STEP JOURNAL

Downloaded on 15th July 2024 - 09:53

Portfolio investment

Art is back on the market, but is its value in ownership or investment? Stonehage Executive Directors Ronnie Armist and Steven Kettle put Jennifer Palmer Violet in the picture.

‘Investments of passion’ is an intriguing proposition for high-net-worth individuals (HNWI). Can you really make a dispassionate investment in something you feel so strongly about? Take the classic car hoarder, jewellery devotee, fine wine connoisseur or art lover. All collectibles have their worth, but were they bought out of love or for their financial value – or both?

There is definitely a healthy trade going on in what people call ‘investments of passion’, according to Ronnie Armist, Executive Director at multi-family office Stonehage, but you must differentiate between these and investment portfolios. ‘When a client comes to see us, we’re not going to say they should put 10 per cent in art,’ he says. ‘If they want to allocate a chunk of their money to art because they like art then that’s a different course of action.’ The value, it seems, comes from the joy of ownership. ‘There are very few people who are buying art today solely to generate a fantastic return.’

So without the passion, what can art mean to an investor? Art is like any other risk asset; depending on whether the world is on a ‘risk on’ or ‘risk off’ trade, different parts of the market do well. Once considered more of a fringe benefit, it is increasingly being recognised as an asset class, especially in light of the global market rebound in 2010. Last year, art investment worldwide accounted for 22 per cent of HNWIs’ ‘passion investments’.[1] But the art market as a whole is not a safe haven, warns Steven Kettle, Executive Director at Stonehage.

‘You see very good results coming out of the big New York and London sales, but if you went to the next tier down, you can see prices are softer,’ says Kettle, who is an art collector himself. ‘People talk about the big auctions and the big prices, which are a very, very small part of the art market,’ he says, ‘and they’re talking about the people who can afford that art, who are largely unaffected by what’s happening in the rest of the economy.’

A notable example of this was Van Gogh’s *Irises* setting a record price of USD54 million in November 1987 a couple of weeks after Black Monday, according to *The Art Newspaper*.[2] Most of the world’s major art collectors are not dependent on financial markets, it claims, and these ‘super rich’ collectors remain unaffected in times of economic turmoil. Financial crises only go so far in decreasing the cash of very wealthy investors, and in times of inflation, there’s an incentive for them to buy quality art.

With great art comes great responsibility and this is largely down to the client, who must have a deep knowledge of the subject or the time and extra money to acquire it. buying established artists is prudent

Kettle says you never really know what’s going on behind the scenes because the press focuses on this very top end for its sensationalism. The headlines are often as seductive as the market itself. ‘I don’t think anybody should be under the impression that art is the Holy Grail,’ he says. ‘But in times of crisis, people do gravitate towards quality, so the same is true for art assets.’

Right price

Quality in the art world is clearly defined as the masters desired by top collectors, but art won't sell because of recognisable names alone – something Kettle finds fascinating. He recalls an example last November, when the art market was 'being written off' after a disastrous auction at Christie's in New York. It had the big names but not their major works, yet the estimates were high. The items were not new to auction either. The following night, Sotheby's in London had a great sale because they had appropriately priced, high-quality works from top names that were fresh to the market. Art buyers want quality, but they don't want to overpay either.

Price comparison

Part of Stonehage's client service is its SALLI (Stonehage Affluent Luxury Living Index). This looks at key components that many high-net-worth individuals will spend their money on over the next 12 months or have been buying in the past 13 months. Stonehage computes the appreciation or depreciation annually and compares that to the Consumer Price Index (CPI). The luxury goods and services basket includes food and drink, cars, watches, travel and art – even Botox treatments.

Ronnie Armist says: 'The conclusion you draw is that the peaks and troughs of the SALLI seem to be much higher in good times than the CPI, and much lower, much more pronounced, in the tough times. It will be interesting to see how SALLI comes out this year because after 2010 we had a SALLI appreciation of 6 per cent, which was higher than the CPI.

'In 2009, it was a buyer's market. You could negotiate, there were lots of discounts on offer, and that may well be the situation now. Maybe the advertised prices are quite high, but if you're going skiing or you're trying to book a chalet in one of the high-class resorts, you may well find you can negotiate a deal. I am anticipating that will be the trend coming through when we start collating information.

'When we design a portfolio, a lot of our clients do involve themselves in these types of goods and these types of sports and therefore we have got to make sure their portfolios appreciate by a sufficient amount to maintain the standard of living.

'That is quite a key point because the CPI itself may not necessarily reflect how clients actually allocate their wealth.'

Art management

Stonehage brings a sense of governance to art assets, as it does for investment or business assets. It doesn't advise clients on how to pull their collection together or what they should be buying.

