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Standing out: art advisor Sharón Zoldan amid Chris Burden's *Urban Lights* sculpture at LACMA

INVESTMENT: It Pays to Be Cautious When Treating Art as Asset

For some collectors, artworks serve to provide financial as well as emotional payoffs.

By MARNI USHEROFF *Staff Reporter*

While collectors might drop serious cash on a painting, because they like how it looks, some have a less emotional connection: fine art is a commodity and they see it as an investment. It is an asset class that has unusual quirks compared to stocks or bonds. Though some have reaped major windfalls – a Picasso painting fetched more than $179 million at auction last year – like other markets where value is often subjective, investing in art can be fraught with risk.

Art as an asset saw annual returns of about 6.5 percent from 1972 to 2010, according to **Stanford University** researchers. However, an equity portfolio constructed with the same risk profile as art would yield roughly seven times greater returns, according to their data. Investors buying and holding work by quality names will probably see values rise over the long term, but there's no certainty said **Todd Morgan**, 68, chairman of **Bel Air Investment Advisors**, which advises clients with at least $20 million in investable assets. "It's not like going to the New York Stock Exchange and getting $10 million worth of stock," he said. "The liquidity is not the same."

It can sometimes be challenging to find buyers for lesser-known names, said **Sharón Zoldan**, a locally based art consultant and adviser. “If someone were to approach me about selling something like (an Andy Warhol), there is always demand for that,” Zoldan said. “But if the artists are somewhat off the grid, and people are not clamoring for works, it can be harder to place the pieces with buyers. It’s blue chip versus a riskier emerging market.”

Sales data can also be hard to track, because art is bought and sold without a central clearing system or regulatory authority, said **Evan Beard**, national art services executive for the **U.S. Trust** in New York, whose division handles art-secured lending and collection legacy planning, among other matters. “Half of all transactions are not publicly reported,” said Beard. “There’s a level of opacity in that market that doesn’t exist in stocks and bonds.” But unlike other investments, art can bring its owner aesthetic pleasure and social or cultural capital. “That intangible return has a very real value,” Beard said. “There is an expected lower return on the financial side because of that.”

ART DARLINGS

Pieces by emerging artists can range from roughly $2,500 to $20,000, while work by more established names can cost around $50,000, with prices climbing into the millions, Zoldan explained.

And just because something is old doesn’t mean it’s necessarily worth more. Paintings and drawings by contemporaries of well-known Old Masters can, at times, be much more affordable than those by living artists. “The Contemporary and Modern markets are much more dynamic today. The conversation is ongoing; patrons can spark dialogue and shape careers. As such, Old Masters are not as desirable with newer collectors.” Such work can also be popular because it reflects what is current and may be more approachable in subject matter and content.

An artist’s name can ascend in value as museums and other institutions show support by exhibiting or acquiring his/her work. Reviews by reputable publications such as Artforum or Frieze Magazine also add to the artist’s credentials. There are certain markers that Zoldan keeps tabs on. She keeps clear of so-called “auction darlings,” artists whose pieces might appreciate rapidly. She said they can lack substance or institutional support, and the market for such art can plateau or disappear entirely.

Buyers also need to keep in mind that artwork’s cost involves more than its sticker price.

“Art requires upkeep, storage, and insurance,” Beard said, adding that there are also hundreds and thousands of submarkets that have their own supply and demand quirks. For example, the supply of an auction is usually handled months prior to the event, when demand comes into play. Many consignors sat out this recent spring cycle because of volatile capital markets, oil’s downward spiral, and recession speculation, Beard said. But demand at those auctions wound up being strong, particularly for contemporary art.

SALE ETIQUETTE

Perhaps the most striking difference between art and other assets is the set of unwritten rules that govern the marketplace. “Hence, the need for advice!” says Zoldan, who constantly culls auctions and other platforms for trends. “I’m continually puzzled as to why individuals or corporations spend sums of money without guidance. There is even strategy for what we call deaccessioning work – putting pieces back in circulation." Compared to the churn common in real estate and equities, "flipping the work is highly frowned upon," Zoldan said. "You're going to burn bridges." And those connections with artists and galleries are crucial in a world where some of the best pieces might not be on public display, but rather slated for loyal patrons. It's also considered proper decorum when selling work to offer first-right-of-refusal to the seller or gallery from whom you originally bought the piece, so that they can discreetly place the work with an interested party. "Most galleries want to very closely manage the upward progression of their artists," Beard explained. "They don't want someone to overheat or have a work fail to sell at auction. That can have a pretty large downward effect overall on artists' work."

Beard sees a big shift underway, in which younger collectors are more likely to view their art as an asset. For instance, they're more adept at using their art as collateral for loans to free up capital, and more sophisticated at collection management, such as dealing with insurance. They're also more willing to sell their art while building a collection, Beard said, citing a recent U.S. Trust survey of more than 600 high-net-worth adults. He said that likely means more transaction, better liquidity, and downward pressure on costs.

Still, some advisers and collectors aren't looking to squeeze every last penny out of a deal. Zoldan said she discourages negotiating the price of works by emerging artists, because "you're supporting an economy, not just artists and dealers, but everyone involved in between. I strive to navigate with a moral compass and encourage my clients to do the same, stressing collecting art as a form of philanthropy, ultimately."

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