

Painting a different picture of the value of art investments

By Elizabeth Wine in New York

Collectors trying to gauge the investment performance of their paintings using new fine art indices are wasting their time, says one fine art consultant.

The trouble stems from holes in the data used to construct the most recent art index, the Mei/Moses fine art index, says David Kusin, who runs his own art consultancy in Dallas. The Mei/Moses index was announced in May amid claims that, over time, artworks outperformed government bonds as an investment.

The index, named after the two academics at New York's Stern School of Business who created it, is based on the prices artworks have drawn at public auction in New York since 1950. But Mr Kusin says this is insufficient data to chart the state of the art market.

The Mei/Moses index does not cover works sold by private dealers, he notes. It also does not account for the artworks that are placed on the block but do not sell.

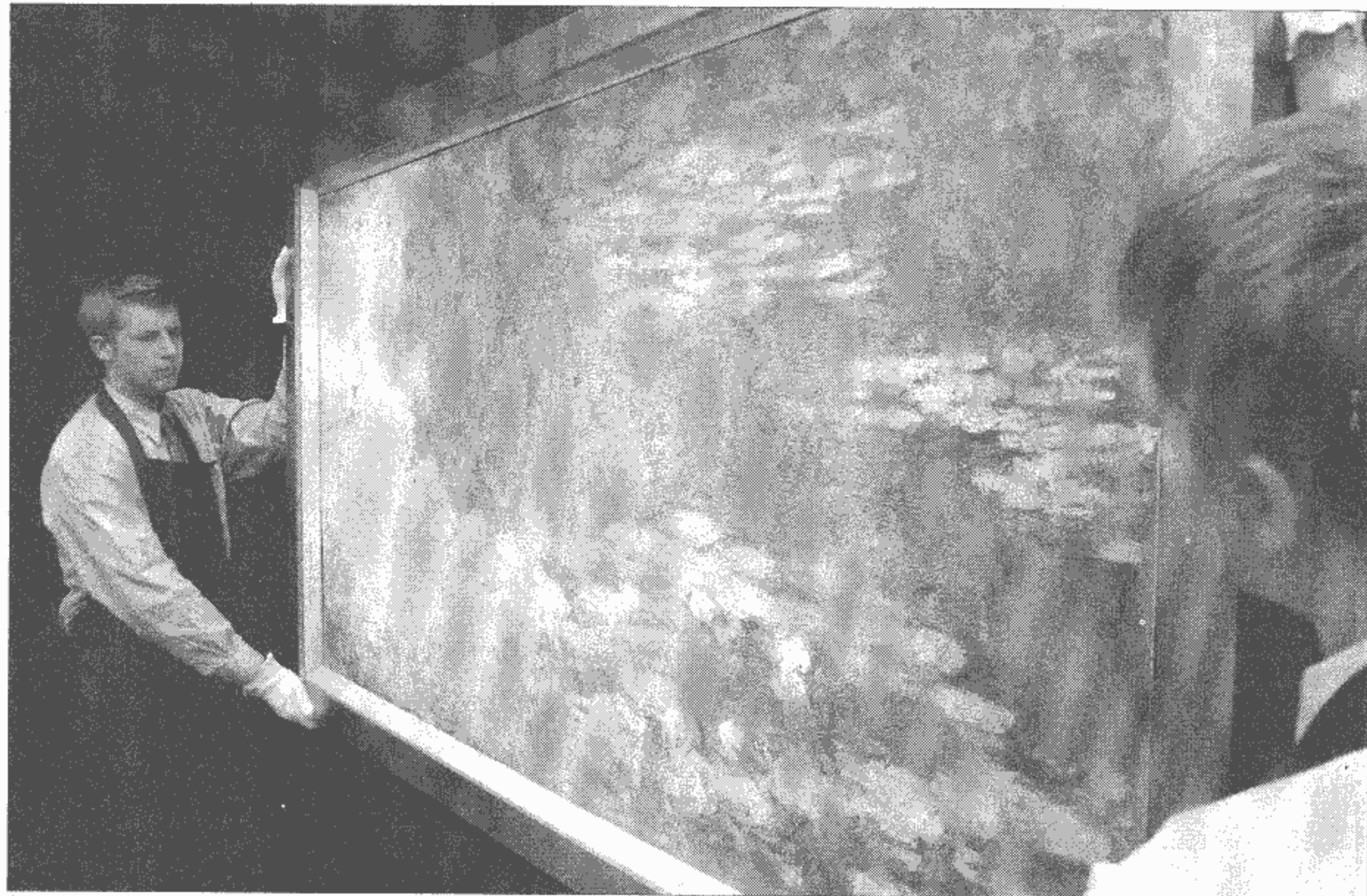
Michael Moses, one of the index's creators, defends his index as an accurate representation of the New York

auction market, which he says, provides a "not insubstantial amount of data". Prof Moses and his colleague, Jiangping Mei, tracked the sales histories for 5,000 paintings sold in New York, mostly by the two largest auction houses, Christie's and Sotheby's. Some were traced as far back as 1875.

Prof Moses also defends omitting works that did not sell. "Just because something doesn't sell, we have no idea what its return would have been to the investor."

He gave an example of a piece of art bought for \$100. "Say I put it up for auction at \$1m, with a reserve price of \$900,000. Say it doesn't sell, but I could have sold it for \$850,000. That would have been phenomenal. For the unsold pieces, we just haven't been able to find a price where a willing buyer and a willing seller could come to terms."

