

Art Investor by D. Stephen Pepper

The key to collectibles

An expert provides some of the initial elements of a guide to successful investment in works of art.

Over the last few years, articles advising individuals to invest in art have been appearing in mass-circulation magazines—from *Fortune* to airlines' courtesy publications. These articles make the point that art prices have increased more rapidly than any other so-called commodity.

This is true. A recent confidential study by Sotheby Park-Bernet, the world's largest auction house, documents the fact that art prices for old master paintings (paintings executed before about 1830) have increased in value over the last 10 years more than the equities markets in either the United Kingdom or the United States, and have advanced well above the inflation rates.

But what these articles fail to make clear is that to invest successfully in collectibles, particularly the fine arts, requires great knowledge and international connections. In this and future columns we will provide our readers with some basic pointers to orient the collector or investor. But let me sound a caution right now: no column can provide the specific information regarding a particular work of art needed to judge its value—either in money or aesthetic terms.

First, let's understand what we are referring to by fine arts collectibles. Throughout the more than ten thousand years of recorded history,

every civilization has produced a special class of artifacts in which the skill of the artisan has been raised to a level of emotional and intellectual intensity that calls forth a special response. There has always been a brisk trade in these items over the centuries. But today there is a new twist. Investors, as distinct from collectors, have become involved because works of art are now perceived as hedges against inflation, that is, their value, based on annual art auctions, is appreciating faster than the rate of inflation. This is accelerating the appreciation of works of art, resulting in inflated values for minor works, or art to feed the need of hot-money-seeking investment.

The best example of this phenomenon is the rapid rise in the prices of 19th-century European sentimental genre paintings. Every subject from drunken cavalry officers to prepubescent children holding hands has fetched record prices at such highly respected auction houses as William Doyle Gallery in New York and Butterfield & Butterfield in San Francisco.

In contrast to this speculative bubble, however, there is a sound basis for appreciation of the value of selected works of art. These objects, in truth, represent very precious assets. Their value is part of the values of our civilization, and short of a total, massive devalua-

tion of all the assets of our civilization (not impossible in these perilous times), such works of art must appreciate over time.

So it is to this class of works, historically mature, that the investor, as opposed to the speculator, should turn. The investor must ask the following questions: are these works aesthetic? are they in good state of preservation? are they sufficiently representative of the particular class of works to which they belong to convey its historic significance?

For example, an artist such as Rembrandt is so significant that even a tiny scrap of a drawing by him has great value. But the same is not true of a follower of Rembrandt's, such as Govaert Flinck. There the collector or investor must show judgment. Since authentic works by Rembrandt are now so rare, his followers have become the objects of attention.

This is valid to the extent that they genuinely reflect the tradition. To be a true student of Rembrandt is itself a notable achievement. Hence we have a criterion here for judging the value of the work: how important is it as a creative effort that participates in the Rembrandt tradition? On this basis one can make relative value judgments among a class of works, and then test their values in market terms as reflected in auction prices, etc.

In my next column, I will give *EIR* readers a case study of a valuable art-work transaction to make the present discussion more concrete.

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