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The full picture on dabbling in the arts

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Art investment: where beauty is in the eye of the beholder. *Photo: louise kennerley*

HUNDREDS of people clamour into Christie's New York for the south Asian modern and contemporary art auction. There was added interest in the sale this week because it featured 13 works of Maqbool Fida Husain, the man dubbed India's Picasso, who died in June aged 95.

The artist joined the million-dollar club when his work *Sprinkling Horses*, a 2.1-metre-long oil-on-canvas, fetched $US1.14 million ($A1.11 million). Husain's 13 pieces at the auction sold for $US4.2 million as, all up, Christie's sold $US7.7 million worth of art on a lazy New York Tuesday.

Meanwhile, Sotheby's, the world's largest auction house, has just experienced its second-most profitable year.

Are people turning to art in these times of uncertainty in a bid to diversify investments away from the finger-burning sharemarket? Christopher Boswell, a well-connected New York consultant who runs CB Fine Arts, believes they are.

"There is no doubt people are taking their money out of stocks and putting it into tangibles like gold, silver and art," he said. "It is being driven by the BRIC countries, Brazil, Russia, India and China, helped in the US art market by the low dollar."

With some questioning whether the $US1830-an-ounce gold price is inflated and other havens for value such as jewellery providing skinny returns, art is looking more and more like an attractive investment.

Priyanka Mathew, Sotheby's assistant vice-president of Indian and south-east Asian art, says that people are looking for stable long-term investments. "People are moving towards commodities and there is a rush on items that are finite and have longevity in their value," she says. "We are seeing an increase in wealth from India and a lot of Indian investors coming through. We are also seeing Western interests as people look for safe places to put their money."

Art is a tricky investment to predict. Returns tend to be above government bonds but less than equities and have little correlation to the sharemarket. For instance, art prices rose in 2008 when the market was collapsing but dropped in 2009 when Wall Street began to get back up off the floor.

Mathew says those that buy at Sotheby's are not your average small investor. That is largely because the cost of entry can be out of reach, often weighed down by charges such as auction fees and maintenance of the art, which can collectively run to 20 per cent of its value. Investors are also slugged with a hefty tax take.

Art is generally treated as a collectable, like wine or jewellery, which makes it subject to a 28 per cent capital gains tax when sold. That compares with a maximum 15 per cent long-term capital gains rate for investments such as stocks.

So you would not buy art if you wanted to flip it as frequently as you might do with your shares. That is lucky because it is relatively illiquid anyway, meaning it can be hard to sell quickly if you need money fast. That is causing some experts to suggest that investors might look past putting their money into art just in case they need to retrieve it in a hurry.

ArtTactic's art market confidence survey for July shows rising confidence in the market but warns that the gloomy global economic outlook could put a dampener on investment. The leading art market research company shows that confidence in the art market increased 8.3 per cent in the first half of 2011, buoyed by strong auction results which rose 18.6 per cent.

But the survey's economic component, which assesses how current conditions could help the art market, fell by 20.8 per cent in the first half of 2011. That followed a fall of 18.1 per cent in the first half of 2010.

"These figures strongly suggest that the stakes are being raised and that the risks of a new economic crisis could put a stop to the recent growth in the global art market," ArtTactic said in its July report. "This is further supported by the fact that 69 per cent of respondents see the economic uncertainty in Europe and the possible contagion effect as the greatest risk to today's art market."

The "risk barometer" from ArtTactic's survey increased 12.6 per cent, putting it at the same level as May 2008, shortly before the Lehman crisis.

Sotheby's share price has been reflecting this volatility. In the past year, it has fallen as low as $US29.80 and lifted as high as $US55.67. It is now trading around $US35 but the company has seen 37 per cent, or more than $US1.2 billion, wiped off its value since July. That is because there were fears of cheap art flooding the market. That hasn't proven to be true.

It is telling, though, that every single analyst who follows Sotheby's raised forecasts for the auction house after it released its second-quarter results.

They are betting on the autumn auction period being a strong one. This week's Christie's auction shows they could be on to something. Sotheby's was also confident of a strong result from its own MF Husain auction, which occurred just after Off The Wall went to print.

Wedbush Securities analyst Rommel Dionisio expects Sotheby's shares to experience some short-term lift. He has observed a pattern under which he says Sotheby's shares in particular will rise during the big autumn auctions and then retreat just after the modern art auction in November. "History would indicate that, with seven weeks to go before the November 2 impressionist auction, now would be a timely period to accumulate shares," Dionisio told clients.

While art stocks might be a good short-term play, the general feeling on buying art as an investment is to think in the long term.

Boswell says those thinking of investing in art need to do their homework. "Attend art fairs, pick up the art newspaper, talk to gallery owners, experts, handlers, log on to ArtTactic," he says. "Value is derived by the name of the artist, sometimes the controversy surrounding them and who has owned the painting before. "But you should always have the piece assessed itself to ensure that it is in good condition."

Given that the client base for blue-chip artwork tends to be better insulated from fears of a double-dip recession, the art market may be able to hold its own.

With many scratching around for a safe place to house their money, it may be worth picturing an investment outside the box.