UNDERSTANDING ART INVESTMENTS

COMPLIMENTARY GUIDE

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INTRODUCTION

It's often claimed that art is a "new" type of investment, but this is untrue. Fine paintings have been bought, sold, and traded as assets for centuries – rather, it is the current way the art market functions (e.g. having art price indices) that is quite new.

Here are the basics each investor should know:

Art investing is about passion as well as returns – part of the payoff is emotional satisfaction.

There are different ways of investing in art, with different benefits and drawbacks associated with each.

Art investing should be done with the aid of wealth managers as well as art advisory firms to avoid scams and reap better returns.

Art investments are not easily quantifiable and can be volatile - not least due to changing tastes.

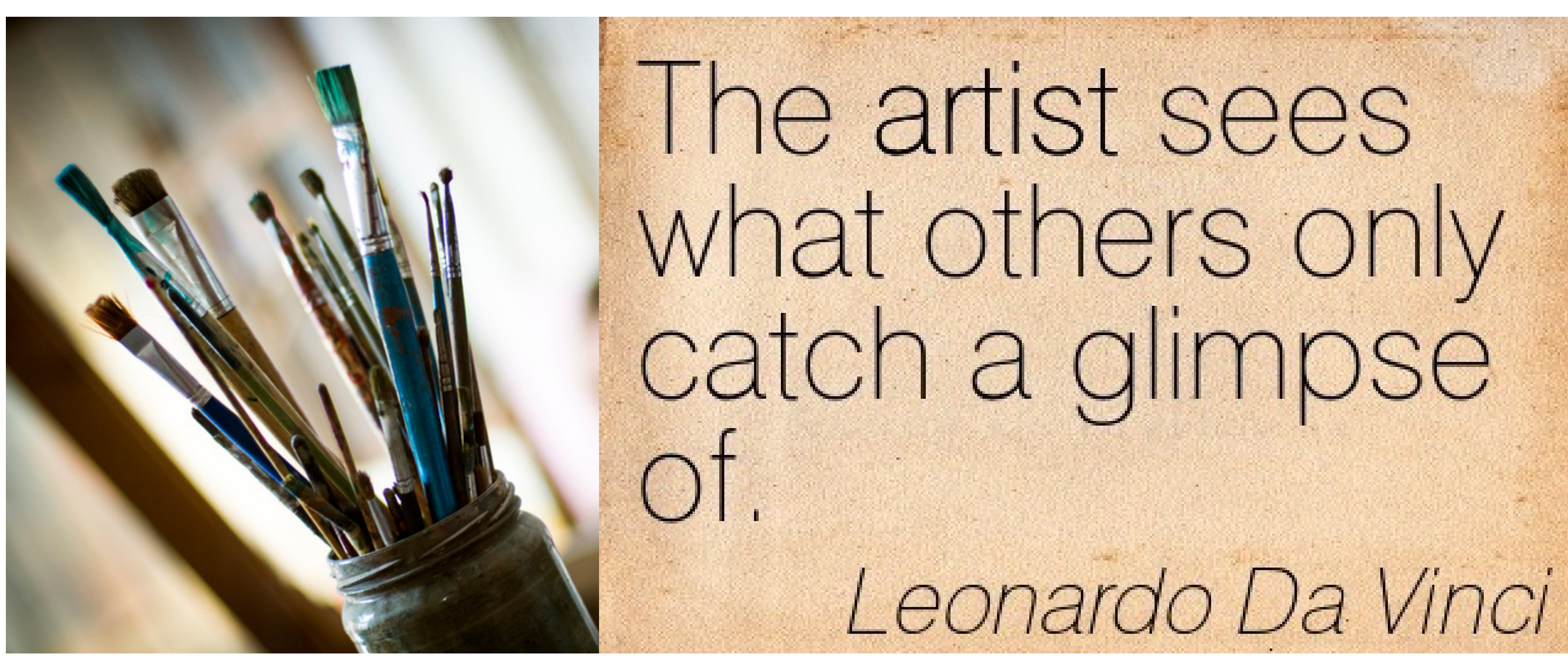
A 500-year-old painting of Christ believed to have been painted by Leonardo da Vinci has been sold in New York for a record £341m November 2017

What is Art Investing?

Art investing is a form of “passion investing”. It is both a past-time, and a way of growing wealth. As with any kind of passion investing, a large part of the pay-off is the simple emotional satisfaction of owning art. It can be a source of pride to own a famous painting, and you might derive satisfaction from being a patron of the arts, supporting new talents with your purchases.