It's about bringing the financial, fiduciary aspects to an art collection. 'We are there to help structure those assets,' says Steven Kettle. 'We're happy to leave the glamorous stuff to other people.'

‘As we’re all doing at the moment, if you’re going to spend your money, you want to spend it on the best,’ says Kettle, who believes many people who think they’re investing in contemporary art now, as opposed to quality blue-chip work, will eventually discover it’s worth less than expected. ‘A lot of people should be writing down their works right now,’ he suggests, highlighting the massive confusion between investing and speculating.

More than a third of private banks are considering providing their clients with services relating to art investment. However, the majority acknowledge that assessing funds’ viability is a current challenge

With great art comes great responsibility and this is largely down to the client, who must have a deep knowledge of the subject or the time and extra money to acquire it. The art market lacks transparency and is not especially liquid, so doing your research and buying established artists is prudent practice. ‘You have to accept the consequence of speculating is sometimes you lose money, and in this environment, there’s a very high probability of that.’

Not seeking proper advice is the main risk of art investment. ‘I’ve heard some wonderful stories of people who are very confident in business investing,’ says Kettle. ‘They would take the advice of entire boards to make an acquisition of a USD50 million company, but they’ll go out and buy a work of art worth USD50 million without taking the appropriate advice. Our role at Stonehage is to remind clients that they need to go get that advice, to make sure that they follow the correct procedures before they commit to a big piece of art.’

Indeed, buying art is a huge, long-term commitment. Even with the required knowledge, without the ‘passion’, maybe traditional asset classes are more appropriate, says Kettle. ‘It’s a very, very specialist market. Unless you have a lot of money and are prepared to either pay for specialist help or invest a lot of your time, and have a long time horizon – much longer than for many other investments – then it’s probably the wrong thing for you.’

Motivational shift

But art investment is garnering more and more attention, according to Deloitte research released in December. The *Art and Finance Industry Report 2011*[1] found that although emotional attachment is still the principal motivation for art buyers, 48 per cent of art advisors said their clients were primarily driven by investment returns, 49 per cent of collectors said the same, and a further 39 per cent of the collectors saw art as a key component in their portfolio diversification strategy.

Private banks are picking up on this interest in art as a wealth management product: 83 per cent of those surveyed believed there was good reason to include art and collectibles in traditional portfolios. This feeling was also motivated by increasing competition in the sector. More than a third (39 per cent) of private banks are considering providing their clients with products and services relating to art

investment funds over the next two to three years. However, the majority acknowledged that assessing funds' viability is a current challenge.

Global art funds are re-emerging, having plummeted after the financial crisis of 2007. By 2010, there were 12 – down from 50[3] – but last year saw 41 different art and passion vehicles in development around the world.[4] With little historical success, these funds target the wealthy, pitching art as a pure investment asset. Kettle understands the merits of art syndicates but doesn't believe funds work. They are about neither investment nor collection; they sit somewhere between, and he tends not to recommend them. 'The art market is driven enormously by ego,' he says. 'People like to own things. It's like those funds where you have access to 20 luxury properties. I don't find lots of very wealthy clients investing in those because they want to own the villa in Tuscany, they want to own that house in the south of France.'

> *Unless you have a lot of money and are prepared to either pay for help or invest a lot of your time, buying art is probably the wrong thing for you*

Passion killer

Unless you've acquired art via inheritance or after a divorce and choose to sell it, you have it because you want it, underscores Armist. 'You're not doing it only to make money,' he says. 'You love it, you're owning it and you hope you're making a good purchase.' To that end, Kettle thinks art and its bedfellows should be called 'assets of passion'. 'We always talk about lifestyle assets, business assets and investment assets,' he says, 'and I suspect that assets of passion are a fourth category, so they sometimes turn out to be investment assets and sometimes remain purely lifestyle assets.'

Neither Kettle nor Armist deal with 'assets of passion' within their normal investment mandates. It's not an asset class within investment assets, but an asset category, as are business, lifestyle and investment assets. When they look at a client's overall wealth, they'll take into consideration assets of passion in the same way they look at their home in France, for example.

'True art lovers tend to buy work for themselves,' says Kettle, 'and I think people who invest in art as a pure investment may well be disappointed. The exception will be those who buy top quality.'

Photography by Mark Weeks.

---

1. *1 a b Deloitte Art and Finance Report 2011, December 2011.*
2. *2 'What crisis? Super rich are still buying', The Art Newspaper, No. 230, December 2011.*
3. *3 'Unique design for a pension trust', FT.com, 12 September 2010.*
4. *4 'New interest in art funds as market rebounds', FT.com, 12 June 2011.*

© 2024 STEP (Society of Trust and Estate Practitioners). All rights in and relating to the STEP Journal and Trust Quarterly Review and to content online at journal.step.org are expressly reserved.

https://journal.step.org/step-journal-march-2012/portfolio-investment