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March 15th 2012

The Art of Investment

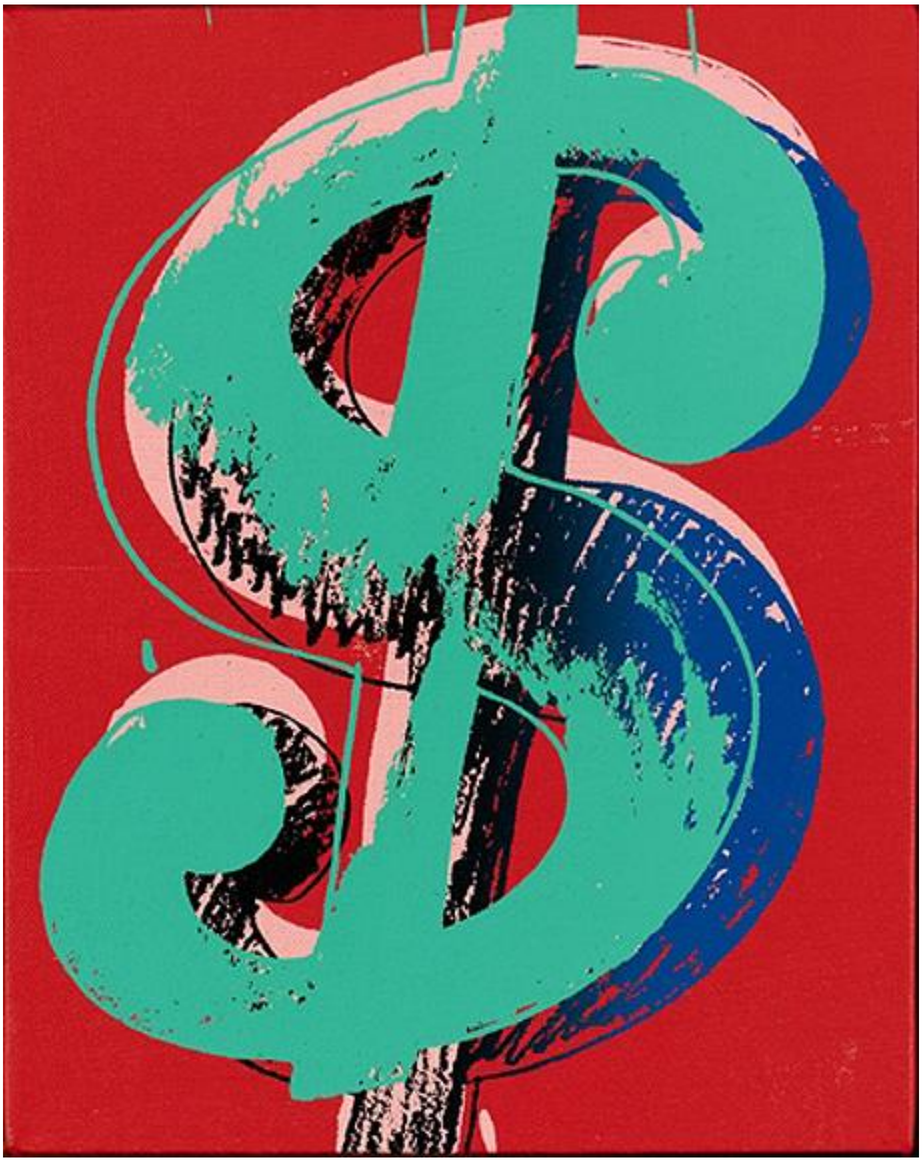
When dozens of art investment funds operate around the world, there is little room for emotions. The need to achieve high returns for investors has created a huge market for "artwork promotion" via museum exhibitions and broad collecting of art from China and India, with a view to profit from the potential in those markets. This is how the bottom line is artistically drawn.

