Still Interested in Beuys?

Dr. Franz-Josef Sladeczek, managing director of ART*experts*, writes about the art market, art investment, prices, values and their development as well as the passion for collecting art.

In spring 2004, a gasp ran through the art world, when for the first time at auction a painting exceeded the magic USD 100 million mark. On May 5, 2004, Picasso's 'Garçon à la Pipe' (figure 1), painted in autumn 1905 in Paris, was sold at Sotheby's New York for USD 104 million to a private collector. This is the highest bid for a painting ever, topping Vincent van Gogh's portrait of Doctor Gachet, which was auctioned in 1990 at Christie's for USD 82.5 million.

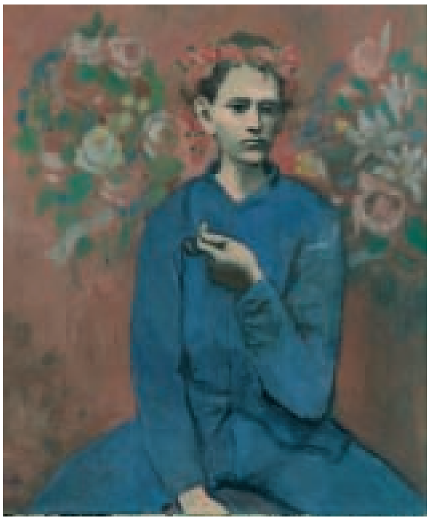

Figure 1: Pablo Picasso, 'Garçon à la Pipe' (1905). This painting from Picasso's 'Rose Period' was sold on May 5, 2004, for USD 104 million – the highest bid ever achieved by a painting at auction. Copyright 2004, ProLitteris, Zürich.

This event sparked a sensation in the art markets. Yet, is this a unique occurrence, or will other masterworks of such outstanding quality achieve this and more in the future? In any case, this transaction is remarkable as it highlights that there are obviously no limits at the upper end of the market. This is always true of exceptional artefacts, which are not only in perfect condition but also have perfect provenience. 'Garçon à la Pipe' belonged to the private New York collectors John Hay and Betsey Whitney and was sold as part of the distribution of their estate. The couple acquired the picture in 1950 for USD 30,000.

If there is a need to demonstrate that art collecting is a form of investment, then this example will serve as proof. Long ago, art collecting and trading was considered by the financial community as a viable alternative investment strategy. Today, 'Art Investment' is an established element of the financial services offering, particularly in the Private Banking area, where it is included in their wealth management strategies. Comprehensive services include estimates, examinations of authenticity, inheritance and legacy advice, collection strategy and mediation for acquisition and disposal.

In addition to the investment community, the book market also focuses on art as an alternative investment. The sector has released several new books over the last few years dedicated exclusively to this issue. In the German language, titles such as 'Kunstvoll investieren'[1], also available in English 'Investing in art – the art of investing'[2], 'Kunst-Investment'[3], 'ARTinvestor'[4], 'Kunst = Kapital'[5], 'Richtig in Kunst investieren'[6], 'ArtInvestor'[7] or the 'Kunstinvestment Guide'[8] bear testimony to this development. They are a great resource for collectors and client relationship managers alike who need to pick up the latest trends in the art markets and to assess which artists are worthy of investment.

Art as an alternative investment is definitely taken seriously. Not only private bankers, but also well-endowed investors, who are concerned by the latest downturn of the equity markets, are looking for alternative investment strategies.

Let us have a closer look at the art market and its specifics. The most compelling questions about the art market

Figure 2: Art investment manuals are providing abundant information on art themes and markets.[7]

are: "What criteria influence the value of a piece of art?", "What factors are responsible for price, price discovery and price development?", "Who determines the market value of an artist?" and

1 Wolfgang Wilke, "Kunstvoll investieren", in: Trends, published by Dresdner Bank AG, Frankfurt 1999.
2 Wolfgang Wilke, "Investing in art – the art of investing", in: Trends, published by Dresdner Bank AG, Frankfurt 2000.
3 Thomas González and Robert Weis, "Kunst-Investment. Die Kunst, mit Kunst Geld zu verdienen", Wiesbaden 2000.
4 "ARTinvestor. Kunst und Markt", published quarterly since 2001, EUR 6.50 per issue.
5 Linde Rohr-Bongard (publisher), "Kunst = Kapital. Der Capital Kunstkompass von 1970 bis heute", Köln 2001.
6 Gabi Czöppan, "Richtig in Kunst investieren. Kauf und Verkauf, Wertsteigerung und Rendite, Chancen und Strategien", München 2002.
7 Lothar Pues, Edgar Quadt and Rissa, "Art-Investor. Handbuch für Kunst und Investment", München 2002.
8 Thomas Gonzáles, "Kunstinvestment Guide. 101 Marktanalysen von Künstlern des 19. und 20. Jahrhunderts – Rekordergebnisse, Marktlage, Investmenttipps", München 2002.

