

Hot beauties, great returns

INVESTING IN ART OFFERS BOTH FINANCIAL AND EMOTIONAL REWARDS. ITS APPEAL ALSO LIES IN ITS LOW CORRELATION WITH OTHER ASSET CLASSES

BY VIOLA RAIKHEL-BOLOT

THE international art market is worth over a staggering US\$3 trillion and has an annual turnover of US\$50 billion. Whilst investing in the art market can provide impressive returns, an even greater reward can be derived from the passion which fuels collectors to acquire objects of great beauty.

2010 saw a strong recovery in the art market, with major works once again appearing for sale and world record-breaking prices indicating that the top of the market had emerged from a relatively short period of hibernation.

If the return that super collector and hedge fund manager Steve Cohen achieved on May 5 is anything to go by, then investment in quality art is thriving and so is the market for acclaimed and beautiful works of art. Maurice Vlaminck's stunning Fauve work *Paysage de Banlieu* from 1905 was sold at Christie's New York for US\$22,482,500 (estimate US\$18-25 million). Steve Cohen had originally purchased the painting at Christie's New York in May 1994 for US\$6,822,500. By all accounts, an impressive return.

Today's market is more international than ever before: buyers have since expanded from 36 countries in 2003 to 58 countries.

In 2010, China overtook France as the world's third largest art market after America and Britain. In March 2011, a new study by the British Art Market Federation showed China has outpaced the UK to become the second largest art market

in the world. With Chinese auction and gallery sales constituting nearly a quarter of the world's art commerce, at 23 per cent or US\$8.3 billion, the country is just behind the US (at 34 per cent) while Britain lags at 22 per cent.

One of the main features in the art market today is the significant rise of the Asian art market, with international art institutions, galleries and auction houses turning their attention to the emerging and thriving Asian market.

Since 2005, the rapid ascent of popularity of Contemporary art from developing Asian economies has seen Asian artists topping prices commanded by European artists. The Chinese art market, in particular, was among the most speculative of the emerging markets, with Contemporary Chinese art facilitating a quick, high return investment for buyers in selected cases. By 2006, the Asian contemporary art market had increased by almost nine fold compared to 2004.

In the US and European markets, significant price increases have been witnessed for higher quality works, particularly where these appeal to

more conservative taste, such as Old Masters, Impressionists and Modern Classics. This was clearly illustrated in the sale of Picasso's *Nude, Green Leaves and Bust* which sold for US\$106.5 million in May 2010, at Christie's in New York, setting a new record for a work of art on auction. This broke the previous record of US\$104.3 million set in February 2010 by Giacometti's *Walking Man I* at Sotheby's.

As Steve Cohen has most recently demonstrated, investing in art has many benefits; impressive returns aside, another significant motivating factor is art's low correlation with other asset classes. Economists have predicted that over the coming years a concern about future inflation or a return to financial instability may drive individuals to increase their portfolio allocation to art as a hedge against inflation.

In addition, the competition for art works adds to the inherent scarcity, making art a desirable asset for investment purposes. Whilst anomalies can exist in the art market (as in any market), record prices, strong returns and increased institutional buying have sparked significant interest in art as an asset class.

One factor in the art market's current strength lies in globalisation. By way of example, the supply of premium works of museum quality art will always be limited against increasing demand levels. This is particularly true in times when wealth is rising, making rare works more desirable than ever before and therefore proving a good source of investment. The World Wealth Report of 2009, published by Capgemini and Merrill Lynch, noted that the proportion of all luxury spending that went into art increased as investors looked for assets that would hold their value in the longer term.

Fine art remained the primary passion investment for the wealthy in 2008 (27 per cent of their total passion investments), and was the second largest (25 per cent) for the affluent segment. For affluent individuals, the allocation to fine art actually rose from the pre-crisis allotment of 20 per cent in 2006, as investors gravitated to assets with a more enduring value.

Art can be a good and satisfying investment, providing both financial and emotional returns. However, buyers and sellers should seek an independent and impartial adviser to undertake thorough due diligence at all stages. With an unregulated market, inflated prices and counterfeit works, a good adviser will ensure clients avoid the many pitfalls and potentially unpleasant surprises. Buying well is paramount to ensuring a good return and given art's low correlation to other asset classes, it can be a welcome addition to an investment portfolio.

Here are some tips to help you buy well and appreciate your collection:

- Do due diligence and research on all new acquisitions; be sure to request condition reports and provenance details from the seller before you buy.
- Research the market value for the artist before you buy or sell.
- Ensure you always have an up to date independent valuation for insurance purposes. ■

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EYE CATCHING

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