



Art Appreciation

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8th Mar 2012



In a 1942 radio interview, the celebrated artist Henri Matisse was asked why he painted. His response: "Why, to translate my emotions, my feelings, and the reactions of my sensibility into color and design, which neither the most perfect camera, even in color, nor the cinema can do. ... [Artists are] useful because they can augment color and design through the richness of their imagination intensified by their emotion and their reflection on the beauties of nature, just as poets or musicians do."

Is this artistic passion what makes art appreciate over time? Of course. Artistic merit is part of it. But, there are many other factors - which incidentally rank higher in importance - on what would make a painting a valuable asset. Things like who is the artist (or how well known he or she is) and is he or she still alive; exclusivity - how many exist in a series or is it a one-off; here, size does matter; the medium - oil? Pastel? Water color? Price. Ah, yes. It's a given that the higher the price, the higher perceived value.

The art of buying and selling, well art, has been in practice for centuries.

In recent times, speaking directly about the harsh economic climate, art, as an investment vehicle, is taking some interesting turns.

"Many of the gains realized by sophisticated investors in recent years have been the result of strategic diversification of their holdings by moving into a broad range of asset classes," says Randall James Willette, managing director at Fine Art Wealth Management, in London. "Most recently, this trend has extended to art, as investors shift their concern from weathering the financial crisis to anticipating the inflationary effects of rising government spending and debt. The low correlation with other financial assets makes art (or at least art in the form of a well diversified investment portfolio) an attractive strategy for diversification."

Willette also points to a growing interest in "irreplaceable tangible assets," such as art which he notes exhibit defensive characteristics during weak economic periods.

"The launch of a number of art investment funds which offer investors the opportunity to invest in an indirect manner into the art market has resulted in art attaining its own status as an alternative asset class," Willette furthers.

The firm takes the stance that an art collection should have the same strategic planning as other financial investments. Willette highlights that the art market itself is vast - and economically inefficient.

That said, he believes the inefficiency provides ample opportunities for outperformance through active management.

Fine Art Wealth Management advise investors to manage their art portfolios on three key dimensions: opportunity,



value and risk.

"A critical element of any investment portfolio is the ability to find attractive investment opportunities on favorable terms. This involves employing investment analysis expertise including a thorough assessment of art market conditions, global economic conditions, the availability of attractive investment opportunities, and suitability of the investment to one's strategy and risk/return profile," he says.

The element of loss plays a part and investors need to manage their risk on several levels, says Willette. Following economic developments and market trends are critical in impacting buying and selling behavior is one suggestion. Another is to utilize a non-concentration strategy with the portfolio to "mitigate risk of exposure to a single opportunity.

London's Viola Raikhel-Bolot, managing director at 1858 Ltd. Art Advisory, also says business has been on the upswing during these tough financial times. Irrespective of that, it's the art that matters.

"Clients [HNW and UHNW] can't afford to make mistakes," she says. "Nobody is speculating on artwork as much as they used to and clients want to be making informed decisions in buying or selling. They need to be sure they are maximizing the value in their selling. And when they are buying they need to make sure they are buying work with the appreciation value over time."

In an unregulated market, not known for transparency, due diligence is the key element in making informed decisions. But, the decision-making process can be quite complex (and not so much). And there are many considerations.

Forgeries, for instance, can be a serious problem, so doing the leg work to ensure authenticity is very importance. And ensuring the provenance, or ownership, of the work is also critical.

Raikhel-Bolot says avoid, at all cost, acquiring a work of

art that was lost or stolen.

She also recommends examining the art to be certain is hasn't been damaged and simply restored and being sold as though it were in perfect condition.

Raikhel-Bolot points to the example of a client who had a large Middle Eastern collection. 1858 Ltd. dissected it and discovered several fakes and some pieces of art where the client overpaid at commercial galleries.

"So we are not always the bearer of good news," she says.

There are other things art connoisseurs seeking to eventually cash in on their passion can do to get the highest value for their pieces. Knowing the retail market on the artwork is information to have at hand if you want greater control in the negotiating process.