“The art market is to a large extent independent of trends on international capital markets.”

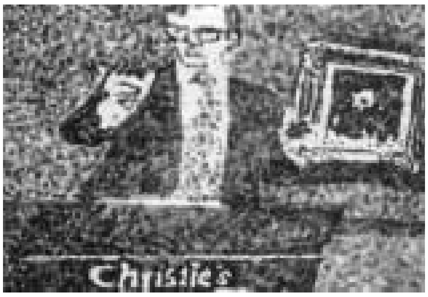

Figure 3: Jiří Georg Dokoupil, Auction at Christie’s (1989).[6]

“What opportunities and risks are linked to art investing?”.

Auctions as benchmark

In the international art markets, the auction houses and galleries predominantly set the pace and act as trendsetters with regard to marketing artists and styles.

Art galleries first developed at the end of the 19th century. Auction houses have an even longer tradition as ‘art marketers’[9]. Their origin reaches back to the 18th century, when the affluent bourgeoisie started to acquire art and cultural artefacts, imitating the aristocracy. To own works of art was not only an expression of wealth and pride, it was also a sign of refinement and high education. In 1744, Sotheby’s was founded in London; 20 years later it was followed by Christie’s (1766).

In light of current activity, it is difficult to imagine that both houses initially auctioned books and jewellery only. Today, these institutions have developed niche auctions. Besides the well-known auctions for paintings, sculptures, graphics and furniture, jewellery and watches, they also conduct highly specialised auctions, focussing for instance on African or Latin American art, Aboriginal artefacts, European works in glass, frames and icons, cameras and scientific instruments, sporting weapons, teddy bears, cars and wine. This diversification is in response to the ever-widening interests and needs of collectors and art lovers.

Today, close to 3,000 auction houses are registered worldwide. Christie’s und Sotheby’s control about 90 percent of the market with an annual turnover of about USD 4 billion. Auctioneers generate their revenue through sales commissions charged to both the seller and the buyer. As auctions are public, the generated bids and sales prices are in the public domain. The results are published in so-called ‘result lists’, which are published by the auction houses themselves. They are also available via the Internet for a small fee. Thanks to this degree of transparency, auction trading is established as the benchmark for the development of prices on the international art market. Auctioning results not only allow for the analysis of developments and evolution of prices, but also provide a basis for prognoses of future trends.

For instance, it is well established that the art market is to a large extent independent of trends on international capital markets. Wolfgang Wilke, a financial markets specialist at Dresdner Bank and one of the leading analysts of the international art markets, summarises as follows: “The art market reacts in its own way to the general socio-economic environment and is only temporarily influenced by capital market conditions.”[10]

The most recent studies of New York professors Yanping Mei and Michael Moses show similar results.[11] Based on an analysis of all art sales in New York-based auction houses since 1950 – in the divisions ’Old Masters’, ’American Art’, ’Impressionism’ and ’Modern Art’, they conclude, as Wilke did, that the art markets have no or only very low correlation to stock markets.

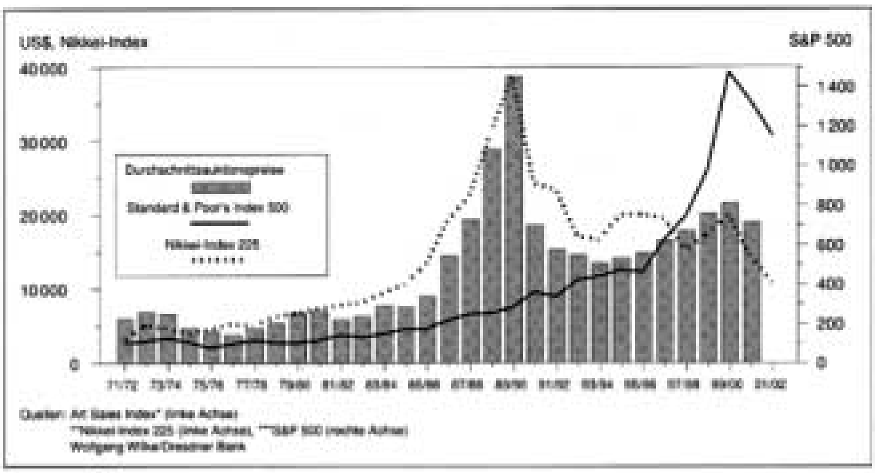

Figure 4: The development of prices at art auctions shows only limited correlation with equity markets. The chart compares the development of international art auctioning prices (Art Sales Index) and stock market indices in Japan (Nikkei 225, left axis) and the USA (S&P 500, right axis). Source: Wolfgang Wilke, Dresdner Bank.[2]

9 See most recently: Christian Herchenröder, “Auktionen”, Schriftenreihe Vontobel-Stiftung, Zürich 2003.
10 Wilke, see note 1, p. 20.
11 See Petra Arends (UBS ARTBanking), “Kunst als Investment. Erlaubt ein neuer Index neue Kunstmarkt-Analysen?”, in: NZZ, Nr. 137, B5 (17. Juni 2003).

