

INVESTMENTGAB

# HOW & WHY TO INVEST IN ART

By Lisa Jacobs



Investing in art is a great idea if it's something you truly love or if you also like investments that are not linked to stock markets or world economies. Of course, like all investments Art can be risky, so you need to do your research.

The art market has become one of the hottest new investment offers and painting or sculpture collectors frequently buy pieces with an eye towards adding to their investment portfolio.

But will art investment really earn you a profit?

### How do art investments work?

If an up-and-coming artist goes on to a successful career, the cash value of their work will skyrocket. An Art Basel annual report estimates global art market sales reached over \$67 billion in 2018.

Profits from art won't happen overnight. Experts recommend art investment for patient investors with **a time window of 10 years or more**, so think long term.

Many art investors include paintings in their estate planning as assets to pass on to their descendants.

### The art market follows rules of its own

One major perk of art as an asset is that its value doesn't rise or decline with the stock market. Even if your stocks aren't performing well, your art investment may be doing great—good news for the savvy investor who wants to diversify a portfolio and minimize risk. And ideally, though not always, art will continue appreciating in value over time.

### Art is risky

Every artwork is unique, and the art market has ups and downs just like any other market.

Since it's impossible to determine an artwork's true value—a lot depends on the artist's reputation and on the economy as a whole—you should be comfortable assuming some risk.

### How to invest in art

Start by deciding how much money you're prepared to spend. It should be an amount you can afford to part with in case the artwork depreciates. Don't forget to factor in possible storage and maintenance costs.

Then learn as much about the art world as you can. Visit local galleries and see what they have to offer; chat with curators, who will usually be eager to answer any of your questions.

If you live in or near a city, you're probably close to gallery openings and art fairs, where up-and-coming artists tend to showcase their pieces.

Browse sites like Artnet and online auction houses like Sotheby's to get a sense of how the market works.

Once a piece or artist catches your eye, you can start narrowing down your research to see how much a particular artwork costs. The app Magnus provides up-to-date pricing information for potential investors – take a photo of the artwork and they'll tell you the details. Your next step is to get the artwork appraised by a professional appraiser to determine its quality.

You can either purchase an artwork yourself – often the costlier option – or buy shares in artwork through an online marketplace.

Since this is the information age, plenty of high-end artwork sells online. But before you buy over the Internet, make sure you're purchasing from a legitimate gallery, dealer, or investment firm.

### Masterworks

Grove Art is a great option, especially for the novice art investor because they do most of the work for you, buy paintings and sell shares to investors, keeping you updated on the investment as it progresses.



They are similar marketplaces include Maecenas (where you can buy shares in paintings) and Saatchi Art (where you can browse and purchase directly online).

## What to know before investing in art

### It should only be a small part of your portfolio

For most people art will be only a small fraction of a well-rounded investment portfolio. You may profit, but you're highly unlikely to get a huge payout from art alone.

Think of it like a real estate investment; extra, not essential. Don't rely on an art investment for steady income. And don't forget you'll be paying taxes on any gains, since the IRS considers art a collectible.

It's important to remember art is a non-liquid or illiquid asset. This means **it's difficult to convert into cash right away**.

Liquid assets, like stocks, bonds, and savings accounts, can produce cash more easily. Illiquid assets, like real estate and art, take much longer to sell even if they have great monetary value.

Though it's possible to sell your art, most investors don't. An auction house, your best bet for selling, often charges hefty fees. Since art prices fluctuate regularly there are no guarantees selling will earn you a profit.

### When should you invest in art?

Here are some signs the reward might outweigh the risk.



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The advertisement is a poster displayed in an art gallery. It features two artworks: a dark, textured sculpture on the left and a painting of a man in a straw hat on the right. The text is bold and black, with a prominent yellow button for more information.

### **You enjoy art**

Most art investors start out as collectors. If you love going to galleries and you're already on the lookout for a great piece to add to your home, turn that appreciation into an asset! But if you don't like art for its own sake, other investment options will serve you better.

You don't have to be a collector to start investing in art. You can keep your investments to just one or two pieces. But knowledge of the art world—or working with someone who has this knowledge—is key if you want to pick winners.

### **Earnings would be great, but you're not counting on them**

The best approach to art investment? Consider the aesthetic pleasure first and the financial benefits second.

Welcome any profits, but don't plan your financial future around receiving those profits. Any money earmarked for retirement, for instance, should go into other assets. In fact, one Stanford study says art is unlikely to improve any portfolio. Bottom line: don't invest anything in art you can't afford to lose.

### **You're willing to research**

That said, art investors can pick pieces with great long-term value. But enter informed, just as you would be if you invested in the stock market.

Start by researching the artist of the work you're considering. Ask the following questions:

- Are their pieces included in any museums or famous collections?
- Have they won awards or gained other recognition for their work?

While up-and-coming artists can be exciting, their reputations may or may not last. And this will affect the value of their piece.

### **You can afford the maintenance**

Art investors get to control their assets, which can be a bonus. But you're responsible for keeping the artwork in pristine condition, which means monitoring factors like humidity and sunlight.

If you display the artwork you'll have to make sure it maintains its original quality. If you put it in storage you'll pay for that as well. Add insurance costs and the price of an authenticity certificate, and your maintenance bill adds up.

### **What to look for when buying art**

The art world is broad, so to narrow down your search, pick a genre or time period that interests you. Then find an expert to help you look.

We recommend working with an art advisor or an investment company specializing in art (we've listed some options below.)

Having someone in your corner helps when it comes time to determine the fair market value of an art piece, making sure you get your money's worth.

Once you've found your area of focus, know what kind of piece you're buying.

- **Originals** or one-of-a-kind works of art come with the highest price but the greatest potential payoff.
- **Prints** or copies are more affordable but less likely to turn a profit. The best quality print is known as a giclée (zhee-klay). It's similar to the original work than other prints, but also more expensive. As a rule, rarer prints are more valuable. One print from a small number of limited editions will have more value than a print with many copies floating around.
- **Reproductions** are mass-produced copies without a limited run. They're the most affordable option, but they're also worth the least. You probably won't see any profit from a reproduction.

No matter what, look for quality and good condition. Especially for pricey investments, it's worth spending the extra cash to get an appraisal.

## Where to look for art

Galleries, museums, auction houses are great options. Research any galleries beforehand to learn as much as you can.

Auction houses where you can bid on art are a more intense environment, but you can score a masterpiece if you're lucky. Be aware auction houses often charge a buyer's premium in addition to the sticker price.



### Is fine art a good investment?

At the end of the day, this question really depends on your personal investment goals.

If you want guaranteed returns on the money you invest, or if you don't have much money to work with, you're probably safer skipping the art houses and sticking to liquid assets. Brand new investors should also give their portfolio plenty of time to mature before taking the leap.

But for seasoned, confident investors who are enthusiastic about art—and who have extra funds to cover the costs—an investment in a painting or sculpture can be an exciting way to diversify a portfolio.

### Summary

With an eye for art and a willingness to take a little risk, a new or experienced investor can find art investment incredibly rewarding. Though it should only be part of your overall portfolio, art can round out other investments nicely.



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