

# Premier

## INSIGHTS

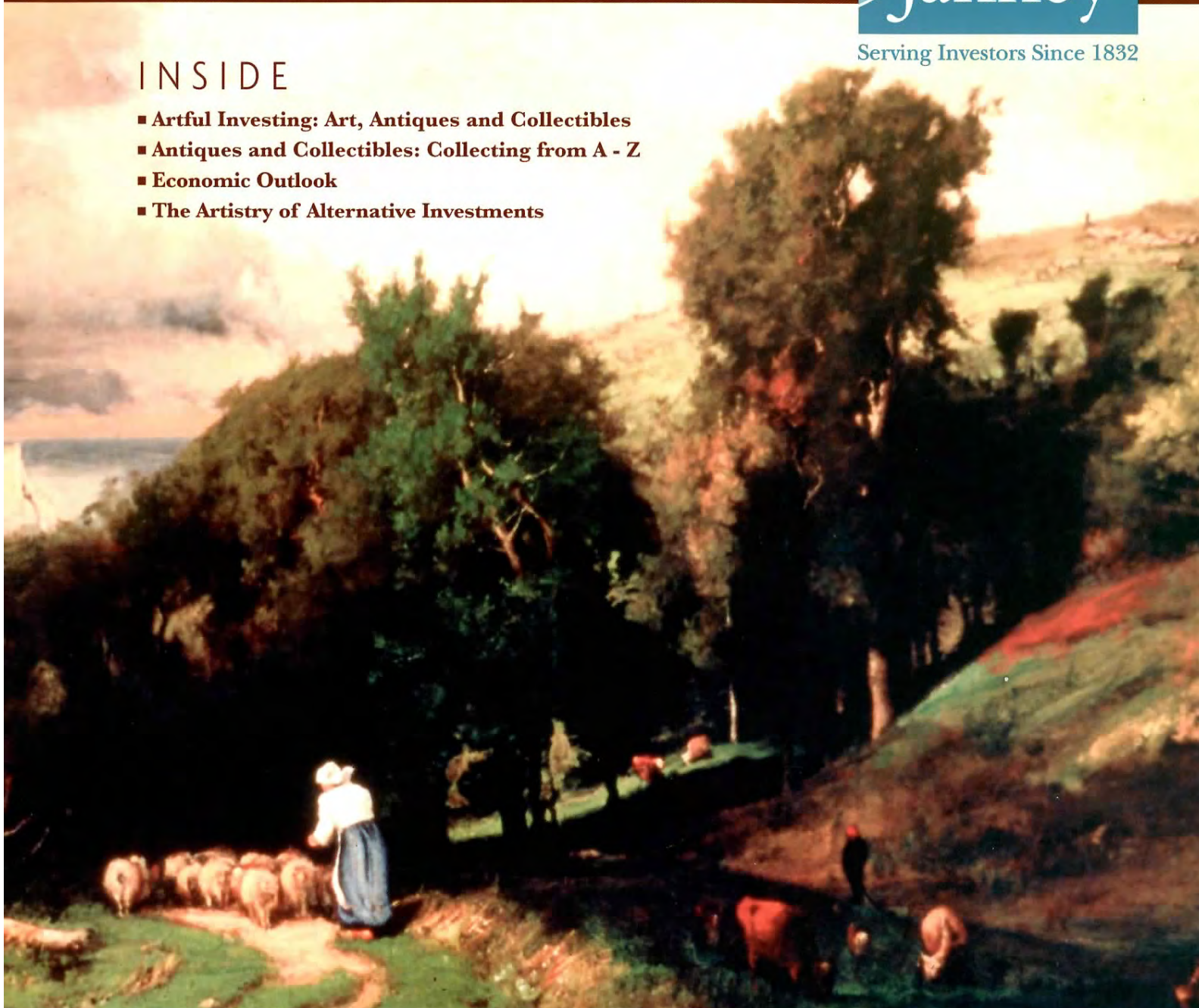
AN EXCLUSIVE PUBLICATION FOR OUR PREMIER CLIENTS

Janney

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# Artful Investing: Art, Antiques and Collectibles



In the fall of this year, a woman in New York discovered a painting left for garbage outside of an apartment building. Attracted by its abstract design, she decided to take it home, little realizing that it was, in fact, a stolen piece, *Three People*, by the Mexican artist Rufino Tamayo. The 38-by-51-inch painting is worth an estimated \$1 million.

