

Principles of Art Investing



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IS ART A SOLID INVESTMENT?

Art should be considered a store of value, rather than an income producing asset.

Over the past twenty years, the popularity of investing in art has grown tremendously. Stories of emerging fortunes in art have become increasingly common in newspapers and magazines. These articles tend to focus on Hollywood stars and other high-profile individuals who have reaped fortunes buying and selling art. For instance, a recent article in the *New York Post* (October 3rd, 2016) highlighted the success of legendary musician Eric Clapton and his purchase of three Gerard Richter paintings for \$3.4 million in 2001. Clapton has since sold two of the works for a combined \$55 million, and the last is slated to sell this fall.

These stories make for sensational press, so we continue to hear about them. In contrast, little is reported about instances in which art investors get burned, unless they were sold forgeries or swindled for large sums by a disreputable dealer or gallery. In reality, there are thousands of untold stories about the losses collectors suffer because of overpaying for purchases at auctions, galleries, and via unscrupulous dealers.

So is art a solid investment? The short answer is yes, but only if you purchase correctly and for the right reasons. A collector must be diligent and secure expert advice in order to avoid buying forgeries or overpaying for works. Buying correctly means limiting works by emerging artists from your investment portfolio, simply because these artists have yet to stand the test of time. Buying correctly also means not getting caught-up in buying what's trendy at the moment.

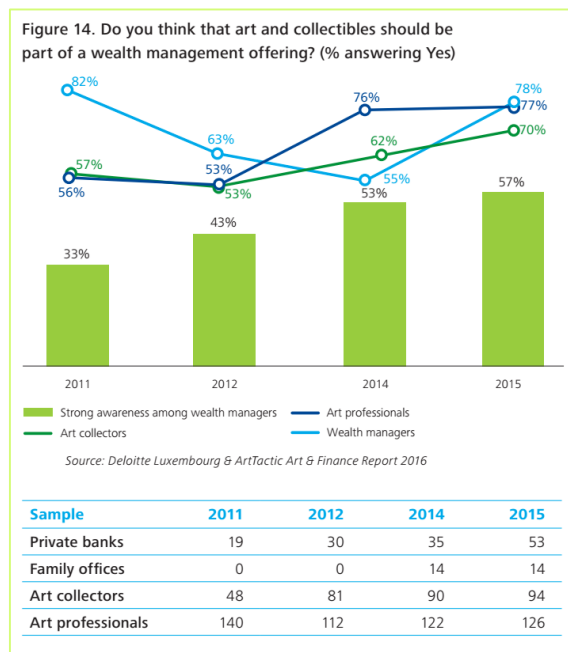
Investing in art can be both lucrative and satisfying if approached with the correct mindset. It is unlike investing in stocks or bonds. One should view art as a store of value, not as an income producing asset.

SHOULD I INVEST IN ART?

Wealth Managers expect 73% of their clients want to include art as part of their overall wealth reporting.

Unlike collectors of the past who bought what they liked, art buyers today increasingly consider financial gain in their decision making. The rapid rise in art prices has changed virtually every aspect of collecting. Financial advisors are now focusing on art as an integral part of their client's portfolios. In fact, a recent survey done by Deloitte Luxembourg & ArtTactic shows that 78% of wealth managers now believe that art and collectibles should be a facet of their wealth management offering. Wealth managers and investors now, more than ever, see art as a way for investors to lower the volatility and often erratic performance of their investments. Many wealth managers see art as having a low correlation to stocks and other investments, which is not always true, and as a way to diversify investment holdings.

Another recent survey found that 73% of wealth managers surveyed, expected their clients to want to include art and collectibles as part of their overall wealth reporting. This statistic is up from 22% in 2011. This clearly indicates that many wealthy individuals and families are buying, or have already bought, a substantial amount of art. Additionally, 79% of wealth managers said they are now offering advice in the area of art and estate planning.



