

Standard Chartered Private Bank – The Journey

Alternative Assets – Investing in Art

From time to time, we like to bring to you articles on alternative topics. In this article, Viola Raikhel-Bolot, Head of International Advisory at *1858 Ltd Art Advisory* shares her thoughts around the international art market.

The international art market is worth over \$3 trillion and has an annual turnover of \$50 billion. Whilst investing in the art market can provide impressive returns, an even greater reward can be derived from an individual's passion and direction to acquire objects of great beauty.

2009-2010 has seen a solid recovery in the art market, with major works once again appearing for sale and world record-breaking prices indicating the high end has emerged from a relatively short period of hibernation whilst private sales have remained strong throughout.

Investing in art has multiple benefits, including a low correlation with other asset classes. Economists have predicted that over the coming years a concern about future inflation or the return to financial instability may drive individuals towards increasing their portfolio allocation to art as an inflation hedge. In addition, the competition for art works adds to the inherent scarcity to make art a desirable asset for investment purposes. Whilst anomalies can exist in the art market (as it can 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 accumulating, 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 on 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% of their total passion investments), and was the second-largest (25%) for the affluent segment. For affluent individuals, the allocation to Fine Art actually rose from the pre-crisis allotment of 20% in 2006, as investors gravitated to assets with a more enduring value.

Over the last 3 years, we have noticed an increased number of our clients preferring to buy and sell privately as they seek discreet and impartial advice, quicker transactional turnaround and reduced transactional costs. In addition,



clients benefit from increased security due to a transparent transactional process and extensive due diligence being undertaken.

We have seen a more international market than ever before with buyers from 36 countries in 2003 and since 2007 this has expanded to 58 countries.

Last year, China overtook France as the world's third-largest art market after America and Britain. Approximately 25% by value of the 100,000 plus works of art sold went to buyers from Russia, Asia and the Middle East. A portion of this extra demand has come from a large increase in the number of private foundations and museums being established in these areas and the emergence of the 'recession proof collector'.

One of the most significant features in the art market in recent times has been the significant rise of Asian art market, which saw international art institutions, galleries and auction houses quickly turn their attention to the emerging and thriving Asian market. Since 2005, the rapid ascent of popularity in contemporary art from developing Asian economies has seen Asian artists topping prices commanded by the European Old Masters. 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 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 tastes, such as Old Masters, Impressionists and Modern Classics. This was clearly illustrated in the recent record breaking sale in May 2010 of Picasso's "*Nude, Green Leaves and Bust*" which sold for \$106 million at Christie's in New York, setting a new record for a work of art at auction. This broke the previous record of \$104.3 million set in February 2010 by Giacometti's "*Walking Man I*" at Sotheby's. Overall, auction records remain dominated by Impressionist and Modern works as older works become less available as both collectors and museums tend to hold on to their collections and one can not say with certainty that further records will not be broken this year.

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



This article was prepared for the Standard Chartered Private Bank by Viola Raikhel-Bolot, Head of International Advisory at *1858 Ltd Art Advisory*; the company provides independent and impartial advice on all areas of the art market.

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* In support of the emerging Asian art market, Standard Chartered Bank sponsors Korean Eye's latest exhibition: *Fantastic Ordinary*, an exhibition that showcases Korean contemporary art by supporting emerging and more established Korean artists and by exhibiting their work internationally. The exhibition, which was held in London from 3 July to 18 July, provided a unique opportunity for education and the appreciation of Korea's rapidly developing art scene. *Fantastic Ordinary* is due to be held in Singapore from 25 September to 10 October and in Seoul from 1 November to 30 November. For further details visit <http://www.koreaneyeye.org>.

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