Stories like this abound. And while not many of us may be as fortunate as the woman in the story above, or as the man refinishing an antique four-poster bed frame who accidentally cuts off the top of a post to find a rolled-up painting by an American master inside, the world of art, antiques and collectibles can be exciting and rewarding, both financially and aesthetically.

## **Why Buy Art?**

People buy art for a number of reasons, ranging from purely emotional (aesthetic pleasure and the thrill of the acquisition process) and conscience (preservation and conservation) to personal satisfaction (status and prestige). However, for as long as there has been art, there have been those who have collected it—and sought to profit by its collection and, ultimately, sale. As with any investment, though, the questions of “Where and how do I invest?” and “What are the prospects for appreciation?” come to the fore.

Do you look for works by a lesser known artist, designer, etc., or in an as-yet untapped region of the collectibles market that is lower priced (and, perhaps, riskier in its growth potential) and hope that it appreciates, or do you immediately go for the “blue chip” investments of well-known artisans in their respective areas of specialty (Picassos,

Chippendale furniture and Chateau d’Yquem wines) that will cost more but provide greater stability and a higher probability of growth?

## **Using Art to Balance Your “Picture”**

Investing in art, antiques and collectibles alone—just as, say, investing in one type of stock sector—can present balance issues and create a far riskier investment picture than an investor may be able or willing to tolerate. Art can, though, be used as a component of an overall investment strategy to potentially balance risk.

Two finance professors from The Stern School of Business of New York University, Dr. Jianping Mei and Dr. Michael Moses, developed the Mei Moses® Family of Fine Art Indices, a family of indices that tracks movements in the art market going back to 1875. While, according to their analysis, an all-art portfolio has slightly underperformed stocks over the last fifty years, a more telling finding is that by adding art to an optimally balanced investment portfolio, with an expected return of 10.25%, the risk is reduced from approximately 10% (without art) to roughly 7% (with art).<sup>1</sup>

Another benefit of using art and collectibles as a component of a strategy rather than the entire strategy itself is that, alone, you hinder your liquidity. Selling a work of art is, more often than not, not as simple as selling a stock or a bond—you may have to go through an appraisal process, auction, etc.

## **Going...Going...**

Still, we have yet to answer the pressing question of “What is it worth?” A piece’s

value, again, will vary greatly depending upon a myriad of factors: interest in the market, demand, rarity, the popularity (or notoriety) of its creator, condition, age and so forth. In 1910, a first edition of Edgar Allan Poe’s *The Raven* was sold for \$785. Today, that same work is commanding \$3800.<sup>2</sup> In 2006, a 1707 Stradivarius violin sold at auction for a record \$3.5 million, breaking the record of \$2.03 million for a Stradivarius set in 2003. But even if, as mentioned earlier, an artist is a known quantity, such as Vincent van Gogh, that does not automatically ensure a record breaking sale—or even a sale at all. In September of this year, an auction of one of van Gogh’s last paintings—a landscape, which hung over his deathbed and was expected to sell for between \$28 and \$35 million—resulted in no winning bid.

## **Where to Look – At the Gavel and Beyond**

Where you find your antiques and collectibles can be as varied as the pieces themselves and depend upon how you prefer to approach your purchasing, the kind of art for which you are looking and the dollar level at which you are seeking to purchase.

### *Galleries and Dealers*

Galleries and dealers can be found in towns and cities throughout the world. Some may specialize in one area of art or antique (painting, sculpture or furniture), a particular period (Modern, Impressionist or Ancient) or region (European, Asian or Latin American), or they may sell a wide variety of pieces that cut across these and other specialties.

### *Auction Houses*

Auction houses present another opportunity for purchasing items, but require a temperament suited for the competition of the bidding process. Auction houses are located throughout the world: the oldest is Stockholm’s Auktionsverk, founded in 1674 as a state-owned auction house that mostly sold grain and livestock, later moving into the world of art. Some of the largest and most familiar houses include Christie’s, Sotheby’s, Phillips de Pury and Bonham & Butterfields. There are also regional houses which provide different entry points into the market. In Pennsylvania, for example, these include, among others, Freeman’s, Pook & Pook and Alderfer’s. In general, auction houses will sell items in the higher end of the price spectrum.



