



ACADEMIC ACCESS: INVESTING IN ART

The mid year, 2005 to 2006 annual return in the Mei Moses Semi Annual All Art Index of over 22% is surpassed only by the returns in 1999 and the art bubble years of 1987 through 1990. **The result significantly outpaced the 8.3% increase of the S&P 500 total return index in the same period. It is for the first time, the most recent 5 and 10 year returns for art 11.3% and 8.5% respectively, have exceeded the returns of stocks 2.5% and 8.3% respectively** says Michael Moses who has developed the Mei Moses index with fellow professor Jianping Mei, at the Stern School of Business, NY. Moreover, based on their research, they have been able to establish that there is a low correlation between the semi annual percentage changes in art (the Mei Moses Art Index) and stocks (S&P 500 TR) Indices since 1961. This indicates that art should play a positive role in portfolio diversification says Moses.

What is the significance of repeat sales data?

The result of Christies and Sotheby's New York based auctions last spring yielded an additional 540 repeat sale pairs to our database - which now contains 9500 pairs. Using a subset of this data, for pairs with an original purchase date after 1960, gave us enough data for each 6 month period to allow the creation of the Semi Annual All Art Index. The data is compiled from the four major collecting categories: Post War and Contemporary, Impressionist and Modern, Old Master and 19th Century and American before 1950. However, we do not have sufficient data to create semi annual indices for all collecting categories. We could use the new information to estimate annual results in the other four categories, *under the assumption that the spring data comprises the entire data set.

Is a repeat sale index superior to an average price index for determining the returns of heterogeneous goods?

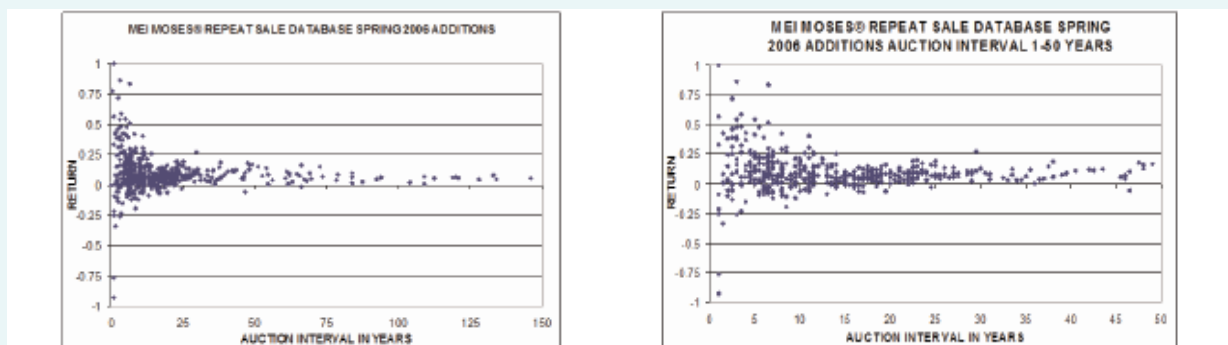
Indices derived from the repeat sale database have less volatility and provide a closer approximation of the true returns from the purchase and sale of the underlying objects than average sale price indices. Moreover, the repeat sale database is comprised of actual returns from individual transactions and thus can be used to determine how exogenous factors, such as holding period and purchase price, affect these returns. That analysis cannot be performed using an average price data base that contains only sale price information without an associated purchase price.

Is the market for post war and contemporary art becoming over heated?

For 2006 in those categories, (*based on the assumption) the most striking result of our analysis was -

- ***The post war and contemporary index would have grown by over 55% on an annualised base in 2006***
- ***The impressionist and modern market also would have been strong, with an annualised return of 12% for 2006***
- ***In contrast, the American and Old Master returns would have been only slightly positive and slightly negative, respectively***

This analysis backs up the view of many art market participants that the market for Post War and Contemporary Art might be becoming overheated.



A frequently voiced concern is that art is an appropriate investment only for the super wealthy.

One reason for this is the expectation that the highest returns might only be achieved by the most expensive works of art. To simply address this issue we plotted the returns vs. purchase price for the objects to their data base this spring. To improve the visual image of the charts (refer to above) we have included only items with returns in the -75% to +75% range and purchase prices less than the USD1million. The trend line in this case is approximately flat and would not be significantly changed by the inclusion of the deleted data.

The mean return for objects with a purchase price of less than USD 1 million is 10.4%.

While for objects whose purchase price was USD 1 million or greater it was 7.57%.

This data has not been adjusted for the length of the holding period, but the results conform to our prior research where this information is included. **High priced fine art underperforms and Low priced fine art outperforms the art market index.**