadilly entrance) and Burlington Gardens (back entrance) whereby one goes through the RA schools studios allowing them more exposure. He is also planning a new main Auditorium.

Holland & TEFAF, Maastricht — A healthy market

The recent TEFAF Maastricht art fair presented 275 of the world's leading galleries from 20 countries. It is regarded as one of the best, if not the best, platform for the showcasing the preeminent works on the market.

To reach such exacting standards TEFAF's have a strict vetting procedure involving 175 international experts in 29 different categories who examine every work of art for authenticity, quality and condition allowing for guaranteed collector confidence.

The organisers reported a footfall of 75,000 visitors (from over 60 countries) over the 10 days with numbers on preview day surpassing 10,000.

Notable and encouraging sales figures include:

An early Rembrandt sold for around €2 million to the Leiden Collection in New York, a Roelandt Savery still life was purchased by the Mauritshuis Museum for €6.5m, Paul Delvaux's *'La grand Allée'* (1964) sold for over €2 million to a German collector, several of the Chinese artist Su Xiaobai's works sold for around €250,000 each and *'Weiss (White)'* by the Zero Group artist Günther Uecker was sold to a European buyer at the preview for around \$2 million.

Potential returns

A recent market report drafted by The European Fine Art Foundation (TEFAF) indicates that average art auction prices increased by 82% and 100% respectively in Britain and the USA from 2009 to 2013. The rise in art prices occurred despite the subprime debacle that, was the demise of Lehman Brothers and the collapse of RBS and Lloyds, created a crisis on par with the 1930s. This suggests that there exists a soft correlation between art and traditional assets. This inference is confirmed by research carried out by J. P. Morgan.

'It aims to strengthen this position by focusing on three core values — Excellence, Expertise and Elegance. These project and reinforce the character of a fair that defines excellence in art and attracts collectors, connoisseurs, curators and other art lovers from all over the world.'

TEFAF website mission statement

Low correlation and low volatility

Research by J. P. Morgan found that art prices have fluctuated independently from traditional investments such as equities, bonds and property funds for over a quarter of a century:

The obvious monetary benefit is the opportunity to gain a return of investment, though investors also recognise art as a way to store value, to hedge inflation and to diversify their portfolio.

Not only are tangible investments an inflation hedge, but being non correlating, they can diversify exposure away from adverse movements in traditional fixed income and equities.

It is not surprising that the ultra-rich, being financially astute, understand the benefits of investing in art, and research by Barclays Wealth Management reports that they hold these assets in the following order: 36% fine art, 25% classic cars, 17% rare coins, 10% wine and 6% stamps.

The Economist collated a Price Index for a variety of valuable collectables (art, wine, classic cars, coins) and found that their index had shot up 211% in nominal terms between 2003–2013. We must remember this appreciation took place after the techno-wreck of 2000 and during the financial crisis of 2008.

The alchemists of money-hedge fund managers find art attractive because of the superior returns achieved over the long term. It is no surprise that they invest hundreds of millions of their private wealth. To quote Glenmede Trust: 'Fine art has shown a durable record of price retention and a low correlation to more conventional assets.'

The economist and statistician Jeremy Eckstein has concluded: '*The issue is no longer whether or not art is a viable, attractive asset class; that can now be taken as a given.*'

'The volatility of art was lower than equities as well as commodities during the last 25 years. In the last 25 years, art had almost no correlation with US equities and was negatively correlated with fixed income and real estate investment trusts (Reits).'

J. P. Morgan

'Art is a financially attractive alternative asset class for sophisticated investors.'

