Art investments can add color to a portfolio

Fri, Nov 20 2009

By John McCrank

TORONTO (Reuters) - Collecting fine art is more than just a hobby for savvy investors who see the art world as a $50 billion vehicle for generating wealth, storing it and passing on to their heirs.

Earlier this month, a Greek shipping family based in London sold a silkscreen by Andy Warhol at a New York auction for $43.8 million, having bought the piece for $386,000 in 1986.

"They made over 120 times their money, which probably beats other asset classes," said Philip Hoffman, founder the Fine Art Fund Group.

Hoffman's London-based funds manage about $100 million in art assets, mostly "blue chip" art by painters like Picasso and Degas, but also the work of emerging artists with promise.

The funds, which are aimed at high-net-worth families, buy art with the aim of selling it at a profit of between 30 percent and 100 percent, over a period of one to four years.

Investing in art is not just for the ultra-wealthy, said Jeremy Tabarrok, a wealth adviser at ScotiaMcLeod in Toronto.

"You don't have to be a millionaire to be a collector," he said. "Hell knows, I'm not one, but I enjoy collecting."

He advises clients who buy art or have inherited it on issues like taxes and estate planning.

In his experience, art generally "appreciates along the lines of the stock market," even though massive short-term price fluctuations are possible.

So why not just invest in stocks?

It's all about the art, he said. "The pieces in my house -- I enjoy them, I mean, I actually get physical enjoyment from them."

Hoffman takes a different slant.

"I don't collect art myself," he said. "I am not passionate about art. I just regard it as a business. ... My view is that being passionate about art hinders the decision about when to buy and when to sell."

For example, he said his group bought a painting by British artist Frank Auerbach. The asking price was $1.7 million.

"We negotiated the asking price down to $1.1 million and we then sold it 15 months later for $2.6 million."

"We just took a dispassionate view and said this artist is rare, important and on the up and that's why we made a lot of money on it."

U.S. INVESTORS GETTING THE PICTURE

Hoffman said the idea of art as an investment was an easy sell in Europe when he founded the art fund in 2001, but in America, the initial reception was lukewarm.

"The American investors, who are very savvy, said we want to see your track record. ... We want to see exact details of what's been done."

On average, the annualized return of everything the group has sold has paid out a 30 percent internal rate of return per annum, said Hoffman. In the last few years it has sold about $35 million of art for which it had paid $25 million.

"Now there have been many more investors coming in from the States because they've seen how we operate," he said.

There are some U.S.-based art funds, but many of the U.S. funds that have been proposed never got off the ground, said Michael Plummer, former chief operating officer at Christie's Financial Services, and co-founder of New York-based Artvest Partners LLC, an art finance business.

He and his Artvest partner, Jeff Rabin, also a former Christie's executive, recently started Artvest as a response to illiquidity in the marketplace.

Using their networks of collectors, institutions and wealthy individuals developed over many years working in the art business, Artvest facilitates the buying and selling of art, and gives advice on restructuring art businesses and collections, preservation planning, and wealth transfer.

"If you really look over the course of history, art has always been an important asset class and has been storer of value through centuries," said Plummer. "We argue that art should be part of any wealthy individual's portfolio."

Fine Art Fund Group's Hoffman said he recommends his clients, who need to put up a minimum investment of $100,000, put around 5 percent of their wealth into the group's funds.

(Editing by Frank McGurty)