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Is Art An Asset Or An Investment?

On Wednesday night in New York, at a UBS discussion on fine art and investments, moderator, art adviser and dealer Jason Rulnick asked panelists whether they thought art was an asset or an investment. Pretty much everyone agreed that it was an asset, but were a lot more guarded about its investment potential.

NEW YORK, NY - MAY 02: Edvard Munch's 'The Scream' is auctioned at Sotheby's on May 2, 2012 in New York. The masterpiece sold for over $119 million. (Image credit: Getty Images via @daylife)

Jeff Rabin, principal and co-founder of Artvest Partners, argued that a lot of people who bought top quality art 10 to 15 years ago have probably seen it appreciate a lot. “Even if you bought it from a connoisseurship perspective, you can’t discount that it is an asset in your portfolio. However, how that fits into your portfolio and how much you should spend on art is a whole other discussion.”

This is pretty much the crux of the issue. Art is most certainly an asset in the broadest sense of the word. Its aesthetic, cultural or historical value can be limitless. It might be financially valuable too, but just because some people happen to own art that is worth more today than what they paid for it does not mean that buying art in order to make money is somehow easy to pull off.

Sure, there are many examples of art works that have been sold for much more than their purchase price over time, but these are the exceptions, rather than the rule. They should not provide much comfort to buyers anyway because the art market is a pretty wild place, where past performance doesn’t count for much. “A lot of things that sell for $1 million or more auction won’t trade at that price again,” said another panelist, art adviser Stefano Basilico. “That’s where people can get into trouble.”

As I’ve mentioned in previous posts, even the hottest artists don’t fare consistently well at auction. A case in point: Edvard Munch’s *The Scream* may have sold for nearly $120 million this year, but several other Munch works subsequently offered at auction have done poorly. And as Kelly Crow pointed out in her excellent market survey in the Wall Street Journal , collectors are willing splurge on masterpieces right now, but not much else. Meanwhile, the vast majority of art is never going to go up in price. As one art adviser told me recently, 90% of art devalues the minute you walk out of the gallery door with it.

So trying to figure out what you should pay for art is fraught with complications. Another panelist on Wednesday, Michael Gearty, a portfolio specialist for Transparent Value Mutual Funds, said that his general approach to investing was to mathematically and unemotionally figure out what something is worth. “When you’re investing in anything, art, securities or real estate, you want to make sure that you do not over pay,” he said.

The trouble is that there’s no reliable way of doing that in the art market. Art indices are certainly helpful to a point and deserve a post of their own, but they only track art offered at auction, less than 50% of the overall market, and typically only successful sales at auction, which account for an even smaller slice.

Even within that category, buyers are subjective, faddish and emotional, which as Rabin pointed out, can massively inflate prices. “Let’s say the estimate is $3 million to $5 million for a work at auction and it sells for $12 million or $13 million, which we’ve seen often. Is it actually worth that? My argument is that it’s worth what someone is willing to pay for it. Will it sell for that price again? It’s hard to say. There could be someone in the room willing to pay three times what they think they actually should because it fills out their collection.”

So how do you get your hands on the 10% of art that might be worth more one day, especially once you factor in the gallery, auction house or dealer’s commission plus other considerations, such as insurance costs? Well, to improve your odds, you’d have to ensure you buy either undervalued artists or the best work by highly valued artists at discount prices, which either requires a lot of knowledge or expert help. That also assumes you can get hold of coveted works at a time when plenty of other people are after them and when some buyers are prepared to spend whatever it takes. To achieve these goals, you really need limitless time or oodles of money, but preferably both.

One of the most illuminating points made at Wednesday’s discussion was that even high-net-worth individuals shouldn’t have more than a 10% allocation to art in their portfolios unless they have enough income or other liquid assets to comfortably support themselves otherwise.

So own art, enjoy it and maybe, just maybe, it’ll make you money if you ever have to or want to sell it one day. But think long and hard before you buy art with that expectation, unless you are particularly wealthy, with plenty of cash to lose.

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