Investments of Passion

Viola Raikhel-Bolot
Co-founder and Managing Director, 1858 Limited Art Advisory
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The recent release of the 2012 "World Wealth Report" from Capgemini and RBC Wealth Management showed for the first time that Asia-Pacific had more millionaires than North America and that the wealthy are now increasingly looking to combine their investments with their passions in life.

These discerning investors are discovering that life's luxuries and can also make profitable investments. These "investments of passion" also known as "treasure assets", are growing in popularity among wealthy young investors especially from emerging markets. The authors also noted that in early 2012, the European Fine Art Foundation reported that China (including Hong Kong) had overtaken the U.S. as the world's largest market for art and antiques.

With traditional financial markets still unpredictable and interest-rates at record lows, investments of passion being uncorrelated with the broader financial markets are appealing to investors. Coupled with a mistrust of obscure financial products, it is no wonder that a growing number of investors have increased their exposure to art, wine and other collectibles.

For today's wealthy investor-collcetor, investing in high-end collectibles is a way of enjoying one's wealth while providing emotional and social returns. Art for example can be shared with friends, be part of one's family legacy, studied, spoken about and exhibited in museums. The enjoyment for such an investment is immeasurable. Last year the Mei Moses World All Art index grew in value by over 10% and has consistently outperformed equities since 2000. This combination of increased investor interest and a more robust market infrastructure has led to a surge in the demand for investments of passion.

According to Art Price, 2011 was the best ever year for art at auction. Auction house Christie's had a very strong year, with sales up 9% over the previous year to a record USD$5.7 billion. Rival Sotheby's did even better, with a 21% increase in annual sales to USD$5.8 billion. It must be noted however that profits for the auction houses does not automatically translate into strong returns for investors.

As passion is not always synonymous with rationale thinking, potential investors should tread with caution given that the art market is riddled with inefficiencies, is unregulated, not known for its transparency, illiquid and is not without its risks. As an independent adviser, I commonly see these risks and how well timed advice is integral to help mitigating risk, reducing transaction charges and avoiding expensive mistakes that may only be visible when you look to sell your investment of passion.

It is well known that investors in equities and other financial asset classes can be susceptible to a host of biases that make it difficult for them to make rational decisions. With art, wine and other investments of passion, these biases can be even more of a concern. When buying a painting, for example, collectors can all too easily let their heart rule their head. This is where an adviser undertaking due diligence behind the scenes is crucial to avoid to making sub-optimal decisions about when, where and how much to buy or sell for.

Editor's note: to contact Viola, please call +44 207 590 3112, email: contact@1858ltd.com or visit the site at www.1858ltd.com

