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WEALTH IN PERSPECTIVE

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# ARTFUL BEGINNINGS

Our collecting strategies should ensure that our love for fine art makes financial, as well as aesthetic, sense. By Aline Sullivan



**L**ORENZO DE MEDICI (1449–1492), the Florentine prince known to contemporaries as “Il Magnifico,” is regarded as the mastermind behind the Italian Renaissance. In his time, collecting contemporary art meant commissioning works by the likes of Michelangelo and Sandro Botticelli. Yet Lorenzo the Magnificent lavished more attention—and far more money—on a single, somewhat obscure cup than he did on any other single piece of artwork. A shrewd investment it was not.

The so-called Tazza Farnese was the centerpiece of Lorenzo’s collection of carved precious and semiprecious stones. Fashioned from a single piece of agate, probably in the first or second century AD in Egypt, it depicts cavorting gods in bas relief. After leaving Egypt, it traveled to Rome, then Constantinople, then Sweden, then Persia and finally to

Naples before falling into Lorenzo’s hands.

He paid a heady sum for the Tazza Farnese, several times more than what his cousin, Lorenzo di Pierfrancesco de Medici, would pay Botticelli for his latest painting, but it was not entirely in vain. Thousands of people each year admire the Tazza in Naples’ archeological museum. However, they are but a tiny fraction of the throngs that flood Florence’s Uffizi to admire Botticelli’s *Birth of Venus*. With the benefit of hindsight, it appears that the glories of antiquity so dazzled Il Magnifico that he was blinded, relatively speaking, to the masterpiece in his own time.

Half a millennium later, on May 5, 2004, an anonymous patron purchased Pablo Picasso’s 1905 *Boy with a Pipe* at Sotheby’s for \$104 million (\$93 million, plus the auction house’s commission). Like Lorenzo de Medici, the new owner of *Boy with a Pipe* is manifesting his love of the aesthetic by placing a sizeable wager on its future value.

When we become art collectors, we take similar risks. These investments gain most of their long-term value from difficult-to-quantify (and more difficult to predict) vagaries of style and the passions of our fellow aficionados.

Despite his miscalculation over the Tazza (at least by today’s standards) Lorenzo established himself as a leading patron by commissioning innumerable pieces from the age’s best artists. This contributed to his “magnificence,” not just in his own time but also in the eyes of posterity—another (somewhat less easily calculated) payoff to his many commissions. We have the opportunity to leave a similar legacy, if the wisdom of our collecting strategy matches the ardor



## Top view

Collectors often find it useful to articulate a theme around which their collecting strategy may coalesce. After we decide what common thread we want running through our collection, the financial aspects and challenges of investing in art quickly come to the fore. However, with the help of a well-chosen advisor, we can assemble a portfolio of art that works both as an aesthetic statement and as an investment.

of our love for art. While we usually think of the artist as visionaries, as collectors we must be, too, if we are to assemble collections that serve as both financial and aesthetic legacies.

#### CENTER OF GRAVITY

Not all collectors begin with a theme, but one usually emerges as a collection grows. A successful real estate developer in France has decorated each of his three homes with paintings by an artist from his hometown; he feels comforted by the images of the village square and other places that framed his childhood. A couple in New York hark back to their social and cultural origins by collecting works of American artists who also came of age in the early 1980s.

Like them, we must find our own lodestones, and this may take time. "As you buy, your eye gets better, and you start to like better and better things," says Robert Hiscox, founder and chairman of the Lloyd's of London underwriting agency that bears his name, and a notable collector (and insurer) of contemporary art. He notes that his own tastes have evolved from "truly awful" representational art to increasingly abstract works to what he jokes is "truly obscure." He has long been a collector of Lucian Freud and Francis Bacon. He has recently acquired an oil painting by Roland Hicks of a spilled bottle of typing correction fluid entitled, *The More I Gave, the Less I Got*. Many works are on exhibit in his offices and at public spaces in London.

At a time when stratospheric prices for art are making headlines, some have chosen to pursue genres that remain relatively undervalued, especially in the contemporary art scene, which may hide future masters. Indeed, financially, this is one of the most reasonable sectors in which to collect. Only two living artists, Jasper Johns and Bruce Nauman, appear on Christie's list of the 200 most expensive works sold at Christie's and Sotheby's since 1985. Buying contemporary works also affords us the opportunity to serve not only as collector, but also as patron. Johns might not need the

money, but many others do.

Contemporary artists also reflect the pulse of the time, which, for many of us, makes their work compelling. Sue Hancock began buying contemporary art five years ago, and has focused full-time on her collection since 2001, when she and her husband, Ray Otis, sold their marketing firm. Today, she is on the acquisition boards of both her local museum—the Orlando Museum of Art—and the Whitney Museum of American Art in New York. She travels widely in search of new works for both the museums and for her own collection, which is leavened with humor. "I admire those collectors of contemporary art who buy the really challenging, emotionally disturbing works, but I like the ones that make me smile," she notes. Several works by American artists Amy Sillman and Tim Hodges and Japanese artists Takashi Murakami and Yoshitomo Nara highlight her 200-piece collection.