Another area not to be overlooked is learning what some of the works have achieved recently at auction.

"And when you are buying at auction don't be afraid to ask for condition reports; take the painting off the wall, look at the reverse - and ask for more information when and where possible," advises Raikhel-Bolot. "Remember that auction houses charge a commission for the buyer and the seller so they can't be completely independent in representing your best interest. They are taking a cut from both sides."

New York's Natasha Pearl, CEO and founder of Aston Pearl, a lifestyle management firm, points to a recent focus on the no-tolerance stance by the auction houses regarding questionable ownership. Sometimes, families whose pieces of art or entire collections that have been handed down a few generations slip through the probate and estate tax process.

In the past, says Pearl, families could avoid the whole process of paying taxes on artwork as part of the estate. "But, today the auction houses and reputable dealers will not accept artwork for sale that does not have a clear paper trail of estate disposition and taxes paid," she says.



"It's sort of remarkable how many families who are very sophisticated financially and about their investments that don't understand how incredibly important it is to get this piece correct," says Pearl. "It's not going to be possible to sell a piece that has not been properly documented."

Add it to the list.

Interestingly, some basic things, like transit and storage - even the elements - tend to be where art collectors fall down - and as a result see a painting de-valued.

There's the sense that collectors take the attitude of essentially throwing a painting in the back of a Chevy, unaware of the consequences.

Julie Sherlock, assistant VP at Ace Private Risk Services in New York, says that people often don't consider wear and tear, sunlight, humidity and temperature in addition to fire and theft as a risk. "Those are the things we look at," she notes. "And then the coverage - is the right type and amount of coverage in place."

She says much of the loss her firm has to deal with relates to when art is temporarily not in the collector's possession, such as when it is being shipped or displayed in a museum exhibition.

"There is a vital need to have the right packers, handlers and shippers involved to guarantee that the work (or works) is being transported correctly. Devaluation can come swiftly with a dent, for example, that could even be traced to art not being hung correctly on the wall of a museum or someone bumping into it," says Sherlock.

"These are things people don't think about until they have a loss," says Sherlock. "Unfortunately, few people think about insurance until they have a loss."

But, for those that do, the good news is there are many types of specialized insurance policies to off-set potential problems related to the mundane - and of course the complex risks. So, for instance, specialized insurance coupled with sound loss prevention measures ensure

safety when art is being loaned out for museum exhibition.

Sherlock says creating a proper inventory is the initial step for clients. This entails taking stock of what is owned, where it is located if the collector owns multiple homes or has items held by art dealers or at museums, and if proper title has been secured, she says.

Next, the collector must have a system for periodically updating the value of each piece in the collection. "For especially valuable items, we recommend having an expert appraisal done every three to five years," says Sherlock. "If the market for a particular artist is very active, we might even recommend appraisals more often."

By keeping valuations up to date, the collector can make sure he or she maintains an adequate amount of insurance coverage. "A few policies, such as ours, offer some protection against market value fluctuations," says Sherlock. "If the market value of a damaged artwork has risen, our valuable collections policy will pay up to 50 percent more than the amount it was scheduled for on the policy. But over a period of a many years or in a hot market, even that buffer is often not enough."

When it comes to preventing damage, Sherlock emphasizes the importance of taking into account where the artwork should be displayed (above the fireplace is a popular spot, but potentially quite disastrous if you consider soot and ash and heat), how is it being handled if it is moving between locations or going into storage or even going on exhibition.

She points out the utmost important aspect of understanding any contracts associated with the artwork. As a 'for instance,' oftentimes there are waivers involved in dealing with a museum that doesn't want to be held responsible if anything happens to the art during an exhibition. Sherlock says people sign these museum agreements blindly and believe they are protected. So, what ends up happening is if anything happens to that, say \$1 million painting - the owner is solely responsible for it.



"Understand what the perils are that you are insuring against because not all things are the same to everyone," Sherlock says.

But, above it all, if you want to reap the monetary rewards, she offers some sound advice: "Know what the current value is and understand that physical equals fiscal. If you don't properly physically protect your piece it could diminish the fiscal value."