"Gonzáles computed a return of 16 to 30% for the period from 1970 to 1995."

Art galleries as trendsetters and market makers

Although art gallery trading lacks comparable transparency to auctioning in international price development, it is nonetheless the second major pillar for price discovery and analysis on the art markets. Gallery owners are the real drivers of contemporary art. They nurture young talent and expose them on their own merit or by exhibiting them at international art fairs. The Swiss fair Art Basel, which takes place every year in June, is the most important of all art fairs worldwide.

As a rule, the art gallery business is commission-based also. Artists consign their paintings for a certain time period to the gallery owner, who then sells them. The gallery is responsible for organising the exhibitions and takes care of the entire marketing campaign.

The development of an unknown artist usually takes 10 to 20 years. Key is to create a 'brand', which influences perception in the art community. Contracts between artists and gallery owners assure continuity and price stability. The gallery owner not only introduces artists to the market, but is also the market maker of those artists represented. In doing so, the gallery owner attempts to keep the prices on a consistently high level and gradually increases the market value of his artists, once they command a higher exposure. Pricing is primarily determined by the gallery owner, who usually keeps 50 percent of sales as commission. The reward for effort for a young talent are usually low key: An oil painting (100 × 150 cm) of a relatively unknown artist in the first stage of his career will hardly achieve more than CHF 15,000. Yet, prices may multiply dramatically over the years.

Tops and flops

This kind of pricing strategy is interesting for art collectors who consider their

Figure 5: The Capital magazine's 'Art Compass' list of 1986's 100 best-rated artists. No. 1 is Joseph Beuys who died the same year.[5]

collection as an alternative investment. However, the prerequisites for success in art investing include a consistently high quality for the collection from the start and an investment horizon of at least 10 years. This is the only proven strategy that may yield promising returns. Thomas Gonzáles computed a return of 16 to 30 percent for artists such as Sigmar Polke, Anselm Kiefer or Georg Baselitz for the period between 1970 and 1995. These figures exceed the return on German equity funds, which in the same period yielded only 8.6 percent. Gonzáles summarises: "Capital gains on art are thus not an exception but common result when working with this particularly reliable investment instrument."[12]

Indeed, looking at Capital magazine's 'Art Compass', published annually in November and listing the 100 best artists of the year, Baselitz, Polke, Kiefer and Richter have been top-rating artists since the end of the 1980s.

A more in-depth analysis of the 'Art Compass' also shows significant shifts in artist ratings. Some who were top-ranking in the 1970s are no longer part of any ranking list. This is the case for renown artists such as Armand, Jean Tinguely, Jim Dine or Victor Vasarely. All ranked among the ten most expensive artists in 1970 but by 2001 had disappeared entirely from the 'Art Compass'. Bernard Buffet, too, exemplifies such a development, which is hardly attractive, if looked at from an investment point of view. In the mid-1980s Buffet's EUR 20,000 to 30,000 paintings soon achieved bids of up to EUR 800,000. Today, however, his paintings hardly achieve prices above EUR 100,000 and usually tend to fluctuate between EUR 20,000 and 50,000: Bernhard Buffet's art is back to the price before his dramatic appreciation began in the mid-1980s. All prognoses regarding appreciation and value creation proved to be wrong.

Based on these examples, art investing does not offer an absolute guarantee of

12 Gonzáles, see note 8, p. 17.

Recent statistics and surveys on the art trade in Switzerland show the following: In 2001, art dealing in Switzerland achieved a turnover of almost one billion Swiss francs (CHF 925 million or EUR 625 million). After the USA (EUR 12.5 billion), the UK (EUR 6.7 billion), France (EUR 2 billion) and Germany (EUR 775 million), Switzerland ranks fifth worldwide in terms of art dealing turnover. Considering the size of the country, this is an excellent position. Neutrality, a favourable legal framework and tax rules as well as the political and social stability are cited to explain this extraordinary position. Source: "The European Art Market in 2002. A Survey", mandated by TEFAF, The European Fine Art Foundation, 2002.

positive performance. Top-ranking artists today may not trade at an adequately high level after years or decades. An interesting field for further research therefore would be to analyse how some top-ranking artists maintain their level for several decades and why. Our guess is that this would apply to no more than 50 percent.

A key element for this evolution of 'top today, flop tomorrow' may be found by the major influence of aesthetic and taste tendencies on art markets. There certainly are masterpieces of sustainable value, however, many artists and styles have a limited period of appeal and after a certain time are 'out' when collectors tire of them.