The Art Business
Ian Robertson and Derrick Chong



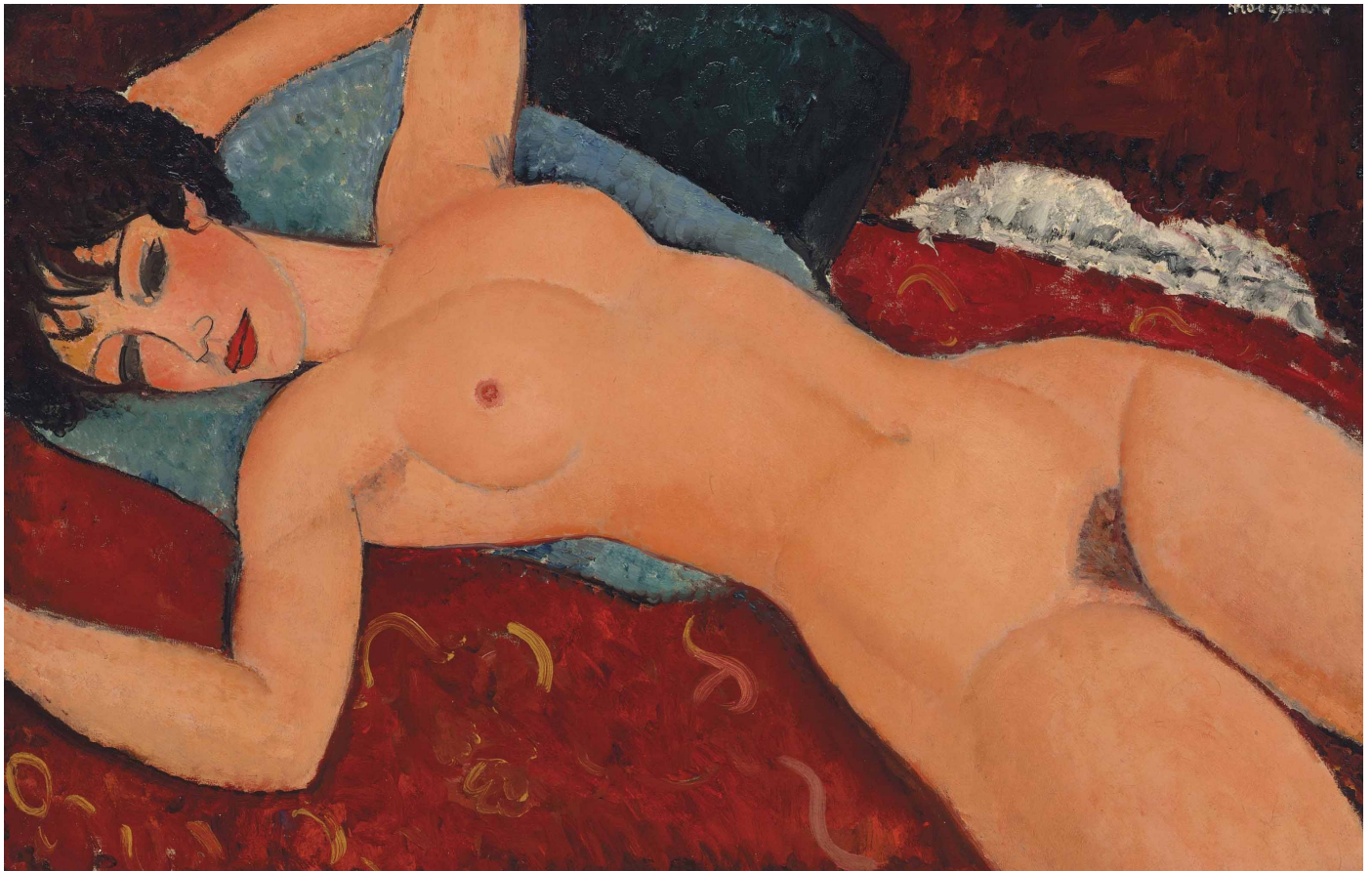
'Fish'
Edward Sheldrick
2013

Case studies

The buyer of Peter Doig's painting *The 'Architects Home in the Ravine'* at auction in 2002 for £314,650 must have felt victorious when it sold at Christie's for £7.7 million a few years later. Peter Doig's auction record stands at over £18 million (\$26 million) for *'Swamped'* at Christie's in 2015.

'Nu couché'
Amedeo Modigliani 1917

An Amedeo Modigliani 1917 nude sold in 2010 for \$68.9 million. The same painting in 1999 sold for approximately \$16 million: a profit of \$52 million 11 years later. Interestingly, Modigliani's pictures remained very affordable until the 1970s when they began their steep ascent. In 1990, *Portrait de Femme* sold for £1,333. The Italian artist who died young in the 1920s is best known for painting women with haunting eyes and swan-like necks. The aforementioned Liu Yiqian bought one such painting *'Nu Couché'* 1917–1918 (below) for a record \$170.4 million.



Discovering an artist hitherto unnoticed by the public and watching his or her prominence increase is one of the real joys of collecting art. It is true that some of the biggest gains cannot only be made at the higher end of the art market but also at the perceived lower end as one can buy ahead of the curve. This is where our services at Liz Xi can help. For example, the German photographer Andreas Gursky's photographs sold for £3,000 a few years ago and today they attain more than £500,000, if not millions for his major works. His auction record is almost \$4.5 million for his notorious work 'Rhein II.'