Along with this emotional satisfaction, there is the chance – and hope – of capital appreciation: that you will be able to sell the art for much more than its original price.

What art investing is not about, however, is simple pounds and pence. If you are interested in profit alone, or want predictable performance, you should look elsewhere – art investments are not easily quantifiable and can be volatile.



How Does Art Investing Work?

Each investor has their own way of investing in art. Broadly speaking, these can be divided into:

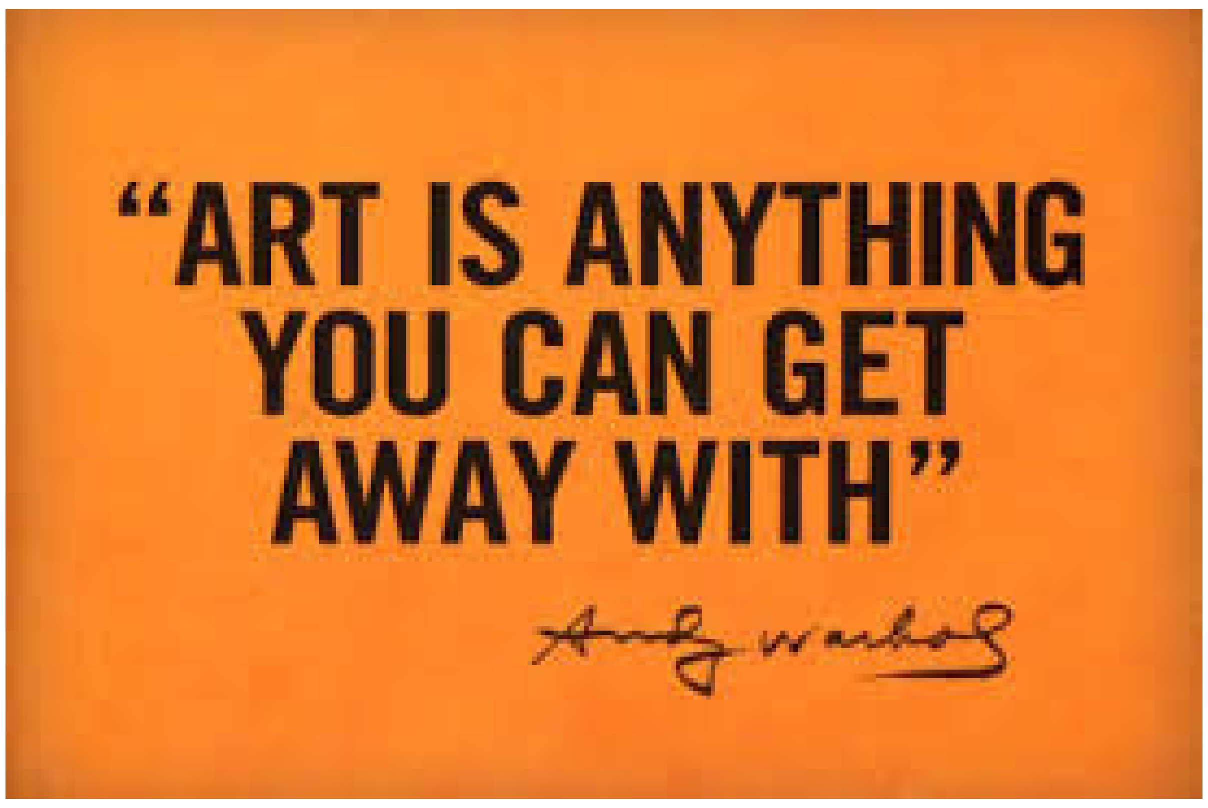
1. Art Funds
2. Following Art Market Trends
3. Investing in Blue-Chip Art
4. Investing in a School or Movement of Art
5. Investing in What You Like

1 Art Funds

If you are more interested in financial gain than aesthetics, this is the preferred approach.

Art funds, such as the famous Fine Art Fund Group, are managed much like mutual funds. The art fund buys and sells art for profit, with fund managers acting under the guidance of art historians and curators. Profits from trading are distributed to investors in the form of dividends.

There are some side benefits beyond dividends – art funds often arrange for private viewings, and may get you exclusive invitations to art museums and galleries. It also helps that, when you invest through an art fund, you don't need to worry about storage, maintenance and insurance.



