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Art Market Watch:
ARTWORK AS AN UNCORRELATED ASSET
by Daniel Grant

Libyan fighter jets strafe protesters in Tripoli, and the Dow Industrials decline 173 points in a single day. Presumably, stock market investors worry that unrest in North Africa might lead to a cut in oil supplies, bringing about higher prices for all manner of goods, making the businesses listed on the stock market less profitable.

By contrast, artwork appears to take political unrest and the accompanying market volatility in stride. Increasingly, art-market players are promoting art as a safe haven for investors when trouble is brewing in the world economy.

"Artwork is an uncorrelated asset," said Michael Moses, a former professor at New York University's Stern School of Business and co-founder of Beautiful Asset Advisors, which charts the sales of art at auction in comparison to the Standard & Poor's 500 Index. "It doesn't relate to anything that happens in other assets, like oil or gold or the price of wheat or corn. That improves its allure."

Art does correlate to one realm, however, Moses said, and that is "global accumulated wealth," which has been on the rise, judging by the upward trend of stock exchanges over the past year.

Wealthy individuals acquire art for any number of reasons, of course, with political turmoil and the lackluster performance of other assets being only two. Strong sales at art galleries and major auction houses have reinforced the idea that art is a good place to park excess capital.

Much of that top-end business has been "driven by optimism and the clear belief held by most people that inflation will return in a significant way," said Peter Findlay, owner of the eponymous Manhattan art gallery.

Findlay noted that "$1 million is the new normal," adding that "art doesn't go up in value, money goes down." In this interpretation, Findlay said, the art market is predicting inflation ahead.

Findlay is not alone in seeing a fear of inflation as feeding the worldwide quest for top artworks. "The art market reacts like the gold market does," said New York University economist William Baumol. "It does attract more investors when there is danger of the stock market going down, because people believe that art -- and gold -- will retain its value or at least not go down as precipitously."

Top art-market players typically keep an eye on other markets as well. As in the art market, the top of the housing market has not suffered as much as the bottom, where all the foreclosures have been concentrated during the recession. "Prices are probably being lowered for these top properties," said Donald R. Haurin, professor of economics at Ohio State University and a past board president of the American Real Estate and Urban Economics Association," but the wealthy can often hold out until prices return to higher levels."

Additionally, art may be insulated from market volatility by the growing wealth of collectors in China, India and elsewhere in the developing world, according to Manhattan art consultant Neal Meltzer, former head of postwar and contemporary art at Christie's. "Big prices tend to bring more great material to market, which leads to still more high prices."

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