By Dana Gillerman

Do you have half a million dollars available on which you would be happy to receive a 10%-20% annual return? Art collector and dealer, Serge Tiroche, has an interesting proposition for you. A new art fund called Art-Vantage, which he is currently establishing, projects these kinds of tempting returns. The backing of London businessman, Russ DeLeon, the main shareholder of this venture, would certainly impress many potential investors. DeLeon, an attorney, graduate of Harvard University, made his fortune as a senior partner in the internet gaming company PartyGaming, one of the first companies in this field to be publicly offered in England, at a one billion dollar market capitalization.

At the basis of his and Tiroche's fund, stands a collection of 230 artworks acquired by them in the past year for approximately 12 million dollars. Most of these works are by artists from developing countries such as Brazil, Russia, India, China, Indonesia, Malaysia, Korea, Argentina, Eastern European countries and Middle Eastern countries, including Iran and Iraq, as well as artwork by Israeli artists such as Sigalit Landau and Amon Yariv. "In the majority of these countries, there is no recession. Quite the contrary, there is significant growth", says Tiroche.

The fund's potential investors are private as well as institutional investors, interested in diversifying their investment portfolios. The objective of the fund is to raise approximately 50 million dollars, from an unlimited number of investors. "If all investors invested the minimum amount, there would be one hundred investors", says Tiroche, and adds that the fund is registered and regulated in Gibraltar. This fact, unlike most other funds, is supposed to be an additional attraction for investors.



Photograph: Sotheby's

The establishment of the fund - which will be launched officially at the international art, collecting and finance conference to be held at HaBimah Theater in Tel Aviv on March 21st 2012 - is part of a trend that characterizes the international art market in the past decade. According to Tiroche, the increase in art investment funds is due to the understanding that art is uncorrelated to other asset classes such as stocks, bonds and real estate. "Modern portfolio theory states that the more uncorrelated asset classes one adds, the more efficient the portfolio becomes", explains Tiroche, an ex-senior private banker at Citigroup.

The recently published "Art and Finance Report 2011" by Deloitte reinforces the feeling that art funds are the next big thing in the investment arena. According to the report, 44 art funds operated last year, 21 of which in China, managing one billion dollars – compared to 760 million dollars in 2010. Eight new funds are scheduled to open up this year in Luxemburg, the United States, Switzerland and Singapore.

"Art funds have become a global phenomenon in the past decade and they are located in different jurisdictions around the world", says Adriano Picinati Di Torcello, an art and finance director at Deloitte and one of the authors of the report, to “Calcalist”. "The reasons for this are the globalization of the art market, transparency and research, as well as an unstable economic environment necessitating investments in tangible assets." After being asked whether he would invest in an art fund, he replies: "Yes, following careful examination. Right now I do not have the means."

"Forever” is a huge bicycles installation from 2003 by the currently most famous Chinese artist Ai Weiwei.

The international Mei Moses® Fine Art Index, which measures repeat sales of the same artworks, proves that art is a good investment. According to the index, the global art market returned 11% in the past year, and beat the returns of the American S&P 500 Index, in six of the past ten years, gaining an average of 7.8% per annum. The high returns were achieved due to increased demand in the Chinese market and a surge in the price of popular artists such as Andy Warhol and Roy Lichtenstein. Thus, for example, Warhol's “Dollar Sign” which was purchased in 1987 for $27,000 was sold last year for $698,000, and a work by Lichtenstein was sold this year for 40 million dollars – 20 times the price paid for it in 1988.

