

Art as an Asset Class

During the Hellenistic Period, 4th – 1st century BC, the Greeks first developed the taste for art collecting, valuing it for aesthetic purposes rather than religious or civic significance.

The impulse to invest in art however is a new phenomenon. The 17th century diarist John Evelyn, noted that ‘even Dutch farmers pay high prices for paintings, which they resell at “very great gains”’.

The digital era is increasingly driven by finance and commodification while art is progressively recognized as a commodity, and being marketed as a lifestyle choice. The commercialization and popularity of the global art market has increased due to its links to the fashion and design industries. Art fairs, now one of the preeminent social and lifestyle events for the wealthy (including collectors, celebrities, tastemakers and influencers) greatly impacts upon art commerce, along with the activities of auction houses.

While people are becoming more sophisticated in their financial and estate planning there is a global trend in fine art being considered as an alternative investment class for the well-diversified portfolio. There are, however distinctions that set art as an asset class apart from the rest.

Globalization means an enormous and constantly expanding art market, with multiple levels and categories, increasingly open to new investors with small or large budgets. Access to information and buying is easy via auction houses, estate sales, fairs, galleries, dealers, advisors, and data portals, with increased exposure to digital platforms extending the knowledge, reach and sales of art.

In 1987, Vincent van Gogh’s ‘Irises’ sold for US \$ 53.9 million at Sotheby’s New York. It was purchased 40 years earlier for US \$ 84,000, which is less than 0.5 million dollars expressed in today’s money terms. This purchase has thus generated an annual real rate of return of about 12 % to the owner.

Weronika Adamowska at the University of Rotterdam, in her 2008 Masters thesis “Art as an Investment” comments upon the above mentioned sale, “The question is whether this case is representative of the whole art market, or just a notable exception. If the answer were given based solely on the news in the media, one could conclude that art outperforms other forms of investment.”

The hype about other exceptional sales at auction, she continues, “Nourishes the widespread belief that money invested in art might yield extraordinary returns. However, as this view is based solely on the superior performance of one particular market segment, it may not necessarily apply to other parts.”

“Art is philosophy, psychology, symbolism, politics, beauty, connoisseurship, language, status, a social structure, an addiction, a lifestyle, and so much more than an asset class,” said Evan Beard, the National Art Services Executive with U.S. Trust, Bank of America Private Wealth Management

Beard states in a July 2016 interview one significant factor. “I’ve yet to see a work of art that sold for tens of millions of dollars not accepted by a large swath of the academic and art critical community as historically important or influential.”

The time-tested value appreciation happens for works of art of historical significance and more importantly, the rare intrinsic quality of their aesthetics. Art value appreciation generally occurs over a long-term period (20-30 years), while certain skill sets are crucial in recognizing the next master, or to evaluate and purchase an authentic work at a realistic price. A strategy may then be required to fully capitalize on the investment.

Art valuation is sensitive to economic cycles, but proven works of timeless masters are less prone to this. Art investing usually goes against economic downturns, therefore, it is used as a safe haven (a safer place to put free cash), when the stock market or the economy are bleak, or going through a market bubble.

Art is illiquid. Buying art incurs expenses; advisors and appraisers may be required, insurance, transport, storage, installation, and framing, even restoration. The undeniable fact, or savings in art that is offered is something that others investments cannot, the opportunity to sit back and enjoy your purchase. The true art lovers' objective in collecting art is also to preserve the art and support the artistic talents of a nation, or culture throughout the ages.

Veteran British art dealer Robert Landau once said: "The impulse to collect art arises from a complex amalgam of aesthetic pleasure and connoisseurship, along with status-building and investment. As the market has boomed, the latter factors have become prominent. The decline in connoisseurship means few buyers understand the process."

The digital era has witnessed a shift in the paradigm away from the elite who once controlled the art market. With global real time information now available and the latest data from every market category open to masses, and real time bidding available on auctions, the power of control is reversed. The customer is now in the drivers seat. Connoisseurship is essential however. along with buying the best work and buying early.



My Mother - was painted by Affandi in 1939



Ida Bagus Made Poleng-Tari Legong - sold for Rp. 750,000,000 Image courtesy of Larasati



Rare and historically significant paintings such as -Perusing a Poster- by S. Sudjojono (1913-1985)