

Smart art:

A classic
investment
strategy

The art market is faced with a new reality; it has shifted from a seller's to a buyer's market.

Art expert Viola Raikhel-Bolot writes about quality art, and shares her view on how it can impact a modern investment portfolio.



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For investors with liquidity, buying art and storing it until prices rise again has proved to be a wise way to make money in today's art market. Rather like in property, those who can afford it tend to sweep up bargain buys in auction houses when prices have been reduced, then sell them again in two to three years. In this way, the art market avoids stagnation and, if one is properly advised, some of the best deals can be obtained now.

The art market today presents the collector with many unique opportunities - which typically come up only once in a generation. Instead of hoping for record prices, leading auction houses Christie's and Sotheby's are offering for sale only rare paintings that would be the envy of any world-class collector or museum in order to lure the collectors who still have money. Modigliani's *Les Deux Filles* is one of many important Impressionist and modern paintings that have never before been to auction, but which was sold by Christie's in February 2009 for £6.5 million in an attempt to beat the downturn in the art market.

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The international art market has become an industry that turns over approximately \$A100 billion annually and has seen substantial growth over the past decade. This significant turnover is partly attributed to an influx of new buyers from emerging markets such as China, India, the Middle East and Russia. In 2008, it was revealed that Roman Abramovich, the Russian billionaire who owns the Chelsea Football Club in the UK, was the buyer of a \$US86.2 million triptych by Francis Bacon. Days earlier, he paid \$US33.6m for *Benefits Supervisor Sleeping* by Bacon's old friend Lucian Freud.

If these super-wealthy collectors continue to buy with confidence, the international art market can weather the economic downturn.

Art and recession: A brief history

The art market tends to, as one might expect, follow other markets in the economy. After the heady days of the 1980s, the price of art plunged in the early '90s. However, it was a very different market from today, with collectors from America, Europe and Japan buying largely with borrowed money. When the Japanese economy faltered, so did the art market. It remained bleak for much of the '90s, after which it began to rise slowly.

A tiny dip in 2000 was followed by a further rise, with some parts of the market, such as contemporary and Russian art, growing quicker than others. Buyers in the '80s and '90s formed a narrow pool of collectors. Today, there is a much more global group of collectors due to growth of economies in Russian, India and China.

Opportunities in 2009

The art market in 2009 presents collectors in Australia and the world over with opportunities to acquire works of fine art at competitive prices. Now, more than ever, an independent art adviser with access to both the primary and secondary markets is key to identifying prized works that are below market value and that will appreciate as the global economy turns the corner.

Another opportunity that prevails is lending against art. The most advantageous time to borrow against art is when equity valuations are low or stock markets are turbulent, as is the case in the current market. And while art-backed loans usually carry a higher interest rate than equity-backed ones – in current market conditions, Libor plus 2.5% or more – their relative price stability has benefits.

International art world calendar

April 2009
International Baroque 1620 – 1800: Style in the Age of Magnificence
 4 April – 19 July
 V&A Museum
 Bringing together art, architecture and decorative arts from the Baltic to Sri Lanka

May 2009
Biennale Montréal
 1–31 May biennalemontreal.org
Art Moscow
 13–17 May
 This is the largest fair in Eastern Europe for 20th and 21st century contemporary art artmoscow.org
Contemporary Art Auctions, New York
 Christie's, Phillip de Pury & Company and Sotheby's



Modigliani's *Les Deux Filles*, 1918, has been owned by the same family for almost a century, and was sold £6.5 million in February 2009.
 Source: Christie's Images Ltd 2009



Impressionist and Modern Art evening sale at Christie's London, 24 June 2008, Lot 16
 Source: Christie's Images Ltd 2009



Champagne was enjoyed in the diamond-and-pearl themed The Art Gallery of NSW



The Johnnie Walker Blue Label whisky-tasting bar was popular with guests

Art as an asset class

Serious interest in art as an investment began around 2000 with the decline in the world's leading stock markets when investors learned that stock markets can be alarmingly volatile. While long-term economic prospects remain uncertain, the allure of fine art as an alternative hard asset class remains strong for both private and institutional investors.

The investment potential of art remained largely unquantified until the experience of the British Rail Pension Fund provided hard empirical evidence. The fund bought widely between 1974 and 1980, and, by the time it had completely disposed of its collection in the mid 1990s, it had achieved an overall rate of return of 11.3% per annum, well in excess of that needed to beat inflation. Certain individual collections yielded significantly better returns (up to 21.3% per annum for Impressionist art).

Independent art market performance statistics are now available, and they provide reliable benchmark indicators of art market performance. For an art adviser, these tools are invaluable.

Statistics have also effectively refuted the widely-held belief that art prices are too volatile to be considered a serious investment. For example, in 2003 a leading United States financial institution used standard risk and return techniques to demonstrate that adding fine art to a diversified portfolio produces a slightly greater return for each unit of risk, and a significantly better return with less volatility than most asset classes on their own. In fact, investing in both art and stocks could reduce the volatility of a portfolio by up to 20% without sacrificing returns.

As with any asset class, it is important when considering art as an investment, to seek experienced and professional advice to ensure investment objectives are met. This is particularly the case in a buyers market when numerous opportunities may arise.



Source: Christie's Images Ltd 2009

Monet's *Le Bassin aux Nymphéas* sold for more than \$US80 million at auction, a record price for a Monet painting.

At Christie's London in June 2008, a record price for Monet, \$US80.4 million, was set for one of the rarest of his waterlilies, *Le Bassin aux Nymphéas*, signed and dated "Claude Monet 1919" on the lower right. This large horizontal work measures more than three feet by six feet, and is from a series of four that Monet signed and dated. Experts consider these to be among the most important paintings from his late period.

Unlike most of his late works, which remained unfinished at the time of his death in 1926, this series was sold by him. One is in the collection of the Metropolitan Museum of Art; another was cut in two; and a third is in a private collection, having been sold at Christie's in New York for \$US12.1 million in 1992, a bargain at the time.

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