#### RESPECT THE AGED

### A Less Dismal Science

Annual sales of art amount to \$10 billion in the United States alone, according to various industry estimates. In the past several years, consultants and economists have turned their sights to the problem of tracking this sector's investment performance. Research by Jianping Mei and Michael Moses, professors at NYU's Stern School of Business, and firms such as Art Market Research in New York, Kusin & Co. in Dallas and Gabrini in Milan, shows that art can complement equities, bonds and other more traditional investments because its price movements are not correlated with those of financial assets.

One thing is clear: fine art appreciates over time, and may outperform equities in some instances. The Mei/Moses All Art Annual Index tracks the auction prices of 6,000 pieces of art, including pre-1950 American paintings, Old Masters, 19th-century masters and Impressionists. Last year, the Mei/Moses index rose 21.7 percent. Equities fared better: the S&P 500 rose 28.7 percent. Longer term, the art index shines. The Mei/Moses benchmark had an annualized compound return of 12.6 percent over the past 50 years, beating the S&P 500's 11.7 percent. The gains are not only in aggregate measures, of course. Moses—himself a collector of what he terms "representational American painting" from the second half of the 20th century—notes that *Boy with a Pipe* outperformed the market, posting an average annual return of around 16.5 percent since Betsey and John Hay Whitney bought it in 1950 for \$30,000. Alternatively, the two Edgar Degas racing scenes from the same lot returned 8 percent per year for their owners.

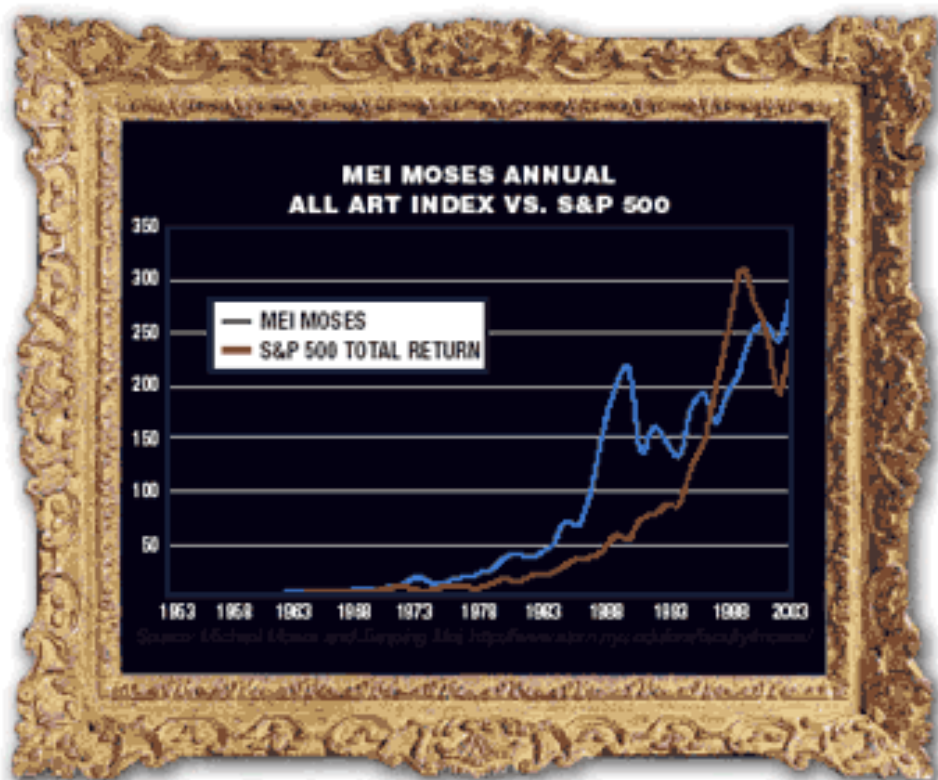
Art experts aver that there is still value to be discovered in older works, particularly in categories that remain somewhat obscure. Pre-Impressionist French 19th-century painting has never fully recovered from the success the Impressionists achieved at the so-called *salon des refusés* in the 1860s. The fact that much of the work from this period is dark, heavy and academic is partly to blame. However, there are many exceptions. Honoré Daumier's lithographs, for example, are fresh, often humorous, and rich in psychological insight. Edgar Degas, no less, was a fan. We are far better served, advisors suggest, by investing in the best works of lesser-known artists than to buy second- or third-rate works by even the most revered names.

What drives the price of art, apart from trends and tastes? One important factor seems to be the degree of freshness to the market. Picasso's record-breaker reached an astronomical price partly because it had been out of circulation for so long. Manuel E. Gonzalez,

global art executive at JP Morgan, predicts that were it to come up for sale again in another year, it would not fetch more than \$40 million. Consider that Vincent Van Gogh's *Portrait of Dr. Gachet*, purchased by a Japanese businessman for \$82.5 million in 1990, has since sold for one-eighth that price.