It is inadvisable to invest in an art fund without consulting a wealth manager. Art funds are difficult to analyse, as most laypeople are not in a position to judge the quality of the management (unless you happen to be well versed in art history).

There have also been art fund scams, in which funds claimed reproductions to be originals.

2 Follow Art Market Trends

Some investors track indices like the Contemporary Art 100 index, and speculate on the prices of art.

These investors look at specific art works much like an equities trader looks at different stocks, trying to identify trends and patterns (the upside being that paintings are much nicer to look at than stock and bond certificates).

While art is usually considered a long-term investment, those who follow art trends may behave more like traders – they might purchase a piece and resell it within a short time (less than five years), in order to ride a trend.

These investors must be in tune with the art world, and are a constant presence at galleries, auctions and seminars. They often work closely with art advisory firms, which provide analysis and history for art pieces.

For a quick guide to alternative investments CLICK HERE

3 Investing in Blue-Chip Art

These are art investors who buy only highly recognised, classic pieces of art. Think Rembrandt, Modigliani or Picasso. These investors are not common, due to the high amount of capital required, and the rare opportunities to purchase such pieces.

Investors in blue-chip art work closely with museums and galleries, as it can be difficult to store such paintings on their own (the cost of upkeep and insurance is tremendous).

Like blue-chip stocks, blue-chip art might not offer huge returns – the purchase price is already high, leaving less room for appreciation. However, such works have proven resale value, and can be a potent hedge against inflation.

4 Investing in a School or Movement of Art

Some investors concentrate on a particular school or movement of art (e.g. surrealism, cubism, post-modernism). Alternatively, investors may focus on the works of a specific artist or country.

This approach is sometimes criticised for its lack of diversification. However, it can be appealing to investors who want a themed collection, rather than a disparate selection of different paintings. It can also result in high returns if, at the point of resale, the particular school or movement of art is trending.

5 Investing in What You Like

Some investors are less interested in financial returns. They buy what they like, and whether it appreciates is not too relevant to them. This may, in fact, make up a large bulk of art investors – it has been estimated that just 0.5% of paintings bought are ever resold.

Such collections, if valued by an expert, might also be used as collateral for loans. Many findaWEALTHMANAGER.com clients are seeking private client lending facilities like Lombard loans.

This is the approach that is most often recommended – buying art is ultimately an emotional and aesthetic decision. While you don't know if a painting will appreciate, you do know how much you'll enjoy having it.

Why Invest in Art?

According to the Contemporary Art 100 index, art prices have increased by about 8% per annum over the past 25 years. This is a decent return, comparable to many well-managed funds – and the investors also have the advantage of owning a beautiful art collection.

By working with museums, investors can also use their collections to raise publicity. If you own a company, for example, you could help the branding of your business by being a patron of the arts. In so doing, you would also raise the prominence of your collection and its ultimate value.

Buying art has also been compared to buying start-up businesses – by purchasing the works of talented artists before they become famous, you could get huge returns on your initial investment.

But don't rush out and buy paintings yet ...

Passion investments might arouse strong desires, but you should certainly not rush in to commit large sums to pieces of art – or cars, wine or watches for that matter – without consulting a wealth manager first.

Alternatives should only ever really make up a fairly small proportion of most investors' portfolios, and tangible investments like art a smaller one still. While they can deliver strong returns, and serve as a robust hedge against inflation, they are also highly unpredictable. They should never be the cornerstone of your financial strategy for important things like your pension pot, for instance.

That said, professional advisors are adept at balancing all their clients' wants and needs to accommodate both the pleasurable and more prosaic sides of managing wealth. After all, money just a tool to get you where you want to be in life, doing and having the things you enjoy.

The key is achieving the right balance across all your financial affairs: assets weighed sensibly against liabilities, and investment portfolios optimally constructed to maximise gains and minimise risk.

Investing in art is a viable option even at quite modest levels of wealth. But each type of asset has its own risk and volatility profile, so be sure to speak to a professional before making any significant decisions.

To discover which wealth managers provide specialist advice in alternative investments, speak to our team. Or, get matched to leading wealth managers via our smart online tool - a quick and easy way to find the best professional to deliver your wealth goals.

Lee Goggin, Co-Founder
findaWEALTHMANAGER.com

> "Alternative Investments can form a useful part of your portfolio, but each type of asset has its own risk and volatility profile."

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