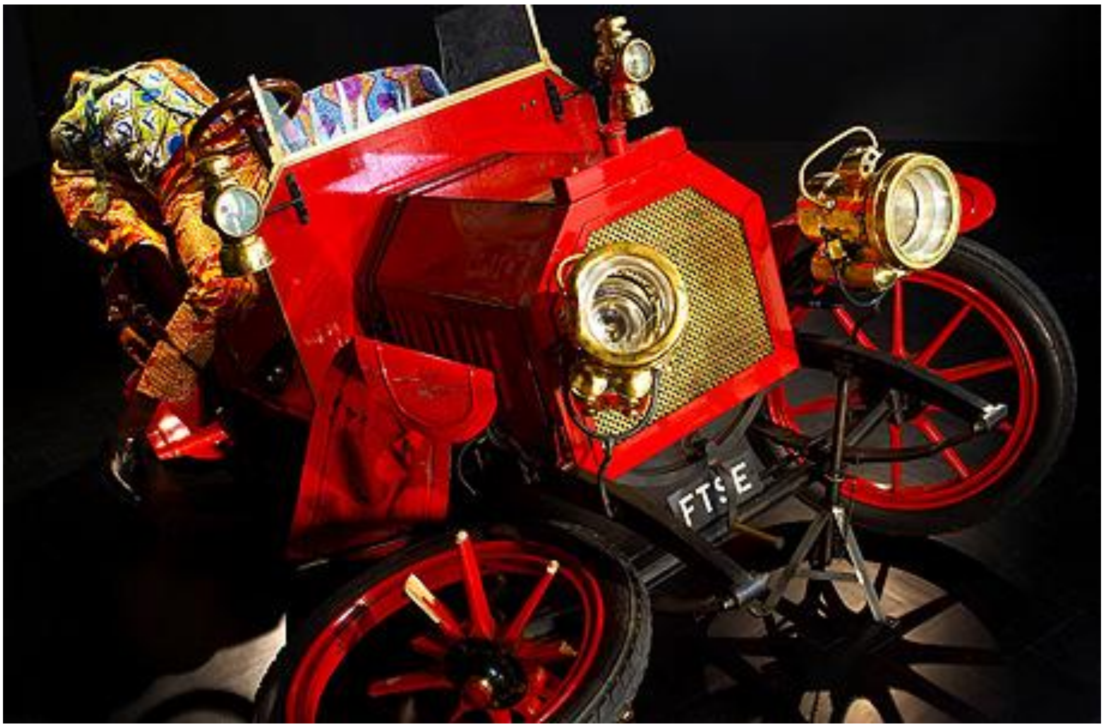
The Mei Moses® Fine Art Index does not include data on artwork purchased and sold by art funds "since we focus on auction houses, and the majority of funds are private and do not report their results", says Prof. Michael Moses, the inventor of the index, in a telephone conversation. "One should also keep in mind that contrary to the auction market that has billions of dollars in annual turnover, the funds manage several hundred million dollars, and therefore small amounts are involved." Contrary to his colleague, he says that he would not have joined this kind of fund.

Impressionism prevails

Last year, Impressionism and Modern art led the art market, averaging a 14% return according to the Mei Moses® Fine Art Index – and in general, these periods are considered a safe investment. These genres proved themselves decades ago when the first fund intended for investment in art was established in 1974 by British Rail. The company employees decided that year, when the British stock market was at its lowest point ever, to diversify their investment portfolio and invest 3% in iconic works by the greatest modern artists.

"The objective was to find an alternative investment that would achieve long-term returns with the possibility for a real return", says Shiri Benartzi, organizer of next week's conference, in which Picinati Di Torcello and Prof. Moses will speak.

By 1980, the British Rail employee fund had acquired 2,425 works with the help of experts, for 40 million pounds. The collection included “old masters”, oil paintings, works on paper and Impressionist works, as well as Chinese ceramics, medieval art, silverware, furniture and books. In 1987, it was decided to sell the artworks, mainly at auction.



Artwork by Nigerian artist Yinka Shonibare from the Tiroche DeLeon collection

At Sotheby's auction house, the Impressionists proved to be a great success, with 25 works selling for 65.6 million dollars. A work by Monet, for example, purchased in 1979 for $380,000 was sold for 9 million dollars – a fantastic return, particularly if compared to the stock market during the same period. At the end of auctions, the British Rail employee fund announced that the Impressionist and modern art works had been their only good investment. They suffered losses in the other categories.

Benartzi, who researched art investment funds during her Master's Degree at NYU, claims that following this experience, to this day most funds invest in these "safe stocks", which nowadays include Post War and Contemporary art by artists such as Damien Hirst and Jeff Koons, whose works sell for tens of millions of dollars. "As far as I know, Gil Brandes' Art Partners Fund does not invest in artwork valued at less than 250 thousand dollars", says Benartzi.

