

IS ART A GOOD INVESTMENT?

Our clients are generally high net worth individuals with sophisticated needs. In addition, investors who have accumulated wealth over the years often have a need to further diversify their asset base and start exploring investing into non-traditional investment vehicles. To this end, some wealth management services firms have opted to facilitate art investment. In this month's addition of the PSG Wealth Monthly Insights we explore the merits of investing in art.

Returns

According to Melanie Gerlis, author of *Art as an Investment?*, research reveals that globally, the average compound return on investment-grade art, held for between five and 10 years, is around 4% nominal.

Keep in mind that art is a real asset class that should at least track inflation over time. This means that the real return (after accounting for inflation) will be significantly less than 4%, and may even be marginally negative depending on the period under consideration.

Volatility

Art prices are highly dependent on demand and sentiment, both of which are largely unpredictable. This unpredictability translates into highly volatile asset prices.

Regulation

Art is subject to significant fraud risk since the art market is generally an unregulated market. An investor may have to rely on an assessment by a credible art expert in order to confirm the authenticity of the art, or provide guidance on its intrinsic value.

It's a daunting thought that one could potentially part with a significant amount of money, only to end up with a fraudulent piece of artwork.

Liquidity

Like most tangible real assets, art is largely an illiquid investment. Given the niche nature of the asset, buyers may be few, and even if there are interested buyers, one may be forced into a price-taker position rather than a price-maker, if the proceeds are needed urgently.

Expenses

There are many different types of charges that may apply to investing in art. Some of the more prominent charges are:

- Expert consultation
- Research cost
- Transaction charges
- Insurance costs
- Storage costs
- Maintenance



In early February 2015 the famous Swiss collector Rudolf Staechelin sold one of his collection rarities - painting "When you marry? (Nafea Faa Ipoipo)" by Paul Gauguin for a reported \$300 million, making it the world's most expensive painting.

Income

As an asset class, art only generates capital gains. Generally there are no dividends or other income payable. This also makes the investment less attractive relative to other more traditional real assets like equities.

Diversification properties

According to research performed by Worthington & Higgs, although diversification benefits in portfolios comprised solely of art works are possible, no diversification gains are provided by art in financial asset portfolios.

In short, art is generally a low return investment which is unregulated, illiquid, with high charges, produces no income and with potentially volatile performance. This profile doesn't exactly meet PSG Wealth's objective of providing clients with superior investment outcomes.

As with all investments, the attributes which characterise an asset class can change fundamentally over time, ultimately impacting the risk-adjusted return and value offered to the investor. We will therefore keep a close eye on the asset class, and should the risk-return dynamics improve, we will re-assess the merits of investing in Art.

PSG WEALTH INVESTMENT INSIGHTS



Adriaan Pask
CIO PSG Wealth