INVESTMENTS IN ART AND ANTIQUES

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"Diversification" is the mantra touted by most investment advisors. Effective diversification shields an investor from the vagaries of any one particular asset class. I believe that the *Asset Pyramid* must have traditional investments such as equity and debt closer to the base and alternative investments closer to the apex. Basically, the higher the quantum of your investible surplus, the longer the ladder you have in order to reach the pyramid's apex.

So what are alternative investments? This term encompasses any non-traditional asset class. For example they include venture capital, private equity, hedge funds and real estate. However, in today's *liquidity fuelled world* where you often see "investors possessing more dollars than good sense" you find money chasing the unlikeliest of assets. I have read stories about well-heeled investors investing hundreds of thousands of dollars in antique cars, vinyl records, forests, wine and so on...

For the purpose of this article, I will eschew esoteric assets such as the ones mentioned above and will dwell on one of the *"traditional" alternative investments* in the form of art and antiques. Both these have caught the fancy of investors recently. The Indian art scene is witnessing a lot of action, with both art prices as well as the number of art auctions hitting new highs. Art galleries are seeking to differentiate themselves through branding and Indian artists are enjoying hitherto unprecedented levels of global attention. The hype and hoopla surrounding art is tempting several traditional investors to dip their toes into these waters.

Yes, there have been a few lucky people who bought a painting or a sculpture for a few thousand rupees, only to sell the same at many multiples of their purchase price. These people often become celebrities in the eyes of the media and that may encourage you to take steps to emulate them.

How rewarding has art investing been in recent times? The annexure at the end of the article, answers that question in one word "Very".

However, is "Art" everyone's cup of tea? Not quite.

Prospective investors should be conversant with the unique features of these investments. These are:

- Art and antiques are extremely vulnerable to fluctuations in public tastes and other factors, so they are considered high-risk, speculative investments.
- Many believe that you should buy art and antiques primarily because you like them, and only secondarily because they may return a profit.
- Do not over invest in this asset class.

Despite certain peculiarities, investing in art is not very different from investing in other asset classes.

The difference between investing and speculating is applicable here too. The difference in the two activities involves time and degree of risk.

In speculating, potential risks and rewards are high and the time span is short.

The prerequisites to succeed in speculation are in-depth knowledge of the investment, quick mental reflexes and nerves of steel. In contrast, investing takes place over a longer time span at a more moderate level of risk. As mentioned above, art and antique prices are extremely vulnerable to fluctuations in public tastes (in addition to other factors associated with most investments); they are considered high-risk, speculative investments.

Also, investment-quality art and antiques are expensive and usually not an option for the small investor. *Art and antiques are not a "liquid" investment.* This means that they generally cannot be resold quickly for a profit. One reason is that the market for these items fluctuates. If you need to sell your items quickly and the market is down, you could lose money. To earn decent profits, you may need to stay invested for a very long time.

However, art and antiques enjoy an aesthetic edge over other assets, in that they can be used to furnish a home or office thereby enhancing their pedigree.

While art and antiques can be utilitarian, they also can be cumbersome and costly. Often they are fragile, requiring proper environmental conditions, regular maintenance, adequate insurance and security, and frequent appraisals. Transportation, marketing and selling also may be costly and time consuming.

Here are some basic rules to be followed while investing in art:

- *Find a reputable dealer* who has been in the business for many years — long enough to know about quality, market trends and pricing practices in the field in which you want to collect/invest.
- *Limit the field of your investment collection.* Just as holding too many stocks adds very little in terms of incremental diversification, so does holding too many works of art.
- *Obtain a written appraisal or certificate* from a leading appraiser or certifier in your field attesting to the quality and authenticity of the item. This is of paramount

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importance, as there have been several cases in Mumbai recently, when reputed art galleries inadvertently conducted auctions of fake paintings.

