

## How to start investing in art

16/03/2006

*Maastricht's International Fine Art and Antiques Fair offers exclusive opportunities to buy old masters – but given that the more you pay, the lower your return, it's worth doing your homework to uncover the kind of art most likely to hold its value, says James Goodwin.*

The International Fine Art and Antiques Fair (TEFAF) in Maastricht (10-19 March) is the art market's grandest occasion. About 218 dealers will crowd into this charming Dutch town. They'll be able to buy anything from the rarest fine art by old masters such as Rembrandt and Rubens to more modern artists such as Cezanne and Picasso, Warhol and Miro. They will also find decorative art on show – an ancient Egyptian statue, Lalique jewellery, Georgian silver and French 18th-century furniture.

But should you be buying art? According to Art Market Research's (AMR) top 2% inflation-adjusted art index, the prices now being achieved for old masters just exceeded their 1990 peak, rising strongly in the last year. The index for modern painting is 15% off its peak, contemporary and 19th century is 50% below its peak and the more volatile impressionist market is nearly 70% off the 1990 highs seen at the height of the bull market in Japan. Yet average impressionist prices are still higher than other styles from the period, so modern – and particularly 19th-century – works look relatively good value.

The price of art is affected by such an array of intangible factors that valuing it can never be an exact science. After all, what one generation finds appealing another may find unsightly. Nevertheless, for those without an art-history background and with a distrust of unregulated markets, art indices are the best way to assess trends before taking professional advice. Indices are limited, however, by only including data on auction prices, which represent just a quarter of the market, and by excluding some transaction costs. (Dealers tend to sell at approximately double auction prices.) However, the auction system, where prices are public and transparent, is still the best measure of art's 'true' value.

The most credible art index, by Mei and Moses, measures repeat sales since 1952, and makes provision for fine art's heterogeneity, while ignoring unsold works. It also leads to one glaring conclusion: the more you pay, the lower your return, especially above \$50,000 (£29,000). Beyond \$2m, the average return was negative. So at first glance, the pricey TEFAF may not be the best place for the investment-oriented art buyer. The few prices available on the exhibition website ([www.tefaf.com](http://www.tefaf.com) (<http://www.tefaf.com>)) range from \$90,000 for a Chinese vase to \$32m for a Rembrandt.

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There is a limited supply of fine art below this price range available at the fair, but canny investors might do better to look at decorative art. This is an area that performed well for previous generations and now offers relatively good value. Since the 1970s, using the top 25% of AMR data, decorative art has rarely matched fine art prices – with the exception of clocks and books. Today, English and French furniture, English silver, European porcelain, rugs and carpets, jewellery and sculpture could offer opportunities for modest appreciation.

For more eclectic tastes, emerging art markets offer greater opportunities, though there are already few to be found at the top end of the market. Chinese ceramics have risen dramatically since 1999, peaking last year, Latin American art has long performed well, and Russian painting has seen increasing demand since 2001. In lower price brackets, emerging country contemporary art offers better prospects because of its appeal to a new middle class, just as impressionist and modern art did to Europeans and Americans in the late 19th and early 20th centuries.

Another interesting development has been the growth in demand for domestic art, notably in the USA and Japan. Several academic studies have shown a correlation between exhibition attendance and national art prices. The Art Newspaper's annual exhibition review notes growing attendance in the USA, France, UK, and more recently Japan, where two domestically orientated exhibitions recorded the highest worldwide daily attendance in 2005. The third highest, in Yokohama, was for 19th-century masterpieces, including impressionists. Moreover, since 2001 art imports into Japan have grown steadily, while those to the USA have slowed. As the Japanese economy recovers, this may be the next market to watch.

Above all, if you're going to invest in art, you should remember that it is art's aesthetic qualities that underpin its future value. To develop such an appreciation and an eye for value there is no better place than the Munich TEFAF fair.

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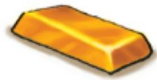


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