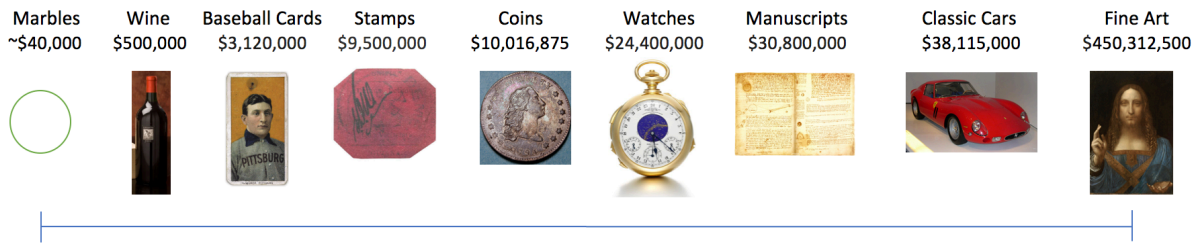
Art as an Alternative Asset Class: No Country for Speculators. Small Budgets are a Must

At Elizabeth Xi Bauer we promote learning and cultural ambition as the fundamental advantages of collecting art. In 2007, the economists Erdal Atukeren and Aylin Seckin estimated that such non-financial force multipliers have an estimated return rate of 28% per annum. What about the financial benefits and the investment potential of art? As I shall outline there is no doubt that art is an important asset class, which can be used as an effective hedge in uncertain economic times. At Elizabeth Xi Bauer, we categorically oppose the twin evils of short termism and excessive risk taking; speculators need not apply.

Throughout human history art has had a strong sense of cultural as well as financial value. It can define a Civilisation and those of the highest status in society understood this. As early as 700 BC King Ashurbanipal of Babylon constructed the famous royal library in Nineveh and Nebuchadnezzar (605-562 BC) collected objects. Popes, Medici of the Renaissance and industrialists of the 19th century have all collected art, as well as the modern day oligarchs and hedge fund managers. Even Genseric the Barbarian sacked Rome in 455 AD and ordered his men not to damage the artefacts so he could keep them for his collection. Napoleon used the Louvre as a museum for his loot, which was often transported over the Alps. The Nazis meticulously stole art by setting up specialist divisions recording every theft on a consolidated itinerary. They even seized the Champagne regions and demanded constant heavy production. Art has been universally recognised as something worth saving or taking at all costs.

Today, art has become especially popular in the current wealth boom as the global rich turn to it as a safer, less volatile store of wealth. The alchemists of money invest hundreds of millions of their own private wealth into their art collections, from China to America. Barclays Wealth Management reports that such wealth classes 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 and 2013. We must remember that this appreciation took place after the tech-wreck of the 2000s and during the financial crisis of 2008, the worst since the Great Depression of the 1930s.



If we examine the record price paid for various collectables above, we can see that Fine Art is very much at the highest end of the spectrum. The record for the most expensive artwork ever sold is almost four times more than all of the other records combined.

A paradigm shift; a long-term structural shift in the marketplace

The greater the disparity between rich and poor the higher prices in the art world rise.

The fifth Deloitte Art & Finance Report estimates that $1.62 trillion of ultra-high net worth individual wealth is allocated to art and collectables. It forecasts that the ultra-rich will spend $2.7 trillion on art by 2026 (November 2017)

'High net worth individual wealth will surpass $100 trillion by 2025, with about 10% invested in collectables' - The Economist 2017

Art is also attractive because it operates outside of the financial markets as research by J.P. Morgan outlines: 'The volatility of art was lower than equities as well as commodities during 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)'. Glenmede Trust also concurred with the findings: 'Fine Art has shown a durable record of price retention and a low correlation to more conventional assets', as does the Economist: 'Art tends to be inversely correlated to stock market indices' (December 2017). Furthermore: 'Art is a lot more tangible than stocks and shares; you can't hang them on your wall' (Andrew Shirley, partner at Knight Frank and author of the Luxury Index Report 2017). This non-correlation contributes to the potential for superior returns over a long period. In 'Art as an Investment' 1961 Richard Rush posited: 'It is doubtful whether collectors have ever been unmindful of the investment value of art'.

There have been some impressive returns for collectors. In 2002, Peter Doig's painting *'The Architect's Home in the Ravine'* sold at auction for £314,650 before selling for £7.7 million in 2013, £11.3 million in 2016 and around £14.4 million in March 2018. An Amedeo Modigliani 1917 painting '*Nude Sitting on a Divan*' sold in 2010 for $68.9 million. The same painting in 1999 sold for approximately $16 million: a profit of almost $53 million in 11 years. Roald Dahl, the children's author, bought Francis 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 in 2014 at Christie's for £11.5 million by his loved ones. Sir John Maynard Keynes, one of the finest economists and investors of his time, acquired Cézanne's *'Still-life with Apples'* for £500. He built up a substantial collection of now priceless artworks including works by Picasso, Degas, Seurat, Braque and Modigliani, which he bequeathed to King's College in Cambridge and many can be seen in the Fitzwilliam Museum.

