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Escape into Art

By Michael Shari

Reed Hickok, a real estate developer in Kansas City, Missouri, has spent months watching his stock, bond and real estate investments get shredded. One holding, though, hasn't caused him grief: American Masters Collection I, a fund that owns a portfolio of 20th-century art by painters such as Frank Stella, whose canvases radiate with rainbowlike patterns, and sculptors such as Deborah Butterfield, known for fashioning horses out of discarded wood.

The fund's appraised value as of December 2008 is up some 20 percent, to about $13 million, since Hickok invested in spring 2007. "When I saw the Dow plunging, I was happy that I didn't have that money in stocks," says Hickok, 44, one of about 85 investors in the open-end fund managed by a Kansas City firm. That's up from 35 investors at the end of 2007, says Alexander (Sandy) Kemper, chairman of the Collectors Fund, which manages American Masters, and the CEO of Kansas City's UMB Bank from 1996 to 2000.

Most investors don't dabble in art, but as stocks plummet that could change. In 2008 the art market fell a mere 4.5 percent, according to the Mei Moses all-art index, which is based on auction sales and was developed by former New York University finance professors Jianping Mei and Michael Moses. That's far less than the 37 percent nosedive the Standard & Poor's 500 index took last year.

But buying art directly is risky. That fact has given rise to a new breed of art funds, although these limited partnerships remain a small niche in the alternative-asset space — Moses estimates that less than $1 billion has been invested since 2004. The Fine Art Fund, which was started five years ago and had assets of about $120 million as of last October, doesn't disclose returns, but manager Philip Hoffman, a former finance director at Christie's auction house, says it has made an average of 30 percent on every work of art sold from its inception in 2004 through September 2008.

These funds use their pooled purchasing power to buy art, ideally at distressed prices, in an attempt to capture alpha. Beta comes from asset appreciation based on quarterly appraisals by independent experts. The funds' financing mirrors that of hedge funds — many have a minimum investment of $250,000 and a 2-and-20 fee structure.

Investing in art involves risks too. Some earlier funds have been shuttered, such as the ABN Amro Art Fund, which closed in 2005, a year after its launch. To avoid such risk the $10.2 million-in-assets Art Trading Fund, floated in August 2007, uses a hedging strategy that involves shorting luxury consumer stocks, which it sees as proxies for the art market. "If it can sustain this level, then art has outperformed the rest of the market by a substantial margin," notes founder Justin Williams. "We can manage the downside."