Art Partners, the only fund that has been operating in Israel so far, was established in 2007 by collector attorney Gil Brandes with other partners, including Hemi Peres of Pitango and Igal Ahouvi. The fund employs permanent art consultants as guides for the local and international art markets. The fund website shows artwork by Israeli artists such as Melanie Daniel, Shai Azoulay and Gil Marco Shani, whose values are much lower than the threshold noted by Benartzi. However, one can also find some international stars – works by whom sell for hundreds of thousands to millions of dollars. One of the works in the fund (owned jointly with the Engel collection and another private collection) is a grandiose work by Damien Hirst – *Tranquility*, which was exhibited about two years ago at the Haifa Museum. This work is made with butterflies and brilliant colors on canvas, measures over two meters in diameter and had an insurance value of 1.5 million dollars for the exhibition.

Brandes is unwilling to provide details on the fund, but sources in the field say that it was closed to investors three years ago, and is in process of selling all of its artworks. According to these sources, since many of the works were acquired in 2008, during a major slump in the market, there are big chances of making a profit. However, some works were sold for less than expected. It is known to Calcalist that Brandes is currently accepting investors for a new fund.

Optimism that is not risk free

One could say that Brandes' list, like that of most funds of this type, includes all of the right names in western contemporary art – successful artists whose work has already been acquired by important collections. Despite his focus on developing countries, Tiroche also makes sure to include works by well established artists.

The most expensive work in the collection is Forever Bicycles, a large installation from 2003 by the most talked about Chinese artist, Ai Weiwei, purchased for over 800 thousand dollars. However, the average price for works in Tiroche's collection is $50,000, with a large number of the artists in the collection being well established in their home countries but yet to attain worldwide reputation. For an art fund, this is a gamble slightly greater than usual. Tiroche demonstrates optimism that is typical of prosperous times and presents a robust philosophy that explains his investment rationale.

"Our strategy is based on Maslow's Hierarchy of Needs. This concept is borrowed from the field of economics, describing five levels of human well-being" he explains. "It starts with basic needs such as sleep, air to breath, and food and ends in the fourth and fifth stages which include esteem and self-actualization – needs that are related to status. In these stages, people start to acquire luxury goods: expensive cars, Gucci clothes and art.

"If one makes a connection between the fact that China, for example, has experienced 11% per annum growth in the past decade, and Maslow's Hierarchy, one can understand the incredible potential. Today, there are more billionaires in China than in the United States. All these people who have recently become wealthy have not yet reached those final phases of Maslow’s hierarchy of needs. Hence the great economic opportunity. We acquire today cultural icons from China and India belonging to a period which is very significant to the development of these countries, and we intend to resell them to these future collectors in ten years time."

Don't you think there is a moral problem here? This is almost deliberate stealing of cultural treasures intended to accumulate wealth?

"I don't think so because I am preserving these works. Moreover, I am buying them on the free market where anyone can buy. On the ethical level, I think that I am actually making a contribution to these communities, encouraging artists to create and sell their works, some of them at prices that are already quite high."

But of course, this strategy is obviously not risk free. According to the Deloitte Report, in 2007, the Indian art market turned into an art fund center, but a number of factors prevented additional developments in this market and impacted its profitability: India's economic regulator who came out against non-registered funds, the 2009 collapse of Osian, the largest art fund in India, and lack of growth in the art market. During that time funds were also established in South Korea, but this market was seriously impacted in 2007 by a number of international political scandals, and since then no other Korean investment fund was established.

The report is also cautious about the rise of the Chinese art market since 2008. The report notes that "it is unclear whether the current growth is sustainable in the long run". "We can expect stricter regulation if the government feels that these funds are speculative and have the potential to destabilize the art market."

The work of these funds is not limited to finding the most promising artists or in buying the important works at attractive prices – for that each fund has its own team of consultants advising on which works the fund should buy. The success of the funds depends to a great extent on the promotion and enhancement of the value of the works while they are in the funds' possession. Some of this enhancement occurs in a problematic way, referred to as 'flipping' in the professional jargon.