### Shows

Antiques and collectibles “shows” may appeal to those who enjoy the search as well as the purchase, and can be enjoyed both outdoors and indoors. One of the largest outdoors shows, the Brimfield Antiques and Collectibles Show, in Brimfield, Massachusetts, is held three times a year with over 6,000 dealers/exhibitors. Indoors, the Winter Antiques Show at the Seventh Regiment Armory in New York City is one of the nation’s most prestigious, with 75 exhibitors specializing in American and European antiques, Old Master paintings, textiles, ancient Egyptian art, Medieval and Renaissance manuscripts and more.

### Attending Art (Investing) School

Combine these opportunities with those available online—and even at your local antique store—and it becomes evident that, as in any area of investment, education is a crucial component. Alexis McCarthy, head of the Philadelphia office of Christie’s, suggests that anyone interested in acquiring art should do so after thorough research and

<sup>1</sup> Source: <http://www.artasanasset.com/market/>

<sup>2</sup> Source: <http://manhattanrarebooks-literature.com/poe.htm>



education. “Seek out experts in the field and do your own research as well,” she stressed. “Resources for information can be your local museum, its curator and art advisors.”

### In the Eye of the Beholder

Ultimately, though, the true “worth” of any work of art lies in what it means or “says” to you. The 19th century painter, Henri Matisse, wrote, “Time extracts various values from a painter’s work. When these values are

exhausted the pictures are forgotten; and the more a picture has to give, the greater it is.” Thus, the most important thing to keep in mind when purchasing art, whether in the form of antiques, collectibles, etc., is that, as Ms. McCarthy emphasized, “You need to buy what you love, keeping in mind the quality, rarity, condition, provenance, taste of fashion and freshness of the object. The intrinsic value of any work of art is in its value to *you*.”

## Economic Outlook

**By Rob Morgan, Senior Vice President, Private Client Investment Strategist**

The Federal Reserve met on October 31 and cut the Fed Funds rate by  $\frac{1}{4}$  of a point to 4.5%. The committee also changed its pronouncement to reflect the fact that, in the judgment of the committee, the risks to the economy from inflation and recession were balanced.

Certainly the numbers would indicate that the committee can be less concerned about inflation than they had previously expressed. Core Producer Price Index (PPI) released on October 12 came in below expectations, and core Consumer Price Index (CPI) released the next week on October 17 came in right on the number. The core Personal Consumption Expenditures (PCE) inflation number, released on November 1, came in up 0.2% as expected.

What about economic growth? The housing numbers continue to be terrible—pending home sales released October 2 were down 6.5%, housing starts and building permits

released October 17 hit 14-year lows, existing home sales on October 24 hit eight-year lows and new home sales released October 25 came in slightly below expectations (which promptly caused a ‘relief rally’ that day in the Dow because the number was not a multi-year low!).

It is easy to extrapolate that, since the housing market is so bad, the remainder of the economy will tank. Don’t get fooled into this mindset, because the remainder of the economy is proving very resilient. Non-farm payrolls released October 5 were up 110,000 jobs, slightly better than expected, while the non-farm payroll number released on November 2 was double the estimate. Retail sales released October 12 were much stronger than expected.

So housing continues to be a drag on the economy—Fed Chair Bernanke said so himself on October 15—but don’t count out a reacceleration of economic growth sometime in 2008.





## Antiques and Collectibles: Collecting from A - Z

The opportunities for artful investing are limitless. While you can certainly plunge into Ming vases or 18th century Toleware, perhaps your first thoughts should be to what interests you or areas in which you have expertise. Those seeking to collect fine art should do so, first and foremost, out of an appreciation of an artist or for a piece.

On this subject, Alexis McCarthy, Head of the Philadelphia office of Christie's, said, "You don't need to limit yourself to the largest areas of the marketplace. Any number of areas of interest can attract collectors, from fine wines to important books and manuscripts." She noted that, currently, Post-War and Contemporary art is capturing some of the highest values in the marketplace, specifically in the realm of fine paintings, and added, "Other areas in which we see consistent interest are Impressionist and Modern paintings, jewelry, Asian art, Old Masters paintings and European furniture."

