Eyeing up the art market

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Prices in the art market, particularly for contemporary work, just keep on climbing. Is now the time to buy in?

The art market is red hot at the moment. The question is, are investors going to get their fingers burnt? Recent auction sales, along with the sheer number of price records being set (16 last month in New York alone), are inviting comparisons with May 1990, six months before the art market crashed.

Contemporary auctions at Sotheby's and Christie's in New York last month generated \$220m (£113m), while Sotheby's Impressionist and modern art sale raised \$194m (£105m). Some of the recent price rises have been astonishing. A painting by Kees van Dongen, which sold for £800,000 in London in 1997, fetched £3,000,000 in New York last month. According to the Art Market Research company, prices for the top 25% of contemporary art have accelerated in the past two to three years following an almost unbroken pattern since 1996 of rising prices. Works by artists such as Peter Doig and Marlene Dumas, which you could have bought for tens of thousands of dollars around five years ago, are selling for hundreds of thousands. For the first time last year, prices for work by living artists exceeding £1m breached 10% of all art works sold at auction: Artprice recorded 328 bids over \$1m, compared to just 210 last year.

The boom isn't limited to contemporary art, although the move here has been most dramatic. A survey by ARTnews found the majority of leading global collectors favour contemporary art over modern and Impressionist by ratios of two and four to one respectively, which is translating into prices. Nor is the excitement confined to the very top of the market. Dealers at this month's art fair in Miami were selling out on the first day, while at Frieze Art Fair in London this October, private collectors spent £26m in one weekend. The day after, Damien Hirst's Pharmacy sale at Sotheby's raised £11m. This would suggest that while collecting remains a rich man's game, there appears to be no shortage of big spenders. The statistics back this up. The ranks of high-net-worth individuals – defined as those with \$1m or more in financial assets, excluding real estate – in the US rose 14% to 2.27 million last year, while the number in Europe rose by 2.4%, according to the latest Merrill Lynch/ Capgemini world wealth report. Given stockmarket turbulence over the past five years, it's not surprising these individuals are starting to look for places to put their money aside from stocks, bonds and cash. Art, unlike other investments, has an advantage over other hard assets because it can be enjoyed and confers status – so called 'wall power' – on its owner. Art is also increasingly viewed as a good way to diversify a portfolio, because although prices appear to move independently of stocks, long term they perform at least as well.

The evidence for this comes from the Mei/Moses All Art Index, devised by two professors from New York's Stern School of Business. The index is based on the resale values of paintings at auction in New York and currently captures 75% of fine art sales, (rising to 95% next January when it will include postwar and contemporary art sales). It reveals that while the correlation between the art market and Wall Street between 1953 and 2003 is low (just 0.04%), in that period the art market performed slightly better than equities, producing a compounded 12.06% annually between 1953 and 2003, compared to S&P 500 returns of 11.65%.

But good long-term prospects do not mean that now is a good time to buy. If history is to repeat itself, a crash could be on the cards. The last art-market boom of the 1980s, fuelled mostly by Japanese and American corporations, went along with the bull market in stocks, but its crash came in 1990, three years after Black Monday in 1987. The current boom, which has been largely driven by private collectors, has remained strong in the aftermath of the dotcom bust in 2000, aside from a temporary blip after September 11th, as the world's excess liquidity has searched for a new home. But what might trigger a crash? Falling property prices that domino into falling consumption and discretionary spending, perhaps. According to James Goodwin in the FT, there have been reports from Australia showing that house-price falls in the first half of the year coincided with falls in prices paid for modern and contemporary art. If property prices fall in the West, then art prices could follow. This meets with the idea that the art market is currently experiencing the latest bubble in a series of bubbles – which started with bonds and equities and has since shifted into property, commodities and art of every kind.

"There is no doubt that we are in a bubble," says Anders Pettersen, market analyst and founder of Arttactic.com, "but exactly where we are in it is another matter." Although dealers haven't yet stopped buying (when they do, it will be a real danger sign), what concerns Pettersen is the "gold rush feeling" in the art market at the moment. "There are a lot of wealthy individuals out there who are looking for an alternative asset class and have noticed a lot of headlines in the media about astonishing returns to be made in the art market. These are not the discriminating connoisseurs of old but people who want to make money". Yet there are only so many contemporary artists who will stay the course, and today's 'hot' artists are already beyond the reach of most people.

Pettersen counsels caution. Investors should wait until the next big round of sales in February and the Armory Show in New York in March to see what is happening to prices. And if you do want to invest, he advises, go for the lower end of the market. The Mei/Moses index suggests that, over the long-term, lower-priced pieces appreciate faster while masterpieces tend to underperform the market as a whole. Not everyone agrees with the gloomy prediction. As Tobias Meyer, worldwide head of contemporary art at Sotheby's points out to Carol Vogel in The New York Times, back in 1910 collectors were buying Gainsboroughs at what then seemed like astronomical prices. "The same thing is happening now for 20th-century art." In another 100 years the prices we are paying now might seem cheap, says Meyer.

That's not a bad point, but it assumes that everyone investing is doing so for the very long term, and therefore has little interest in what price they pay today. That's not very likely. As Thomas Sutcliffe says in The Independent, "sometimes it's just not a good time to buy… and unless you believe that prices will rise in perpetuity, with no future correction to the market, you might conclude that having your acquisitive instincts curbed by penury could be a blessing in disguise. If you really want a Hirst, wait for another 20 years when you may well find he's surprisingly affordable compared to today's prices."

That's certainly what the wealthy industrialists from Manchester, Leeds and Liverpool in the early 1900s found. They spent the modern equivalent of millions on works by Lord Frederick Leighton, Sir Lawrence Alma-Tadema and other fashionable artists, only to find that the work of those artists became desperately unfashionable – and cheap – for a large part of the 20th century.

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	[illegible]		0.35% per year	

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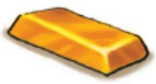 (http://moneyweek.com/investing-in-gold/)

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