- Risk is reduced by information. ***Read*** everything you can about your specific area of interest. Consult museums, universities and other collectors or dealers and refer to trade journals (if any), magazines, books and related websites.
- *Insure the item adequately.* Most homeowner policies allow for fire and theft but not natural disasters, such as floods, or accidents. Have your works included on a scheduled form of all risks for coverage in the event of theft, fire etc.
- *Maintain the artwork properly.* If repairs are required, only well-trained experts should make them. The value of a poorly maintained artwork diminishes rapidly
- *Avoid putting more than a small percentage (10 to 15 percent)* of the value of your investment portfolio into such investments. Most authorities agree that exceeding this limit may subject your entire investment plan to a high level of risk.
- As far as possible, *purchase top quality items.* Top-quality items are expensive (just as top-quality stocks command higher P/E ratios) but they tend to appreciate even during difficult markets. Second and third rung works of art may cost less initially, but may prove to be very costly in the longer run.

A word on "quality"

Top quality is the best investment. The following generalized guidelines should be helpful in identifying quality:

- *Build a rapport with art dealers:*

Reputed art dealers will have years of experience to offer, and most are willing educators. However, be prepared to pay a steep price for such "education" as most dealers and galleries who operate at the retail level generally indulge in a 50 to 100 percent markup to the buyer.

- *Auction houses:*

Auction houses can serve as excellent sources of art and antiques for slightly experienced investors. Two major advantages are the sheer volume and variety of items offered, and the lack of retail markups, resulting in lower prices. Most publish pre-sale exhibition catalogs describing the items to be sold.

Investing in antiques

Many basic rules of investment in art apply to antiques too:

- If you are buying as antiques as an investment, *the key word is "specialise".* Don't buy a range of antiques, as "collections" will often appreciate in value more than a mix of items. Good craftsmanship will hold its value, as will pieces by famous makers. Also, signed objects have better resale value than unsigned ones.
- It is important to *research before investing.* Before making your first purchase, try to learn as much about your chosen field as you can. "Caveat emptor" applies in its purest form while purchasing antiques. Fakes and reproductions abound and what seems like a good buy, may prove to be a "lemon".
- *Purchase through a recognised dealer.* You will be paying a higher price initially, but consider that as a safety premium. Also, insist on accurate and complete documentation. A good provenance adds to the resale allure of an object as it testifies that the piece is authentic.
- Invest in antiques with the firm belief that it is a *medium to long-term venture.* Also, tempting as it may be, do not invest in works or periods that are currently "hot and happening". You may be left holding the baby in case of a market decline. The illiquid nature of this market will magnify the pain.
- Treat your investments with *love and care,* as unlike stocks, antiques and artworks are hard assets and are prone to physical deterioration if neglected.

Other salient points to watch out for :

- The particular school of the artist or craftsman and that person's degree of skill in handling the chosen medium.
- A traditional, classical form produced in limited number.
- Good proportion and choice selection of materials.
- The condition and degree of restoration.

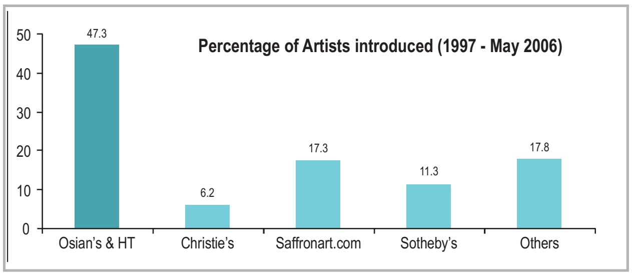
The Indian Art scenario

The first professional Indian art auction was conducted by Christies in 1987. The first Indian painting to fetch a million rupees was M.F. Husain's tribute to Safdar Hashmi in 1989. In the '90s, the works of M.F. Husain, Raja Ravi Varma and Ganesh Pyne dominated the auction landscape in cities like New York and London. HEART was the first professional Indian outfit to conduct an auction. This was in 1997.

Since 2000, the growth of the domestic market has accelerated. Osians - India's first art auction house was set up in 2000, followed by Bowrings and SaffronArt (India's first online auction site).