How much money could one make?

'Seven years ago, you could get an Antony Micallef under £1,000. Now he is widely collected, including by Brad Pitt and Angelina Jolie, and a piece would cost you hundreds of thousands. You could have picked up a Sacha Jafri for less than £4,000 some years ago; now his pieces go for around £100,000. Three or four years ago Andrew Salgado sold for £2,000. I saw one for sale two weeks ago for £12,000: a big rise in a short time.' — Nicky Wheeler

'It is entirely possible for one to buy ahead of the curve. By identifying emerging artistic talent as early as possible and with some quality and steady guidance a collection may gain in value very quickly.'

Elizabeth Xi Bauer

What sort of returns can one expect from art?

Art investments have grown 252% over the past 10 years i.e. an annual growth rate of 15%. It should be remembered that investing in art should be for pleasure. It requires careful consideration and big returns are not guaranteed. At Liz Xi, we recommend holding art for at least 5-10 years.

Art is a socially acceptable form of conspicuous consumption.

Jim Chanos (Kynikos hedge fund)



'Hut'
Edward Sheldrick 2014

Jim Chanos is not only the owner of a hedge fund, and a successful investor, he sits on the board of the Tate Americas Foundation. His opinion is that art has become especially popular in the current wealth boom as the global rich turn to art as a safer, less volatile store of wealth. Art has also become a refuge for the rich — those straining under the influence of Guanxi- in China and Russia looking to stash their fortunes offshore.

In the 1980s, the Japanese were buying impressionists. Then it was modern art in the 1990s. Now it's contemporary art. Wealthy collectors have the potential to make excellent returns by buying works by the most sought after contemporary artists from dealers, holding on to them and then selling them for double- or triple-digit profits at auction.

An artist rarely becomes sought-after over night; it is a process that takes a number of years as their reputations grow through the developing artistic practice. We recommend buying an artist's work who has already been established to some degree and his or her trajectory is on the up. At the height of their powers one could sell and make a handsome profit. In the worse case scenario one has to hold onto an artwork that they will enjoy and which will be rewarding on an emotional level (psychic returns returning by the second).

American hedge fund managers such as Jim Chanos, Steven Cohen, Daniel S. Loeb, Glenn Fuhrman and Adam Sender have, as private collectors, and with the help of a carefully selected adviser, invested millions into their contemporary art collections. Perhaps they are privy to some deeper secrets?

The growth of the art market has even attracted the attention of leading business schools: at The London Business School's eighth annual art international conference, one of the leading global forums for discussion on the topic of art investment, titles included: *'The Role of Art in Growing Your Wealth'* and *'Next Wave of Growth in the Art Market.'*

Economist Anna Dempster, the conference's key note speaker, said the art world, 'continues to go from strength to strength and that art is an asset that offers significant opportunities.'

'Blue chip art has now become a speculative sport, a trophy hunt, a diversified hedge, a store of wealth, and a means of money laundering for both the ultra-rich and drugs barons.'

The Widening Gulf
James Panero

The Alchemists of Money: The Background of Some of the World's Leading Collectors

Bill Gates	\$79bn
Carlos Slim	\$69bn
Bernard Arnault	\$36.6bn
Francois Pinault <small>owner of Christie's, Château Latour and Gucci</small>	\$13.2bn
The late Duke of Westminster	\$13bn
Reinhold Würth	\$9.7bn
J. Tomilson Hill <small>Blackstone Group</small>	\$8.5bn
Roman Abramovich	\$8.4bn
Frank J & Lorenzo Fertitta <small>3rd & 4th highest paid men in the USA</small>	\$2.3bn
Liu Yiqian & Wang Wei <small>owners of Long Museum</small>	\$1.38bn
Charles Saatchi	\$100mn

The greater the discrepancy between rich & poor the higher prices in the art world rise

Additional benefits

In a 2007 paper, economists Erdal Atukeren and Aylin Seckin estimated the intangible joy of looking at a work of art, which they define as 'psychic return,' at around 28%. The most experienced investors understand this and find art attractive for a whole host of additional benefits or force multipliers.

How can the team at Liz Xi help?