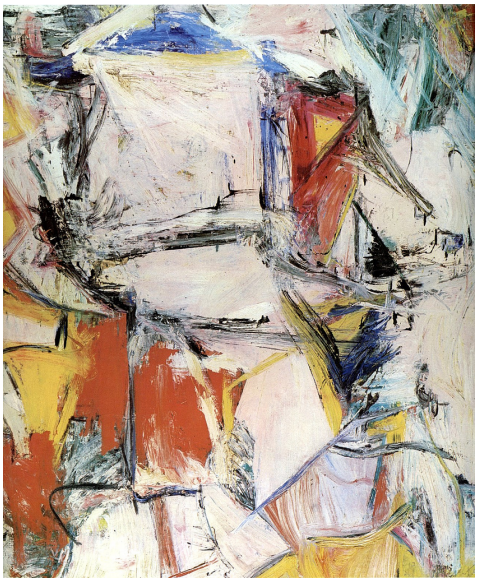
The huge surges in prices can be attributed to the increasingly global nature of the art world; greater global wealth, circulation and demand for the arts culminating in global auctions, art fairs and exhibition programmes. As Noah Horowitz writes: 'The net effect is that more money, from more places, has poured into the art market than ever before, inspiring ever more creative ways to put this capital to work' ('The Art of the Deal'). For instance, UAE is developing Saadiyat Island in Abu Dhabi, which includes their newly opened Louvre (over $1.2 billion deal with France) and still developing Guggenheim, Qatar is spending billions on art and South Korea has the most privately founded art museums in the world. Art: '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' (The Financial Times). Nick Brett, CEO of AXA ART Insurance UK, explains: 'There's no question that art does tend to gravitate towards money – so if you look at the globe and work out where the money is, that is often where you'll find art'.

The art market grew 252% between 2004 and 2014, which equates to an annual growth rate of 15% as research by Raconteur deduced. Again, this was despite the 2008 financial crisis and the tech-wreck of the 2000s with its following repercussions. Such strength is predicted to continue: 'I think we're going to see a 10-year boom in the art market' (Philip Hoffman, CEO of the Fine Art Fund Group, 2013). As reported by the Economist in 2015: 'On average prices of contemporary and post-war art have risen by 19% over the past year'. The art market showed robustness against potential disruptive forces, it even: 'Gained strength from the way in which it swept aside the Brexit blues that engulfed the world' (Colin Gleadell, The Telegraph, 2016). The global art market reached a total of over $63.7 billion in 2017, an increase of 12% from 2016, where it was made up of approximately 310,685 companies (Art Basel and UBS Global Art Market Report, 2018). Furthermore, art topped Knight Frank's 2017 Luxury Investment Index and has overtaken wine as the best-performing asset class: 'According to data from Art Market Research (AMR)…the average value of art sold at auction rose by 21%'.

The surges in values led to world record prices. Pablo Picasso's '*Les Femmes d'Alger' (Version 'O')* (1955) sold for almost $180 million in May 2015 at Christie's New York, which at the time was the most expensive work ever sold at auction. In 1997, it sold for $31.9 million and in 1957 it sold for $7,000. '*The Card Players'* (1890–95) by Paul Cézanne was purchased for over $266 million in 2011 by Qatar who also bought Paul Gauguin's '*When Will You Marry?*' (1892) for $210 million in 2015. Later that same year, Willem de Kooning's '*Interchange*' (1955) was acquired for an estimated $303 million also in a private sale. In November 2017, Leonardo da Vinci's '*Salvator Mundi*' (circa 1500) sold for $450,312,500 at Christie's New York – the highest price ever paid for a work of art. In 2015, $46.4 million was paid for '*Abstraktes Bild*' by Gerhard Richter, which was the auction record for a living European artist.

The unique cultural power and status of art is also an important asset: 'For buyers it's all about status and that in itself is an investment' (Colin Gleadell, 2014). For Noah Horowitz, this status is part of a powerful trifecta: 'The allure of art is its marrying the qualities of luxury goods with promises of high investment returns and unrivalled social prestige' ('The Art of the Deal').

Paul Cézanne '*The Card Players'* 1890–95



Willem de Kooning '*Interchange*' 1955

Leonardo da Vinci '*Salvator Mundi*' circa 1500

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.'

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. An artist rarely becomes sought-after over night; it is a process that takes a number of years as their reputation grows through their developing artistic practice and subsequent recognition. Our passionate award winning international team of art world experts employ a rigorous tried and tested validation procedure. This recognises artworks with deep intrinsic artistic value and abiding substance by artists with a proven track record combined with serious exciting potential. Thus, enabling one to collect ahead of the drumbeat. As Raymonde Moulin explains: 'The gauging of artistic value is carried out in the cultural network by specialists: museum curators, exhibition curators, historians of

contemporary art, critics, professors and experts of all sorts'. We believe in utilising small budgets and that large budgets can be an obstacle to success. This stance helps to train the eye and concentrates the mind to seek out the highest quality for equitable value.

If you wish to learn more and receive our two in-depth valuable reports titled '*Art as an Alternative Asset Class*' and '*Success Strategies for a Valuable Art Collection*', or one of our courses covering Art History and 'How to Train your Artistic Eye', all developed by our network of cultural specialists, please leave your contact details on the Contact page of the website.

For many collectors, the investment potential of art is naturally part of their overall buying decision. However, it should be remembered that one should collect art primarily for passion and pleasure. A collection based on cultural ambition will yield an infinitely more rewarding and enjoyable variety of fruitful dividends than a mere monetary approach. For those with an especially intensive monetary eye, we recommend seeking professional advice from a financial adviser. It must be repeated that we categorically turn away speculators.

Pinto Rai Dhir M.D.