It is virtually a truism to state that the Indian art market has never been in better shape. In the last three years many art works have fetched over 10 million rupees. The most prominent reasons for the same are:

Increased purchasing power: Today, yuppie Indians as well as well-heeled NRIs are evincing keen interest in purchasing



artworks. Osians, a well-known art auction house estimates that the number of NRI buyers should rise around 16 times from the current level of 125 to 2000 by 2007. A telling indicator of the growing interest in auctions is the fact that the paintings sold in Osians first auction in 2001 fetched an average price of merely *Rs. 1,35,000* while the auction held in September 2006 fetched an average price of *Rs. 66 lakhs*.

Also, many buyers are buying for the long term. Hence, supply shortages may surface in the near future owing to a shortage of good floating stock. Despite these statistics, however, there is a feeling that the Indian market is still at an infant stage and the market for around 85% of the artists remains below the sustainable equilibrium level.

History as a base for credible pricing: Greater knowledge as regards the links between artistic historical significance and the pricing of art has led to the formation of credible benchmarks (such as the ET Art Index).

Increasing respect for archival and documentation work: Today, investors have access to credible information in the form of high quality publications of historical and archived artworks. This has helped in pricing stability.

The "bleaching" of our economy: The slow but steady transformation from a chiefly cash economy into a predominantly white economy has led to higher transparency, leading to confidence in displaying and exhibiting works of art openly. This is also helping art emerge as a permanent portfolio component for many institutions. Hence it is apparent that Indian art is set to grow in stature.

Launch of dedicated Art Funds: This is more a fallout rather than a contributory cause to the art boom. Two art funds have also been launched recently. Edelweiss launched the first Fund known as *"Yatra Fund"* in September 2005 and garnered a corpus of Rs. 10.75 crores. *Osians* recently launched its Art Fund garnered an impressive Rs. 102 crores. This fund aims at providing investors capital appreciation through the holding of a cohesive, historically driven portfolio of investment and management in the Contemporary Fine Arts from the Indian sub-continent.

Artists Pension Trust (APT) is a unique international art mutual fund that plans to raise money in India soon. APT plans to act as a venture capitalist for artists by sourcing money from investors and funding artists who have the talent but not the cash. Each artist, in turn, pledges to hand over 20 of his/her paintings over to the fund over a period of 20 years From the work sold, 40% goes to the artist, 40% goes to the pool of the Trust and is distributed prorata among all the artists and the remaining 20% will be subject to certain holdback, distributed as a management fee to a group subsidiary.

It is debatable whether the market is ready for art funds but it is commendable that a start has been made.

Some of the possible factors that may apply the brake to the momentum are:

The bandwagon effect: Today there are several art galleries springing up in order to capitalise on the interest on the part of investors. Many of these are first generation gallery owners whose knowledge of art is minimal. It is vital that gallery owners and auction houses undertake adequate due diligence in order to ensure that investors are not saddled with fake paintings or dud antiques.

Safekeeping and insurance: Both safekeeping standards as well as Art insurance have miles to go before they can be compared to Western standards. Art appraisers and actuaries are hardly adequate to meet the growing demand. Also, insurance companies have not structured insurance products for this market. The sooner that happens the better it is.

Drying up of liquidity: There are many skeptics who view the resurgence in the art market as a by-product of the wave of liquidity worldwide and hence fear that a reversal of this trend may lead to drying up of interest in art. Of course, one cannot discount this possibility entirely. However, it may also happen that the market will settle at a level much higher than that prevailing around three years ago.

Taxation: Currently art enjoys the same tax treatment as hard assets such as real estate and gold. Any adverse change (though seemingly unlikely) on this front may damage the market's growth momentum.

"Creamy Layer" Investment option: Also, it is unlikely that the common investor will be able to afford to invest in reasonably good quality paintings in the near future. Hence it will remain a passion of the rich.

As the common investor's money is not at stake, the Government too will not be motivated to strictly regulate the industry. Hence investor acceptance and comfort levels will also hinge on the extent and quality of self-regulation undertaken by the industry players.

In conclusion I state that while the road ahead is a bit foggy there is no doubt that the foundation is slowly being laid for the next level of growth and it is quite likely that art will occupy an increasing share of a High Net Worth investor's portfolio over the coming decade or so.