Art as an investment?

"Beauty is truth, truth beauty"—that is all/Ye know on earth, and all ye need to know."

—John Keats, "Ode on a Grecian Urn"

Well, yes, but many who collect works of art—whether Grecian urns or Ming vases, Rembrandts or Warhols—and many who share the growing interest in art as an investment have several major practical questions for which they seek answers.

Perhaps the first is simply: *Is art a good investment?*

Jianping Mei and Michael Moses, two professors at New York University's Stern School of Business, have done extensive research that bears on this question. John Dobosz on Forbes.com (09.09.03) reports that over a number of periods of time, the Mei/Moses All Art Index (based on data from paintings that came to market in New York or London more than once since 1875) has outperformed the S&P 500-stock index.

Note: An index is an unmanaged measure of performance. It is not possible to invest in an index. But although past performance is no indicator of future results, such statistics may suggest that discerning investors might at least want to give some thought to adding art to their portfolios.

The next major question that investors might ask is: *What function could art serve in a portfolio?*

Godfrey Barker, in an article entitled "Give 'Em Shelter" (*Forbes,* 12.24.01), provided several classic examples of what he calls "art's role as a refuge." For example, the stock market swooned in October 1987. Yet in November 1987 a Van Gogh sold for a record $53.6 million. Similarly, in 2001, with New York City staggering under the impact of recession, terrorism and war, sales at the major auction houses set records for more than 30 artists.

In his article Barker explores the implications of a study by Mei and Moses of art values during 27 recessions and four wars. The study indicates that art values tend to hold up well during periods of economic difficulty and that art indexes outperform major stock indexes during times of war. A corollary to art's investment role in tough times, Barker adds, is that in better economic times—such as the tech boom of the 1990s—and in peacetime, collectors may be "likelier to invest elsewhere for quicker and better returns."

Peter Scott S. Sahlman, head of an art consultancy, noting the research by Mei and Moses on the different rhythm that price appreciation for fine art has from that for stocks, advocates a role for art as a balancing or stabilizing asset. He says: "By buying fine art at the correct price your hard asset art portfolio can balance your securities, real estate, bond and hedge fund portfolio. When fine art is bought below gallery/retail prices [for example, by a shrewd buyer or professional consultant] it will stabilize the volatility of your entire portfolio and position your art collection for upside appreciation."

However, investors intrigued by these possibilities should also remember the old saying "Buyer beware" and so should ask: *What caveats should I bear in mind when seeking to invest in art?*

Sahlman's Web site (http://www.sahlman.com/art_advisory services) has a good list of such caveats, as does Standard & Poor's publication "Investing in Fine Art." Some of the most important ones are:

• Anything that can be said about art as an investment obviously applies only to genuine art and not fakes or forgeries. Investors need to be able to find out what is authentic and what is not.

• Art prices may be quite unpredictable, and investment horizons may run for decades. (That is why investments in art often end up as parts of estates.)

• The market for art is generally illiquid—the ability to convert a holding into cash expeditiously is limited.

Many investors over the years, though, would attest that such risks are manageable. But when buying art, there is one truth that above all others serves to make the risks worth taking: *If* *you buy something only because you love it for its beauty or some other aspect of aesthetic or personal appeal, you can never really lose.* Keats would, surely, agree with that.

Any developments occurring after January 1, 2008, are not reflected in this article.