

Should You Invest in Art?

Submitted by Steve Bogen

Art as an investment certainly seems attractive. We've all read the headlines when Van Gogh, Picasso, Matisse, or Warhol set new auction records. Or maybe you've seen an episode of *Antiques Roadshow* where a 50-cent yard sale purchase ends up being the long-lost work of an obscure master artist.

The fine art market is a \$10 billion-a-year industry in the United States alone. Over the past 50 years or so, art has returned a compound annualized rate of 10.47 percent, according to the Mei/Moses Annual All Art Index, the leading art market index. Meanwhile, during the same period, the Standard & Poor's 500 stock index performed slightly higher—10.95 percent.

Surprisingly, art prices don't entirely depend on a healthy U.S. economy. Many recent record-setting art sales are due to foreign buyers who were prepared to pay top euro, ruble, rupee, yen, or rial for modern masters.

It certainly sounds like a great idea. But, like every investment, there are numerous risks.

You can't treat it like a stock

Art is a fine collectable, and collectables tend to hold or increase in value as they get older or rarer. The risk in art, however, is higher than the chance of appreciation. For every record-breaking Picasso sale, there's another Picasso that sells for less than what the auction house estimates.

That's because a painting's price is highly subjective, dictated by what the art market is willing to pay for it. This hinges on several things such as current trends, whether or not the artist has an agent, and a lot of buzz. An artwork's value also depends on its provenance (paper trail of ownership), condition, medium, subject matter, and size.

Art is for the long term—it's not a speculative venture that you can turn around swiftly for a profit. Art is not liquid. Unlike stocks that can be sold or bought pretty quickly, selling art can be a long, drawn-out process involving appraisals, dealers, insurance, lawyers, and the IRS.

Mutual funds for art do exist through specialty investment companies that use sophisticated research techniques and analytic tools similar to picking stocks for a portfolio. Through these, investors can buy shares in pools of art, depending on genres, periods or movements, condition, and even scarcity. These are long-term investing vehicles, however, and not for everyone. They often have high account minimums, usually starting around \$250,000, and may require participants to commit to a minimum 10-year holding period to build equity.

For investors who want a smaller commitment, galleries are open and welcoming places to start. They can point you to undervalued and up-and-coming artists and adhere to your budget. If you fall in love with something outside your price range, many galleries offer installment payment plans.