REASONS TO INVEST IN ART:

Art is a mode of self-expression and symbolism that represents our views and beliefs.

Besides having monetary value, art adds aesthetic pleasure and beauty to our surroundings. It is also a mode of self-expression and symbolism that represents the collector's views and beliefs. Art can also provide its owners with intellectual benefits, social capital, and cultural status. In my opinion, one should invest in art to get enjoyment and derive pleasure from it.

- Art adds aesthetic pleasure and beauty to our surroundings.
- Art is a mode of self-expression and symbolism that represents our views and beliefs.
- Art often provides its owners with intellectual benefits, social capital and cultural status.
- Buying investment quality art adds diversification to a financial portfolio and helps to lower a portfolio's volatility.
- Art can be an integral part of an estate plan and an efficient and gratifying way to pass wealth to heirs and philanthropic causes.
- Purchased properly, art can be a very good long-term investment.
- Art is an excellent store of value that can help build wealth.
- Unlike other investments (like real estate, cars, and yachts), art has minimal carrying costs. Often appreciates or maintains its value.

COMMON MISTAKES MADE BY COLLECTORS:

- Overpaying.
- Buying works with title/ownership issues.
- Buying forgeries.
- Failing to get objective professional advice. Lack of due diligence.
- Buying works without knowledge of extensive restoration.
- Buying art which has poor resale value and little chance of appreciating.
- Buying works without proper authentication documentation, without which they can be later deemed a forgery and difficult to sell.
- Selling art in the wrong venue and paying exorbitant fees.
- Lack of diversification (i.e., purchasing too much of one artist or genre).

WHAT IS THE BEST WAY TO PURCHASE ART?

An experienced
Art Advisor is
knowledgeable
and trustworthy.

Finding a knowledgeable and trustworthy advisor is crucial. Your advisor should have consistent access to the most exceptional artwork available on the market, and ensure you are getting them at the best price possible. A good advisor is transparent, and charges reasonable commissions without receiving third party payments unless specifically discussed and agreed upon. Whether buying via an advisor or gallery, you should receive provenance (ownership history) information going back to the artist, and all necessary authentication documentation.

To ascertain whether or not you are overpaying for a work of art, always ask your advisor to show you comparisons of similar works that have sold at public auction. Use these comparisons to get a sense of the value of what you are paying. A good advisor will explain why the price your paying makes sense. If you have doubts, get a second opinion from an objective and experienced third party (appraiser, advisor, or dealer).

Although I do not usually recommend buying at auction because of their high premiums, on occasion it can make sense. Just make sure your advisor explains the value of what you are bidding on and proceeds to auction with a price limit that takes into account the buyer's premium, which is the percentage charged above the hammer price (normally 15 to 25 percent).

DIFFERENT WAYS OF PURCHASING FINE ART:

Through an advisor or art dealer: Vet them carefully. Make sure they are knowledgeable and transparent regarding all fees.

Directly from a gallery: Be sure to negotiate the listed price, and get a second opinion before buying.

Privately from another collector or museum: This is an effective way to lower your transaction costs, however, getting the advice of an expert to assist with these purchases is always prudent.

Art Auctions: Be aware of their often exorbitant premiums and fees. Do your diligence before bidding (condition, provenance, etc.) and try to stay with the major auction houses. Smaller houses are more likely to sell forgeries.

Art Fairs and Art Shows: Works at fairs tend to be overpriced, but on occasion, you can get a square deal. If you are unfamiliar with pricing, get a second opinion before committing to purchase. Better yet, bring your advisor with you.

Online: This is not recommended. There far too many forgeries in circulation.

DECIDING WHAT ART TO BUY:

Set goals (i.e, places to hang your art; budget; am I buying for investment, pleasure, or both? etc.).

It is important to work with an advisor who will show you different types of art to help determine your tastes and interests. A good art advisor will not let your emotions get the best of you, ensuring that you not only love what you buy, but that you don't overpay.

Expose yourself to as much art as possible before buying. Don't be in a hurry!