He added that some of the most watched indices, including the Dow Jones Industrial Average and the Standard & Poor's 500, are subsets of an entire share market. They are not criticised by investors for



A Monet ready for auction: prices for French Impressionist paintings may have begun to surpass their peak in 1989

Malcolm Watson

being an unrepresentative sample.

But Mr Kusin has criticisms beyond the Mei/Moses index's lack of unsold pieces. He says every piece of art carries its own likelihood of selling, called the risk function. He says the Mei/Moses index overlooks this.

"What this particular index does is give the misleading impression that everything sells when it goes for sale," he claims.

Mr Kusin calculates the risk functions for artworks for clients, whether or not the piece has been up for public bid or even up for private sale in recent years.

To do this, his firm collects data from public auc-

tions as well as from secretive private dealers, who co-operate in return for data on areas outside their own expertise.

With this much data, Mr Kusin says his firm can figure out precise risk factors for virtually any painting, as well as a fair pricing range.

He claims western European governments and European royal families as clients, for whom his group has calculated values for paintings that have not been in the market for centuries.

"We have found that a distinct risk profile can be constructed for each artist whose works trade at auction - and the likelihood a particular artist will or will not sell.

"If we look at specific paintings by the same artists that the Stern people look at, we come up with reality."

Another criticism he levies at the Mei/Moses index is that its grouping of paintings into three sub-indices - American paintings, Impressionist and Modern paintings and Old Master and 19th century paintings - is too broad to represent investment returns accurately.

According to Mei/Moses, Impressionists have been erratic performers, up about 11 times since 1941 but down 12 per cent from a peak in 1989.

Mr Kusin's cataloguing system contains 100 categories, and it suggests a subtler picture for the Impres-

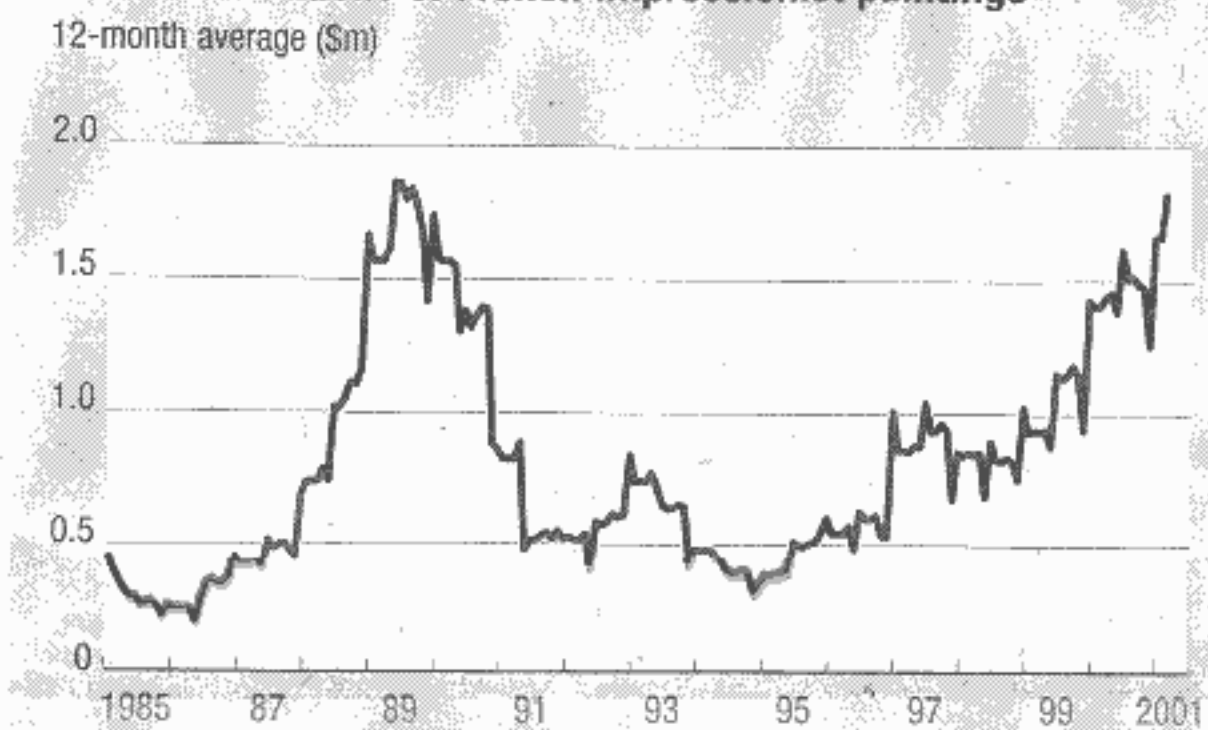
sionists, which he describes as a very good "reservoir of wealth maintenance".

His data show that, on average, the prices reached by French Impressionist paintings, some of the most inflated during the period of the bubble, have already begun to match their previous peak in 1989.

He says that with fine art, as with some arcane asset classes, investors have to hold on for decades to get a good idea of an object's worth.

"We strongly advise people against regarding art as an investment... The holding period must be from 30 to 40 years - from one generation to the next. You need to think in those terms."

Auction valuations of French Impressionist paintings



Source: Kusin & Company