### What other categories exist for you to explore? Have you considered...

- 19th Century Furniture
- 20th Century Furniture
- American Paintings
- Antiquities
- Chinese Paintings
- Jewelry
- Japanese & Korean Art
- Latin American Art
- Musical Instruments
- Photographs
- Porcelain
- Prints, Rugs & Carpets
- Russian Works of Art
- Sculpture
- Silver
- Southeast Asian Art
- Watches
- Wine

Again, as noted in this issue's cover article, it is important for you, regardless of your level of familiarity, to educate yourself on the history—both temporal and sale value—and the unique subtleties and nuances of a particular type of art.

Below are four examples of the many "genres" of art and collectibles open to you. Could one of them be your entrée into a new realm of artful investing?

### American Furniture

American furniture from the mid-1600s to the early 1800s is considered "Period." These "Periods" are broken down to the Colonial, which dates from roughly 1620 to 1780, and includes the Jacobean, Queen Anne and Chippendale styles; and the Federal, which dates from approximately 1780 to 1820, and encompasses the Hepplewhite, Sheraton and Classical. As with most periods, these dates do not constitute a precise "start and end," but have a certain amount of overlap. There are also certain artisans from these periods

who produced some of the most sought-after examples of the art. One family, the Goddard Townsend family of Newport, Rhode Island, is particularly famous. In 1989, a six-shelf desk/bookcase was sold at auction for a record \$12.1 million.

### Books & Manuscripts

This year, a first edition *Harry Potter and the Philosopher's Stone* was auctioned for \$18,000—a book published in 1997. Why? Besides the obvious marketing mayhem and cottage industry it created, from a bookseller's and book collector's standpoint, the book itself presented a rarity: only 500 to 1000 first editions were printed. With that in mind, it should be clear why rare books and manuscripts present opportunities for collectors. Factors such as scarcity, combined with the fame (or infamy) of their authors or subject matter, position in a canon (or in history) are among the many that can influence a book or manuscript's value. In addition to individual

works, leaves or pages from rare manuscripts have increasingly become collectibles. These leaves usually come from 13th to 16th century works ranging from Books of Hours, Medieval devotional works (often highly "illuminated" or decorated with gilding, etc.) and "incunabulum," or books printed before 1501, at the dawn of the printing press, and include the *Nuremberg Chronicle*, an early history of the world, to individual pages from Shakespeare "quartos." In 2006, a Shakespeare First Folio was auctioned off for \$6 million, while individual illuminated Book of Hours leaves can fetch in the tens of thousands of dollars.

### Old Masters

The term "Old Master" has been subject to some debate as to the working dates and "professional characteristics" of those deemed as such. However, the names and fame often associated with these painters, usually considered those working before 1800, are not, as they include, among others, da Vinci, Michelangelo, Titian, El Greco,



Rubens, Rembrandt and Vermeer. This august body of artists produced some of the most beautiful and memorable works in the history of the arts—and their current monetary value is indicative of why their intrinsic value, to use an expression from this issue's cover article, remains strong. Currently, Rubens' *Two Studies of a Young Man* is in the midst of its maiden journey to the U.S. and being made available for public viewing for the first time in over 70 years. This is in anticipation of its upcoming auction in December, at which its auction house, Christie's, is expecting to sell for between \$8 and \$12 million. In fact, the 2006 Sotheby's auction of Rubens' *Massacre of the Innocents* holds the record for an Old Master painting at \$76 million.

### Wine

The Romans believed that all wine improved with age. While modern oenology has shown that "all" is a very broad term—and not to be lightly applied—there are many wines which have stood the test of time. And will continue to do so, to the delight of oenophiles and collectors. What constitutes a great wine is dependent on factors ranging from the type of grape used, the vintage, the terroir, or physical characteristics (soil composition, geography, climate, etc.) unique to the region in which the grapes were grown, et. al. As with American furniture and Old Masters, there are certain names which stand out in the world of winemaking: Lafite Rothschild, Haut Brion, d'Yquem and Petrus, among others. How well do they "age?" Consider that a 1961 Chateau Latour cost \$3 dollars to purchase. Currently, that same bottle, at auction, is selling for approximately \$500: a return on investment of just over 15% annually for 35 years.<sup>1</sup>

<sup>1</sup> Source: <http://www.wineeducation.com/>



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