Overpaying for art is not uncommon; and/or can overwhelm even our most careful investment strategy. Nevertheless, these incidents should amount to lessons learned—albeit expensive ones—for the perceptive collector. “We might pay illogical prices at times,” says Bruce Taub, a collector of Latin American and Spanish art, who is also chairman of Fernwood Art Investments in Boston, a firm that focuses on the art economy. “But over time we do not overpay in the majority of cases, because we grow to understand the field and what is reasonable to pay.” Many collectors hold on to past purchases they have grown to see as mistakes because either they paid too much or the quality was not quite up to standards. They keep them out of the public eye, but visit them now and then, like delinquent children, or, as Hiscox likes to call his, “old friends.”

Taub was working as sales director for the international private client group of Merrill Lynch in Phoenix when he began to dabble in collecting. A broker in his division, who happened to be president of an organization called Friends of Mexican Art, introduced him to a dealer who had a 6-foot by 5-foot painting that Taub decided he had to own. Since then, he has found that by collecting the best works of artists in his category, he can add potential value to his holdings by seeking opportunities to show them. This past spring, the Institut du Monde Arabe in Paris showed three of his Claudio Bravo paintings of Morocco; one even appeared on the cover of the exhibition catalog. Taub continues to collect with an eye toward passing his passion to his family. He does not promise his children any specific dollar figures vis-à-vis his collection, but he says, “An exhibition does contribute to the pedigree and prestige.”



## Tactical Considerations

Keep these issues in mind when considering investment-quality art:

- ☹️ The worst time to buy a piece of art is immediately after a highly trumpeted sale, especially of a work in the same category. “Record prices catch people’s attention and make them more excited,” says Janine Racaneli, a wealth advisor at JPMorgan. “Serious collectors will think very hard about the timing of their purchases and be very strategic.”
- ☹️ Transaction and holding costs over a 30-year period may run as much as 25 percent of the price we pay for an artwork at auction.
- ☹️ Insurance costs run approximately \$1 to \$1.50 a year for every \$1,000 of market value.
- ☹️ Seek the counsel of a reputable advisor, preferably someone who will work on a fee basis. Always check references.
- ☹️ Employ a curator to catalog acquisitions, and seek occasions to exhibit, buy and sell.

Natasha Pearl, who advised clients on art purchases at Circline and Sotheby's before she started her own wealth advisory firm, Aston Pearl, in New York, also advocates adding value to an art collection by giving it public exposure, whether in a museum, a restaurant, a retail bank or corporate offices. Wherever our art might appear, Pearl suggests publishing an accompanying catalog with a hard cover to make the exhibition forever accessible. A collector can have a full-color edition catalog printed for about \$10,000, an investment Pearl contends is well worth it in the long run.

#### CANNY COUNSELORS

We cannot expect to identify the best works to fit our passion, as well as exhibition opportunities, all on our own. The great art collectors of the 19th and 20th centuries relied heavily on the advice of astute art dealers. Dealers are still important art market players, but collectors now rely increasingly on art experts at private banks who can help with both aesthetic and practical issues. These experts work on a fee basis, rather than on commission.

Alternatively, we can seek the guidance of an independent art advisor. Banks without in-house art expertise should be able to provide introductions

to reputable advisors. Pearl suggests checking with a number of inside sources for referrals: other collectors, museums and dealers. We should also look to arti-

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cles in art publications for knowledgeable sources. Names are easy to acquire; the challenge is finding the right one for our needs. We should collaborate with someone who is an expert in the type of art we wish to collect, and is as impassioned about it as we are. Lucky collectors may find a trusted advisor with whom to build a lifelong relationship.

Most advisors work on a commission basis. Pearl prefers to steer her clients toward advisors who work on a fee basis, since they have no interest in seeing clients buy at the highest price. Unfortunately, this is more the excep-

tion than the rule. "I'd guess that less than 20 percent of art advisors work on a fee basis," she admits. "Certainly there are very good advisors who are working on commission. What is important is that you check out market prices through online auction records, and by speaking with dealers and curators."

Apart from the subjective matter of taste and the roller coaster of fashion, an artwork's provenance, rarity, quality and freshness to the market determine its value. Very few amateur collectors are qualified to measure all of these factors, but the best art advisors can. Even experienced collectors confess that they still need a second opinion, someone who will make certain that they are not swept up in the moment. Well-connected advisors can also serve as their clients' eyes and ears, opening buying and selling opportunities in the international marketplace, notes Mary Hoeveler, managing director of the Citibank Art Advisory Service. They can function as their clients' advocates, introducing them to weighty dealers and ensuring that they stay on the dealers' favored-client lists.

Pearl counsels that we also either hire or contract with a consulting curator who should work with us at least twice a year to catalog our acquisitions and seek occasions to exhibit, buy and sell. We can employ an independent curator, although we might desire the prestige of a museum-affiliated curator. In that case, there is one potential caveat. "Eventually, the museum will pressure you to donate," says Pearl. That could be blessing or a burden, depending on our plans down the road. □