"Sometimes there is a hype around a specific artist, causing his/her works to sell at auction for much higher than his gallery prices", Tiroche explains. "There are dealers who buy the works of these artists in galleries and they immediately put them up for auction so that they can make a profit on the difference, which could amount to high percentages for a living contemporary artist. "This kind of flipping is generally done within two years at the most. Our intention is to sell the key works in the fund only seven or eight years from now."


Serge Tiroche


Michael Moses


Adriano Picinati Di Torcello


Serge + Russ DeLeon

Artwork that is exhibited – makes a profit

A much more accepted and common tactic used by the funds is the policy of loaning to museums, with a simple logic behind it: every important museum exhibition where an artist's work is on display increases the artist's value, and the more works that the fund can have on display at important exhibitions, so would the value of these works increase. Similarly to other funds, Tiroche's collection is held in various warehouses around the world from which the works are shipped to be important exhibitions. "We have a network of relationships with professional art handlers and warehouses, which makes it is easy for museums, galleries and artists to borrow artwork from us, as we are experienced and skilled at that", Tiroche explains the advantage of funds over private collections. "We also buy large scale works and installations that are most suitable for display in museums."

We currently have 15 works from the fund's collection on display at large museums around the world. The work by Ai Weiwei, which is stored at a warehouse in the United States, will be on loan to four museum exhibitions – in Denmark, The Netherlands, Louisiana and Washington – and will therefore be mentioned in more and more catalogs. This will naturally increase its value.

Isn't this actually "cornering" of an art work?

"This is definitely not like cornering of a stock, where an investor buys the majority of the stock and then floods the market with demand but does not sell, creating an artificial increase in the price. In the art world, one cannot hold all of the works, and when it is a living artist, he/she keeps producing new works. All you can do is promote, enhance and influence."

The bicycle installation was produced in several copies. How did it happen that your copy of the installation – No. 3 of 5 – had such demand?
Tiroche: "This is one of the things in which I specialize – that our work will be loaned to important exhibitions. I stipulate it at when the artwork is acquired. We will have six works from the collection on display at the Tel Aviv Museum of Art in May, at an exhibition on contemporary art from India, curated by Tami Katz-Freiman."

Do you provide financial assistance to the exhibition in exchange?

"I am not answering this question. I can only say that it is due to the artwork itself."

The future: Regulation and the Internet

Some view the art funds as a passing trend that is not quite safe. "One should keep in mind that this field is interesting and sexy but it is not a regulated market and is based on tastes and trends that are not absolute", says Benartzi. "The possibility to turn the investment into cash does not exist on a daily basis but only during a number of sale events a year, and therefore, realization is not immediate, even if many banks provide loans these days against art works. Art has become an asset that is being recognized, but the market is still in its infancy and one should study it carefully."

Picinati Di Torcello believes that the market will continue to grow due to a number of factors. One of these reasons is increased regulation, so that investors have greater trust in the funds. In addition, this field is developing in several directions that provide a framework for these funds. In the United States, two non-profit organizations have been launched that provide a significant amount of information on various investment funds, Artfa and the Art Investment Council. The variety of funds will also increase and expand into additional fields.

One example is SplitArt, which is scheduled to open in Luxemburg soon and is managed by Dror Chevron, an Israeli that worked for the Budget Department in the ministry of Finance. The company operates an internet platform that will enable investors to buy shares in important artworks auctioned on the website. Muly Litvak, owner of the internet porno empire and his sister, economist Anat Levy, are among the people behind this company.

The only mystery is what connection there is between this and the love of art. "This is not an alternative to self collecting. It is not a replacement, it is in addition. And in my opinion, there is nothing wrong with that", says Tiroche. "The art world is opening up to this idea, and more and more it understands that this is what feeds it, encourages creativity and provides employment."

"It is important to know that these funds are intended for people who view art as an investment only", says Benartzi. "They make it possible for you to enjoy the returns of the art market without having to study it in depth. However, they lack the passion of enjoying the art for its own sake."