

HEARD ON THE STREET
JANUARY 8, 2011

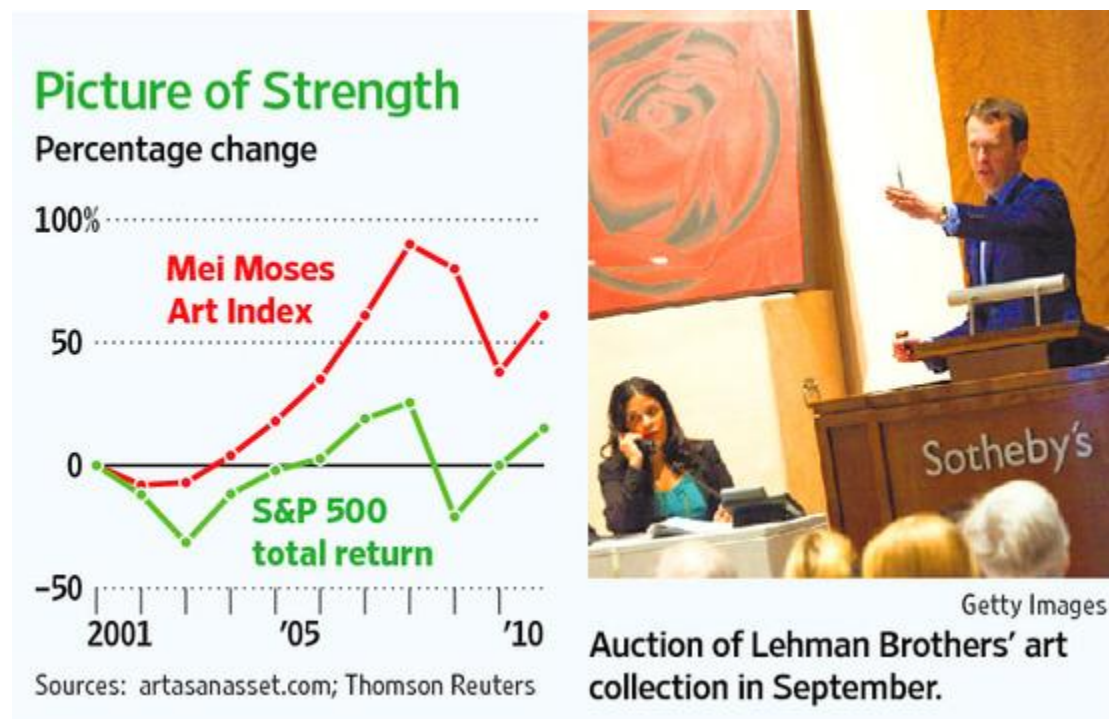
Mastering the Fine Art of Finance

By **JOHN JANNARONE**

Many investors have joined the hunt for scarce assets. Some are taking it a step further with investments that are downright unique: fine works of art.

Recent concerns about inflation and stock-market risks have boosted demand for alternative vehicles to store wealth, such as precious metals. But for far longer, the ultrarich have enjoyed similar advantages through ownership of rare art.

Can more investors enjoy the show? That would require an accessible strategy that works in a notoriously quirky market. After all, the whim of a single bidder at auction can make the price of a work swing wildly. It can even be affected by having a celebrity seller.



One solution is a private-equity-style approach, with a management team collecting a 2% annual fee and another 20% of any profits. That is the strategy of London's The Fine Art Fund Group, started in 2004, and The Collectors Fund of Kansas City, Mo., launched in 2006. The firms, whose first funds are no longer open to new investors, have generated annualized returns of over 25% on artwork already bought and sold.

Of course, both funds are still holding the majority of the art they bought, and it is unclear how much the remaining works will fetch. But the firms have reasonable strategies in place to take advantage of any market inefficiencies.

The Collectors Fund invests in modern American art, with a price range from a couple-hundred-thousand dollars to a couple of million. That allows the fund to focus its expertise in a relatively small world to find good buys. And though not trophy pieces, such works are pricey enough to be rare. That likely means a decent chance of finding buyers when the fund considers selling. Similarly, The Fine Art Fund has amassed a large team of experts to ensure comprehensive coverage of the segments where it is active. It tends to buy art in the private market, where there can be far less competition than at public auctions.

Overseas, there are structures that allow investors to buy and sell units in art funds, where they actually know which works have been acquired. Take Russia. After recent regulations, vehicles can invest in art and sell shares to investors. A fund called Atlanta Art launched last year and hopes to take the shares public. Art analyst Sergey Skatershikov expects hundreds of millions of dollars in additional art to enter such funds world-wide this year.

The big Achilles' heel of such a vehicle is that it produces no income and the assets can be hard to shift if the market seizes up. And in the U.S., there are plenty of hurdles to overcome, such as finding a way to value art for regulatory-reporting purposes. But as the search for alternative assets continues to heat up, it is only a matter of time before an enterprising banker looks to create the first listed fine-art fund.