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Trash or treasure?

How are investments of passion doing in todays economy? Chris Albert offers his insight and tips for investors.

Fast cars, fine wine, luxury watches, quality art – these are emblems of the wealthy, reminiscent of the financial heydays. But in today's volatile markets of high inflation and low interest rates, there are an increasing number of investors, typically with a total net worth in excess of GBP1 million, who no longer just indulge in these tangible items, but also see them as valuable investment vehicles. High-net-worth individuals (HNWIs) still wish to enjoy assets they are passionate about, but are now taking a much more savvy approach to investing by factoring these assets into their financial planning.

Prices for investments of passion have increased considerably in the past few years as they have low correlation with the traditional markets, making them an ideal area for diversification of a broader investment portfolio. There has been a marked increase in investment from the People's Republic of China (PRC) and the rest of the Far East, with PRC investors being one of the world's biggest buyers of luxury brands and goods. Investing in this sector is a natural extension of their consumption and HNWIs in this region are looking outside the more traditional local investments and diversifying into western art and wine.

Statistics from Euromonitor International show that despite global wine sales slowing, Chinese wine sales have continued to increase, seeing strong year-on-year growth. Imported volumes of wine from France, Australia and New Zealand increased by 35.8 per cent, 36.1 per cent and 80.2 per cent respectively in 2009 in China.1

Chinese investors often buy local art for enjoyment, but they are buying western artworks strictly for investments, somewhat removing the 'passion'. This is a shame when many great pieces of art are shut away and not seen, and many fine bottles of wine are cellared, but not tasted.

Top tips

'Passion investing' requires a thoughtful approach, so investors should consider these points when making high-value purchase decisions:

1. Know the value; don't get carried away. Understand the difference between intrinsic value and the effect of demand on price; know what you're prepared to pay and stick to it.
2. Factor in how much money it will cost to hold the investment – taxes, maintenance and insurance will need to be taken into account and can add up to a substantial amount.
3. Deal only with established and reputable firms, be they auction houses or merchants, and make sure you know the provenance of what you are buying – for example, certificates of authenticity for collectibles can protect and make money on the investment as future buyers are reassured it is the real thing.
4. Expect to invest over the long term – investors in esoteric investments may have longer to wait to see an increase in value.
5. Do not buy blind – by definition, passion investments are also to be enjoyed. If an investor is buying a tangible item they should inspect it and make sure they are happy to accept a potential

loss. If the investment is made through an investment vehicle, due diligence needs to be carried out.

6. Listen to the advisor – an independent viewpoint to temper whims of excitement can be invaluable to avoid investment mistakes.
7. Do not forget to have the item(s) insured. Cars, art and wine, for example, are all susceptible to accidents and the wear and tear of time. Protect their value against potential loss.
8. Know the tax position and think about the best way to hold the investment. Could an offshore holding be most beneficial, or a trust? This is likely to change depending on the asset, so be sure to get expert tax advice.
9. Be an active investor, not a passive player – as with the financial markets, investors should be aware of trends affecting their investments and collections; the timing of when to buy and when to sell remains critical.

When considering valuable assets as an investment, it is important for investors to seek the advice of a wealth advisor and industry professionals who are deeply involved in their relevant sector. Just as people can get carried away at an auction, investing with the heart can be fraught with danger and pitfalls. These specialists can advise which items are set to become more popular and increase in value, and which are going out of fashion. Acknowledging investors' unique dreams, worries and responsibilities, and viewing all existing assets together to achieve and meet individual goals, has to be the overriding objective.

Risk factor

Like any other investment, those of passion have their inherent risks. Passion investing assets can be difficult to value accurately and can be affected by trends. So while an investor may wish to allocate the total of their investable amount available to these types of passion investments, it is not advised that this be the only form of investment. Instead, passion investments should be viewed as a diversification tool that, when combined with various other investments, can be a portion of a well-balanced portfolio.

Furthermore, an advisor can help structure this portfolio while considering other factors, such as taxation. Given the value that passion investments are bought at and the potential figures they can sell for at auction, it is also wise to make sure they are considered in inheritance tax planning.

At a time filled with economic uncertainty and low investor confidence, passion investing can be a rewarding and enjoyable experience. But it is important to note that the old adage of 'one man's trash is another man's treasure' works both ways. Individuals looking to invest in assets such as classic cars, jewellery and art should align any purchase with their medium and long-term goals and consider the overall risk factors associated with the items. Seeking expert advice can be extremely valuable in making wise lifelong decisions not just with your heart, but also with your head.

- *1 Euromonitor International, Wine in China, January 2011.*