

## **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 Durer, Rembrandt and Goya.

### **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. "Artists are special people", says François Pinault, major shareholder of Christie's, Gucci and Château Latour: "they are capable of understanding the world with more acuity and sensitivity."

### **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, expressionism, cubism, surrealism, modernism, post-modernism.

### **Investing in 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 invest. Whether attending Basel Art Fair or visiting the Punta Della Dogana, bidding competitively at Christies against Big Larry G, Buddi 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 13<sup>th</sup> 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..."*

*"The saleroom was packed. All the regulars were there: Larry Gagosian, kingpin of art dealers; members of the Mugrabi 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". Georgina Adam: Big Bucks- The Explosion of the Art Market in the 21<sup>st</sup> Century*

If you consider yourself a philanthropic patron of the arts but lack deep pockets or a substantial bank account then you needn't worry. You don't 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 Simchowicz is reported to have bought 34 paintings by Colombian Oscar Murillo for a total of \$50,000 early in the artist's career; the works now make up to \$400,000 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.

### **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 £3000 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 renown '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 Rietlinger wrote 'The Economics of Taste' in 1961.

**"It is doubtful whether collectors have ever been unmindful of the investment value of art"**  
**Richard Rush 1961.**

### **Authoritative voices from the past: taken from sources published pre 2000**

**"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"** **The 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.*

### **Authoritative voices from the present**

***"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***

Today, the global art market is booming:

*"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.*

New records are being set all the time:

1. ***"The art world shook on May 11<sup>th</sup> when a painting by Pablo Picasso - Les femmes d'Alger (Version "O") - was sold for \$179m at a Christie's sale in N.Y., the highest sum ever paid for an artwork at auction." - The Economist, 16 May 2015***

2. ***"Last month an anonymous buyer paid \$300m for Paul Gauguin's 'When will you marry me?' The highest price ever paid for a work of art. A few days later another record was broken when an American paid £30m 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." – The Economist, 4 April 2015***

Despite the hullabaloo and amid reports of surging returns we at Liz Xi would urge investors to take care and not rush into investing in art without much deliberation. The starting point is always the acquisition of knowledge and cultural ambition will always yield a greater variety of fruit than a mere mercenary approach.

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.

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 £2850 with the proceeds from his book Charlie and The Chocolate Factory. Dahl died in 1990, Bacon in 1992, and Freud in 2011. 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.

***"Don't forget what happened to the man who suddenly got everything he wanted: he lived happily ever after."— Mr Wonka, Roald Dahl, Charlie and the Chocolate Factory***

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). How much would his collection be valued at today? \$500-900 million. These works are priceless and can be appreciated, thanks to the great economist, at the Fitzwilliam Museum. [Cezanne's 'Les pommes' sold in 2013 for \$37 million; JMK bought his for £500.]

### **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.

#### **Some key findings from the TEFA report:**

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

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 (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. The piece had been bought by a Swiss collector 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.

**“The shift in market paradigms: growth of the plutocracy; the rise of the BRICS; globalization of museums (Guggenheim effect); globalization of galleries (Gagosian effect); globalization of art fairs (Basel effect) and the emergence of art market indices (Mei Moses effect) has resulted in a market with more depth, liquidity and transparency”:** ELIZABETH XI BAUER

“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”:

**Noah Horowitz, the Art of the Deal**

### **Country spotlights**

#### **The Gulf States**

##### **Qatar**

*“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

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. Edward Dolman (poached from Christie’s) will handle new acquisitions for Qatar’s museums; the Arab Museum of Modern Art opened two years after the Museum of Islamic Art.

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, Qatar acquired Paul Cezanne’s *The Card Players* for \$250 million, double the previous world record.

It has also acquired from the famous collections of Claude Berri and Lleena Sonneband and it is understood to have bought Bacon’s *Three Studies of Lucien Freud* for a record \$140 million.

## UAE

Similar cultural initiatives are taking place in other Gulf states. Abu Dhabi is developing an entire region called Saadiyat Island into a cultural capital that will house, for example, a branch of the Louvre (designed by Jean Nouvel) and a 450,000 sq foot Guggenheim museum (designed by Frank Gehry).

## 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 featured works by Monet, Van Gogh, Renoir and Pollock. Although held in storage the collection is said to be worth \$2.5 billion.

## Museum building

Countries, like the ultra-rich, are seeking self-aggrandisement through building collections. Above we have discussed the exemplary works in Qatar and the UAE, in China for the past few years a new museum has opened every day. Two new museums of contemporary art in Shanghai provide good examples: The Long Museum was established by Liu Yiqian 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.

*"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." James Panero: The widening Gulf*

## Potential returns

A recent market report drafted by The European Fine Art Foundation 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.

## 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 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)." - JPM***

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. 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" "Art is a financially attractive alternative asset class for sophisticated investors": The Art Business Ian Robertson and Derrick Chong**

### **Case studies**

Joel Mallin, one lucky, joyous, collector from NY, was astute enough to buy Damien Hurst's pill cabinet, *Lullaby Spring* for less than \$1 million in 2002. He jubilantly watched it achieve a record \$20 million in 2007: a most efficacious tonic.

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.

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.

Discovering an artist hitherto ignored by the public is the real joy of investing in art. Some of the biggest gains can be made at the lower end of the market and this is where our service at Liz Xi can help. For example, pictures of the German photographer Andrew Gursky that sold for £3,000 a few years ago today attain more than £500,000.

How much money could you make?

***"Seven years ago, you could get an Anthony Micallef under £,1000. 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 Sasha Jafri for less than £4,000 some years ago; now his pieces go for around £100,000. Three of four years ago Andrew Salgado sold for £2000-ish. I saw one for sale two weeks ago for £12,000: a big rise in a short time." - Nicky Wheeler***

### **What sort of returns can one expect from art?**

Recently, in an important round table discussion the WSJ invited a select coterie of art investment professionals to comment on potential returns. Their observations are fascinating:

One gave the example of a Frank Auerback painting purchased in 2005 for \$1.1 million, and sold in 2006 for \$2.3 million. *"We generally look for a return of 7-12% for our investors."*

Another art fund manager had averaged 19% gross returns before management fees were deducted.

Art investments have grown 252% over the past 10 years i.e. and 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)**

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 can make excellent returns by buying works by the most sought after contemporary artists from dealers, holding on to them for a few years or even months and then selling them for double- or triple-digit profits at auction.

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 forum 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."**

Kenny Schachter, curator, collector and "flipper" who closed the conference, said: "if you buy art low and sell high you can make extraordinary money". Of all the spectacular flips to be seen at the preceding month's \$1.6 billion series of post-war and contemporary auctions in NY, he gave the example of Israel Lund whose abstract paintings could be bought for less than \$10,000 a year before, and achieved between \$100,000-\$125,000 in May 2014.

#### **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 best art 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.

#### **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 performance and therefore investors may not get back all they invest. consequently art should be considered as an asset class only by those who fully understand and can afford the risks involved.