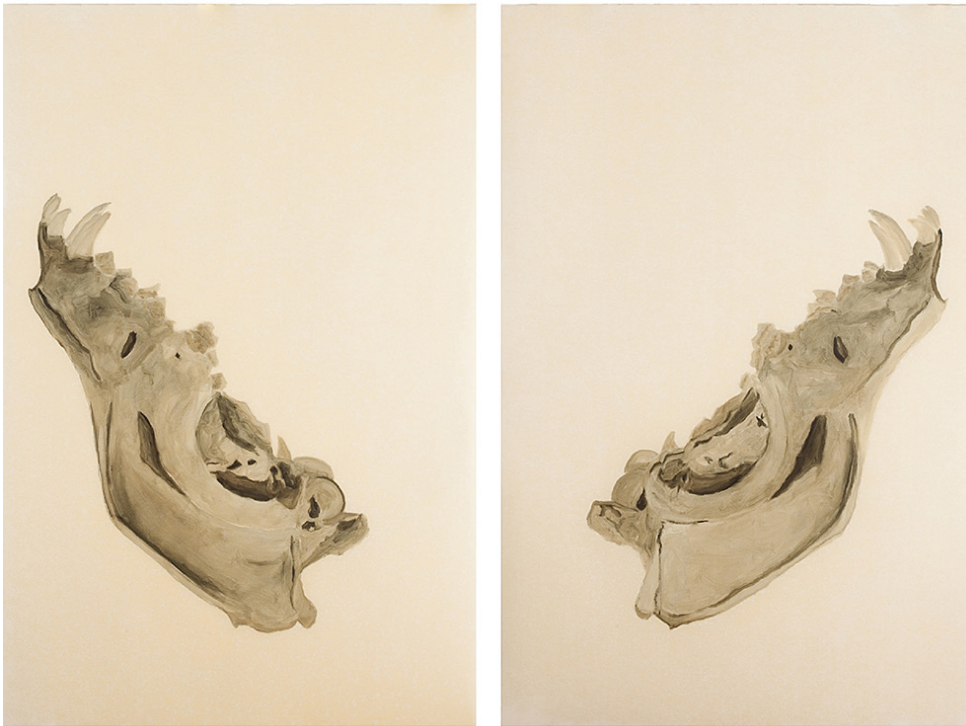
We have discussed the cogent evidence relating to art as an alternative asset class, but it important to remember that buying art is not a game of rolling dice! Decisions are based on logical observations and analytical thinking. Our highly qualified team have an understanding of art history and experienced knowledge of the current art market. They understand the rigorous tried and tested filter of validation used by the art world. They have the valuable connections and the real time data from current auction houses so that our clients are fully informed of the odds, the nuances and current market tolerances.

Ultimately, as a collector you need a team that, with passion combined with intellect, can act as a facilitator; a patron of museums, galleries and foundations; a point person who knows who's who, what's what, who's got what and what's hot. At Liz Xi you have access to some of the finest minds in the art world.

Our specialists aim to provide an exquisite service seeking out enduring artistic talent, which hold cultural validation and put you ahead of the curve.

'O.L.E.G'
Abraham Kritzman 2013





Sage Advice

The starting point for any art collection is knowledge and passion.

Our best advice is not to be rushed by the dynamism of the market, rather, set aside time to acquire knowledge, and if you can combine passion with intellect, then the results will be compounded. The art market has great respect for such an approach. Build up knowledge: knowledge about art, training your artistic eye and learning about your likes and dislikes.

The process of collecting is very much like a breadcrumb trail; one thing always leads to another. It all starts from that all-important first purchase, where one can experience the dynamics and process involved and the sheer thrill involved! Then, one can progress onto more acquisitions and the position of being on the constant look out for future purchases to further compliment the collection. One may experience that insatiable feeling of wanting to have something – because you believe in it. You know, understand and cherish their work and cultural ambition

rather than enacting upon a blunt cold business decision. A collection based on such cultural ambition will yield an infinitely more enjoyable variety of dividends than a mere monetary approach. In the worst instance you have an artwork, which will reward you daily (psychic returns). Each collection is different, there is no magic blue print, and thus the experiences involved will be inherently different and all the more exciting.

Disclaimer

The art market is not a regulated market. None of the statements contained in this chapter are intended or should be construed as investment advice. Past performance should not be taken as an indicator of future performances. Therefore, investors may not get back all they invest. Consequently, art collecting for profit should be considered as an asset class only by those who fully understand and can afford the risks involved.