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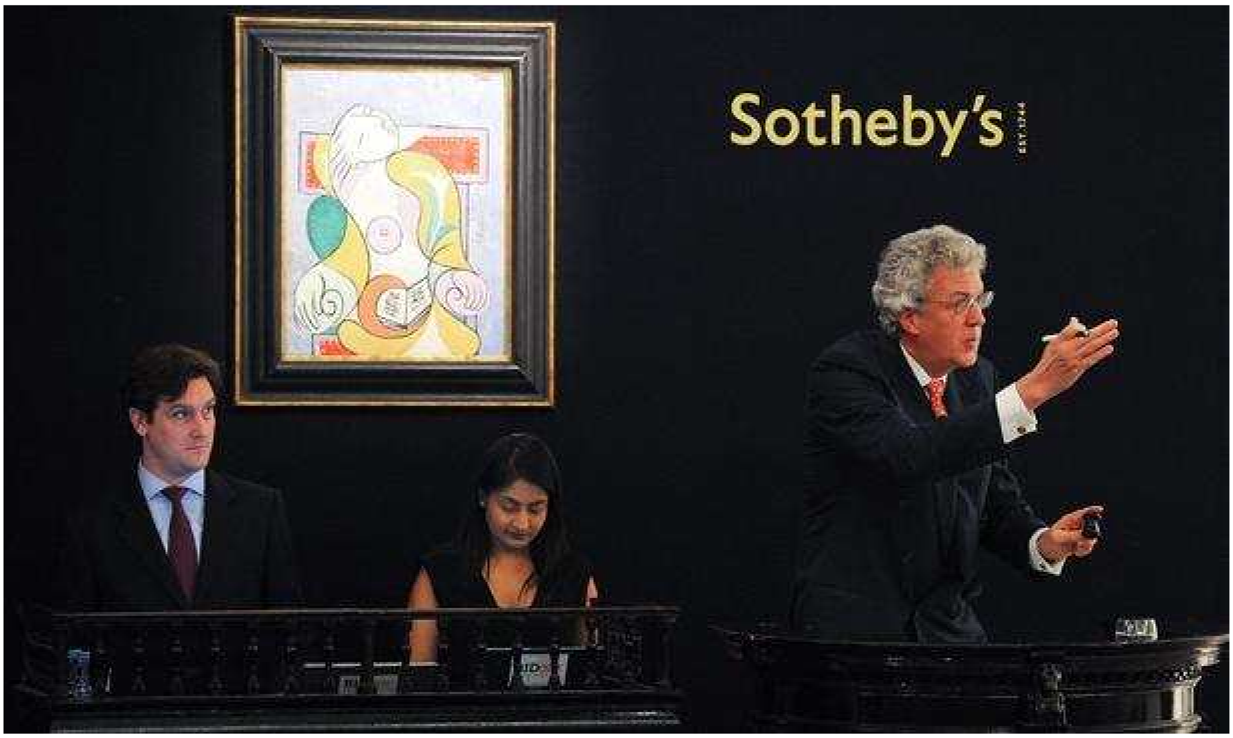
Welcome to the SWAG Economy: Art Investment Takes Off as the Superrich Despair of Stocks



AFP/ Getty Images
Pablo Picasso's "La Lecture," 1932, sold during an auction at Sotheby's London last February for over 29 million euros.
by Shane Ferro
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In a year when the **S&P 500** made headlines by moving just .04 points in 365 days and the **Dow Jones Industrial Average** gained only 5.5 percent despite mountains of volatility, the art market has shown an impressive 35 percent gain over the last 12 months based on evening sale totals at **Christie's** and **Sotheby's**. Welcome to the SWAG economy (more on that later).

A recent report from **ArtTactic** and **Deloitte Luxembourg** began to chip away at why the art market is so robust — and it doesn't seem to be because people just like art more these days. Rather, using fine art as an investment tool is becoming more and more popular as equities remain flat and works by blue-chip names like **Picasso**, **Lichtenstein**, and **Richter** continue to appreciate on the secondary market. New York-based art dealer **Christophe Van de Weghe** recently told Bloomberg that he has noticed quite a few new faces at the auctions over the past few years. "The art market is a place for new people these days," he said, adding, "The collectors who bought 15 years ago aren't prepared to pay today's higher prices."

This falls in line with the thrust of **ARTINFO**'s recent interview with **Michael Plummer** and **Jeff Rabin** of the art investment advisory firm **Artvest Partners**. "The conversation has turned from 'Is art an asset class?' to 'Art is an asset class,'" Plummer said, "and then to 'How do we take advantage of art as an asset class?'" (He was specifically addressing the time period of the last eight years.)

This new breed of collectors is largely buying art for its appreciating value, and thus has an interest in keeping prices soaring upward. In the Deloitte survey, 49 percent of collectors said they bought art for its value as an investment. At the same time, banks are increasing the art finance-related services that they offer, meaning that this niche market, until now mostly the purview of a few select banks and the financial services divisions of the big auction houses like Christie's and Sotheby's, may be developing into a larger industry. An increasing number of financial institutions are already offering art-backed loans, and many of the banks surveyed by Deloitte reported seeing stronger demand for tangible assets like art. Some 39 percent of private banks surveyed reported moving toward providing an art investment fund for clients in the coming years.

Which brings us to SWAG. Art, it seems, isn't the only tangible asset that has outperformed stocks in the last decade. The Deloitte report refers to increased investor interest silver, wine, art, and gold — or SWAG, a term coined by Investment Week's **Joe Roseman** — which have all outperformed stocks over the last decade. These four "hard" assets share several things in common including longevity, lack of "incumbent debt" (meaning that, unlike with real estate, a buyer is not assuming previous commitments associated with the asset), no income tax liability, and scarcity — all of which contribute to their appeal to international high-net-worth individuals who are looking for somewhere to put their money besides the anemic stock market.

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