Love what you're buying. The art should speak to you and arouse your senses and imagination.

Understand what you are buying, The provenance or history of a work; the condition; the history of the artist, and the price in comparison to other works by that artist.

Make sure to consult with your spouse or significant other.

Art should stimulate your senses and intellect, and bring you joy.

A FEW TIPS:

Always remember that art is not highly liquid, and therefore the transaction costs can be high. Also, selling art can be challenging. Unlike stocks and bonds, which you can sell with the click of a mouse or a phone call to your broker, selling fine art often requires diligence and patience. While the illiquid aspect of art has always been construed as a negative, I do see a positive to it as well.

It is a fact that most investors erroneously buy stocks when market indexes are high and stocks are in fashion, and sell them at the worst of times (after a market meltdown or crash). Since art takes more effort to sell than stocks, investors are less likely to react emotionally to the ups and downs of markets, thus saving them from making poor financial decisions.

When purchasing art, I recommend that you do not do so with an eye for making money. Buy art because it stimulates your senses and intellect, and brings joy to you and those around you. Buy art because it is a store of value that you can proudly pass along to your heirs or use as a vehicle for philanthropy. Buy art because it excites you.

Employing a trustworthy dealer or advisor to assist you in making sound decisions and avoiding the pitfalls of the art world is always a good idea.

I strongly advise our clients to avoid investing in art funds, which have proven not only to be terrible investments, but which also take the fun out of art ownership.

It is preferable to buy the highest quality of art your budget can afford. In other words, go for quality not quantity. In most instances, the better the quality the better the investment implications.

OTHER IMPORTANT TOPICS RELATED TO ART:

Documentation: Certificates of Authenticity from the appropriate governing body or expert, provenance and title records, purchase and sale receipts.

Insurance: All works need to be properly insured at time of purchase.

Lighting: Good lighting can make a tremendous difference in the appearance of a work.

Condition Reports: Condition can play a big role in deterring the value of a work. These reports should be included in the purchase documents.

Restoration: A good restorer can do amazing things to improve the appearance and long-term stability of a work.

Taxes/Estate Planning: There are many legal maneuvers that can help you avoid unnecessary taxes and aggravation. Consulting an accountant with art expertise is highly recommended.

Philanthropy: Many wealthy families and individuals use art in a philanthropic way. To understand the potential benefits and risks consult with a knowledgeable art attorney or accounting firm.

Exhibitions: Collectors loan their art to museums (and well-known galleries) in order to share it with others, and to give their art an exhibition history, which can enhance a works value.

Loaning to Museums: There are potential tax and other benefits, as well as philanthropic and estate planning benefits.

ABOUT ACKERMAN'S FINE ART:

Ackerman's Fine Art is a gateway for collectors to the world of investment-quality art, as well as a venue for successful fine art transactions. As a concierge gallery, Ackerman's provides collectors with expertise in all major areas of collecting.

Ackerman's provides clients with access to the finest art available throughout the world. We advise our clients with knowledge, honesty, and integrity, and we approach every client relationship with a fiduciary responsibility—a position of trust and confidence.

Our gallery is run as private, and by appointment only, and all our client information is held permanently confidential. In our effort to become the premier one-stop gallery for all collector services, we have partnered with our affiliate company, Atelier Art Finance, to provide art loans and art leasing options to collectors.

ABOUT KENNY ACKERMAN

As founder of Ackerman's Fine Art, Kenny Ackerman brings a one-of-a-kind expertise to the world of Fine Art and Art Advisory. Kenny brings with him the insight and perspective of a 20-plus year veteran of Wall Street, a seasoned art collector with a significant collection, the owner of an established fine art gallery, and a proven, established art advisor.

Together with his team, Kenny offers unmatched service in the areas of art selection, valuation, authentication, collection development, advisory services, and art finance.

Ackerman's Fine Art delivers a level of service, value, and transparency that is unmatched in the art world.

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