



Robert Simon: *"The only people who do make money in art are art dealers," he says. "Buying art works best when the motive is appreciating the work of art."*

Hot art market sparks investment fever

Soaring prices spawn slew of new funds

By Charles Paikert

NEW YORK — As skyrocketing art prices continue to set records, wealthy investors — and their financial advisers — are increasingly being solicited to view art as investment vehicles rather than as collectibles.

On the heels of last year's blockbuster sale of Pablo Picasso's "Boy with a Pipe" for \$104.2 million and a red-hot market for modern American artists such as Mark Rothko, about a dozen art funds and investment companies have emerged. These include Paris-based Artvest, Boston-based Fernwood Art Investments LLC, the London-based Fine Art Fund and an art fund of funds due to be launched next month by ABN AMRO Holding NV of Amsterdam, Netherlands.

ABN AMRO is also adding an arts investment advisory group for its private-banking clients, and one art adviser recently estimated that there may be as many as 30 new art funds by the end of the year.

What's more, there are now even several indexes to help investors following the booming market track the fluctuating values of art prices, the best known being the Mei/Moses Fine Art Index.

But should advisers and investors consider art as a viable alternative

investment to diversify portfolios?

Mike Moses, a New York University business professor who compiles the art index with colleague Jianping Mei, argues that art is a legitimate asset class because art sales can be both accurately priced and compared with other assets.

Diversification

According to Mr. Moses, the Mei/Moses index has shown that art, over the past half century, has outperformed stocks with annualized compound returns of 12.6% between 1953 and 2003, compared with 11.7% for the Standard & Poor's 500 stock index with reinvested dividends included.

Art returns have been slightly more volatile, with a standard deviation of 19.7 versus 16.8 for stocks, he said. "But it provides potentially good diversification for a portfolio, and it would be silly to ignore it."

According to Todd Millay, vice president in charge of strategy and product development at Fernwood, the company during this quarter will launch two funds dedicated to buying works of art. One, he said, will be a "sector allocation vehicle" that will seek a "broad exposure" to the art market and will be open ended with limited liquidity initially.

CONTINUED ON PAGE 39

Art frenzy sparks funds, indexes

CONTINUED FROM PAGE 3

The other fund will be closed end and more "opportunistic," and will "look for the highest [returns], wherever they may be."

The art market, Mr. Millay said, represents an alternative-investment opportunity because it is less efficient than stocks or bonds and has a greater chance of creating alpha, or a return greater than that expected from the amount of risk taken. "A lot of investors are looking for a less efficient market, where true alpha can be generated," he said.

Mr. Millay went on to compare the new crop of funds that will invest in works of art to real estate investment trusts, which also exploit an inefficient market. And just as wealth managers place their wealthy clients in REITs, he said, Fernwood is already working with

advisers who are ready to "allocate a percentage of their clients' portfolios into one of our funds."

Those clients will need substantial portfolios. Investors will be required to have \$5 million in assets and put up at least \$250,000 for a stake in the funds.

Last year, Fernwood commissioned a survey of wealth advisers on investing in art and quoted one Merrill Lynch & Co. Inc. executive in Ohio saying that his clients understood that "alternative investments need to be part of their asset mix." He also said that he placed art alongside private equity, hedge funds and real estate. Merrill is based in New York.

Many experienced art world observers said the jury is still out.

While Mr. Moses thinks the new art funds are comparable to REITs 30 years ago and could be a "first-mover advantage" for aggressive investors and advisers, he also urged caution.

"They haven't been up and running long enough, so you don't really know," he said. "You have to exercise the same amount of prudence that you would when going into anything new."

Shelley Fischer, a senior vice president in New York with Sotheby's Financial Services Inc. of London, is less optimistic. Art funds, she said, "historically have never

really done much or gone anywhere."

And Robert Simon, a Tuxedo Park, N.Y.-based art consultant, noted that funds that invested in art during other boom markets have subsequently "disappeared."

While funds may still be untested, art professionals say, wealthy individuals are increasingly using art as collateral for loans to finance other investments.

"We're seeing more people who have no intention of selling their art [except to] use it as a means to get money for other investments," said Dorit Straus, fine-arts specialty manager for the Chubb Group of Insurance Cos. in Warren, N.J. "After they repay the loan, they still have a profit, so they're generating cash from the art."

Ms. Fischer, who is also a financial planner and whose division specializes in art-related loans, said the trend is cyclical, based on bull markets. "When times are good, people want money, and they're using art as collateral to borrow money so they can make even more elsewhere," she said.

Professionals in the art world say wealthy people are also being increasingly pressed to buy individual works of art, especially by hot contemporary American painters. But they stress that caution is critical both before and after buying.



Shelley Fischer: "The uneducated are easily swayed," she says.

"The worst thing for someone buying art as an investment is that they don't have clear title," Ms. Straus said.

"You must have pristine provenance, meaning the ownership and authenticity of the piece is established, or you can be embroiled in litigation later," she said. "And unlike stocks and bonds, you can't just buy art and not worry about it; you have to maintain art and safeguard it."

Potential investors also need to remember that art is an illiquid investment, Mr. Simon added. "You can't sell a painting anytime you want to, and its value won't be as predictable as other assets."

Investors or advisers who are

determined to buy art, the professionals agree, need to do their homework, and work with experts.

"The uneducated are easily swayed. You need to get an education, and work with someone who knows the field but doesn't have an agenda," Ms. Fischer said.

"Buying art is not an in-and-out kind of thing," added Steven Pincus, senior vice president and practice leader of New York-based Marsh Inc.'s fine-art insurance practice.

"It's a long-term investment," he said. "It's imperative to work with the right people."

Art world veteran Mr. Simon had blunt advice for advisers and their clients considering art as an investment: "There are better ways to make money."

He added: "The only people who do make money in art are art dealers. Buying art works best when the motive is appreciating the work of art."



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