

ART: OLD MASTERS

A Square's Art Series with Philip Hoffman.¹ - II

Focus: Old Masters

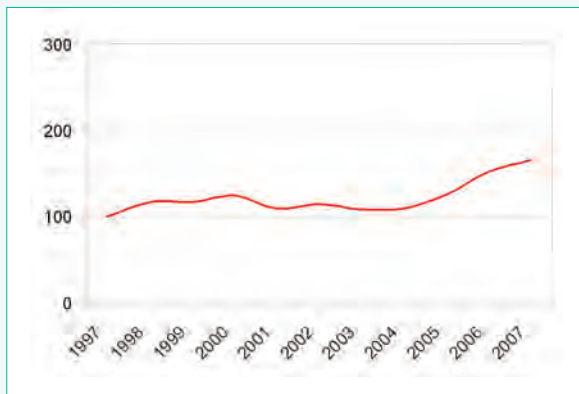
Description: Old Masters is the blanket term for works by the highest echelon of European artists that were produced circa 1300-1800. Artists were extensively trained in the professional workshops of other artists, often working with family members, and were highly dependent upon individual patrons to commission works. (This is in contrast to today's gallery network of artist promotion!) During this long period, the strongest regional movements were consistently in Italy, and in what is now the Netherlands. There is an equally strong market for Old Master works on paper, including drawings and prints, but the main market focus is still paintings. Renowned Old Master painters include the Italians:

- Michelangelo, Leonardo da Vinci, Titian, Raphael, Tintoretto, Veronese and Caravaggio
- The later Italians Canaletto and Bellotto, as well as
- The Dutch and Flemish painters Rubens, Vermeer, Bruegel, Frans Hals, and Rembrandt

• The world record price for an Old Master painting sold at auction continues to be held by Ruben's painting *Massacre of the Innocents*. It sold at Sotheby's London in 2002 for a record sum of GBP49.5mn*. Currently on display at the National Gallery in London, this painting had been 'lost' since the 1920's and unleashed frenzy on the market with its reappearance.

Strengths of the Old Masters Market:

- Prices for paintings of great skill and historical importance are still considerably lower than those painted by artists of this century
- The Old Masters market is much less popular today than the Contemporary market - hence there are fewer buyers fighting over the same works, and prices do not rise to the same heights
- This market works less on trend, and more on a simple equation of supply and demand
- As more works of high quality are purchased by museums and institutions, there are less and less quality works on the market, and the remainder steadily rise in price
- The steady upward gains achieved by this market act as a perfect foil to the more volatile Contemporary market when compiling an art portfolio or when one chooses to invest in art via a fund vehicle



• This market has shown steady growth over the past decade, as illustrated by the adjacent graph (courtesy: Dr. Rachel Campbell, Assistant Professor of Finance and an art market analyst at Maastricht University)

Graph shows: 100 EUR invested in 1997 in the Old Masters has risen to 180 EUR over the 10 year period (Data source: Art Market Research)

Weaknesses of the Old Master Market:

- Works of highest quality tend to remain "off" the market - (tend to be displayed by museums)
 - Very rarely do 'fresh' works come to the market and when they do, they command top prices
 - Condition and title are very relevant issues and must be taken into consideration in all purchases and sales
 - Proving authenticity of works can be extremely difficult owing to the dissenting views held by experts
 - Only works of highest quality consistently sell for top prices.
- Works by lesser artists and less important works by top artists have yet to see significant gains in price and can affect the overall tracked performance of an artist
- The market moves much slower than the Contemporary market, with fewer globally important auctions and art fairs.
 - In comparison to the more than 25 important Contemporary art fairs, there are less than 5 important Old Masters fairs - the most important, the TEFAF in Maastricht, has since allowed sale of Contemporary art works in order to attract more buyers
 - As the market moves slower, and a longer hold strategy is crucial to cultivate potential price increases in a collection

Opportunity:

- Discovery of an unknown or lost work by a master, such as Rubens painting mentioned above
- A portfolio of lesser known Old Master painters may appreciate in value as works by top tier artists are scarce; consequently art historians and museums will start re-evaluating the worth of works left on the market
- Adding Old Masters to a wider art portfolio, including Impressionists, Modern Art and Contemporary, adds to diversification within the art market
- This market is more robust when compared with other art markets

Threat:

- An art market crash, although this sector is less speculative than others
- A financial market crash, although it should be noted that art has a very low, even negative, correlation to other traditional asset classes

Risks involved:

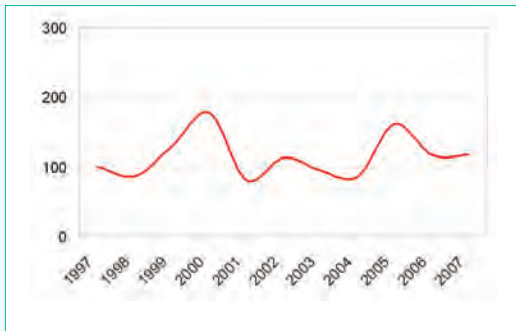
- Theft/ Damage/ Provenance/ Title issues are more important than in any other sector
- Condition issues are common and works need to be inspected by leading experts
- Provenance and title need to be carefully obtained, as works could potentially be 'Nazi war loot'

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- The Art Loss Register is crucial to determine if something has a claim or has been lost or stolen
- Authentication of a newly discovered work can be near impossible
- As with all sectors of the market, getting caught in market inefficiencies, i.e. transaction costs via galleries and auction houses
- The hold rate could be longer than anticipated owing to non market movements

Performance:

- With proper due diligence and market experience, the above risks can be minimised and/or avoided
- As with all sectors of the market, artist performance can be tracked using a wide array of information, including art indices that are based on auction records, an artist's rate of production, exhibition history in both galleries and museums, which collectors/ gallerists /museums buy and/or promote the work, and most of all, supporting market intelligence



• Graph depicts:

For example, Dr. Rachel Campbell tracked the market of **Giovanni Antonio Canale (Canaletto)** (1697-1768), an Italian painter who was famed for his views of Rome, Venice and England. On average, 100 EUR invested 10 years ago in 1997 would have a value of only 110 EUR in February 2007 (Data source: artprice.com)

- This mere increase over the ten year reflects that not very many great works by **Canaletto** were on the market, but as when and if they did show up (such as in 2000 and mid-2005) they evidenced a sharp spike in price
- An exceptional painting by **Canaletto** will fetch an exceptional price (auction record stands for a painting in 2005 which sold for GBP18.6 mn at Sotheby's London), whereas an average work (perhaps with condition issues, or if it has been previously on the market) will not.

Forecast:

- For works of great quality, provenance, and condition, painted by the most important artists, there is always going to be a potential for investment. Due diligence and expertise are crucial to determine this
- The market should continue with steady growth and more people will turn to this market to buy paintings of lasting value and beauty, as more and more people become disillusioned with the mounting prices of the Contemporary market

Comments/remarks:

- Lesser known museums to visit
- The Frick Collection, New York, NY
- The Wallace Collection, London

1. Philip Hoffman is founder of The Fine Art Fund, which is still the only global art fund of its kind, and has since expanded into The Fine Art Fund Group Ltd, which consists of The Fine Art Fund I, The Fine Art Fund II, The Chinese Fine Art Fund, The Indian Fine Art Fund & an art advisory arm, FAIR (Fine Art Investment & Research)

(*All prices are approximate and if sold at auction include the buyer's premium)