Who is still interested in Beuys? Joseph Beuys (1921–1986) was a grand provocateur and visionary of a new approach to art, dramatically revolutionising modernism after 1945. Several times he ranked among the top positions in the 'Art Compass' of Capital magazine in the 1970s and 1980s (figure 5).

Figure 6: The 50 newcomers on the market, taken from the magazine 'ARTinvestor' (Issue 01/2003).[4]

Figure 7: Paul Cézanne, 'The boy with the red waistcoat' (around 1888/90), Collection of the Foundation Emil G. Bührle, Zurich.

Prices of up to CHF 200,000 and more were common for his works, which today pose considerable conservation problems. From the end of the 1980s, Joseph Beuys disappeared from the 100 best artists rankings, demonstrating declining interest for his works.

A similar fate befell the "Junge Wilde", a group of young artists who caused a sensation with their expressive paintings in the 1980s. They were highly acclaimed. In 1987, some of them achieved top rankings, e.g., Jiří Georg Dokoupil, ranked no. 7 (figure 3), and Walter Dahn, ranked no. 8. Today, however, they again have slid from the ranking lists. Indeed many are not even recalled anymore.

One day, many of the '50 Newcomers on the market' (figure 6), a ranking list published regularly by the 'ART-investor', may suffer the same outcome. In any case, an investor should be aware that acquisitions of young unestablished artists confer a high risk. Yet, this is exactly the target segment an investor should aim at, if he wants to achieve maximum profits. With established artists, it is "very difficult to achieve attractive returns"[13].

Thomas Gonzáles' proposition – to invest 5 to 20 percent of total assets in art[14] – is quite understandable when considering the diversification of large portfolios. However, up to now, none of the so-called art funds have generated results that were in line with expectations.[15] Contrary to stock markets, trading in art was and is highly emotional. Acquisitions are often made by 'gut feeling' rather than based on rational cost-benefit analysis. To buy art according to ranking lists, as suggested, or even recommended by the literature on art investing, is likely to remain the domain

13 "Marathon für die Kunst. Das Erfolgskonzept von Deutschlands bekanntestem Art Consulenten Helge Achenbach", in: Czöppan, see note 6, p. 195.
14 Gonzáles, see note 8, p. 16.
15 The British Rail Pension Fund is commonly quoted as a prime example, benefiting the pension fund with GBP 62 million within only 6 years after its launch. On the other hand, the 'Global Art Fund', launched 1997, found insufficient investors. The project was abandoned and the shareholders paid out. Against this background one is curious about whether the most recent attempt by Daniella Luxembourg to launch 'ArtVest', a new art investment fund, will be successful.

Figure 8: Lyonel Feininger (1871–1956), 'Dalmatien' (1934, oil on canvas), private collection, Switzerland.

"For a passionate collector, 'the love of art' far outweighs considerations of returns on investment."

for speculative players and debutants, who invest in names, not in art.

Passion versus investment

Speculation in art, so far, has not yielded good results. Collectors who engage for interest and passion are particularly aware of this. None of the grand collectors, be it Emil G. Bührle (figure 7), Oskar Reinhart, Anne-Marie and Victor Loeb (figure 8) or Ernst Beyeler (to name only a few famous Swiss personalities), gear their collecting primarily as an investment for a certain return. Rather, they were buying art based on qualitative and personal criteria.

The passionate collector aims at building a collection following defined criteria. If one or more of the pieces appreciate in value, it is an enjoyable side effect but definitely not an expectation for the collecting approach and strategy. The real impetus to acquire a piece of art is completely different: the love of art. For a passionate collector, the desire to gradually increase the collection and to fill present gaps far outweighs consideration of return on investment over the years. To achieve this task, the collector is even ready – as demonstrated by the aforementioned sale of the Picasso – to pay a price that is extraordinary in order to get a piece that the collection lacks. From this perspective the collector would even rationally make a 'bad investment' in terms of the return in investment, knowing well that a high quality collection is the goal of this approach and attitude. Taking a consistent and thorough stance in this respect will result in a collection that breathes the collector's individual and personal touch, which in turn ensures a broad and intense discourse in public and may result in its appropriate placement in a museum for perpetuity.

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Dr. Franz-Josef Sladeczek is an art historian and the Managing Director of ART*experts* GmbH in Bern. As an independent service provider, ART*experts* ensures comprehensive and professional support and advice on all art issues including: collection concept and strategy, acquisition and sale, collection inventory and estimates, individual concepts for restoration and insurance as well as the distribution of estates.

Contact:
ART*experts* GmbH, Dufourstrasse 21, CH-3005 Bern, Switzerland
Phone +41 31 352 72 78, Fax +41 31 351 78 04
info@artexperts.ch, *www.artexperts.ch*