

## Art Investor by D. Stephen Pepper

### Time, place, and prices

*A case study of an Italian painting whose resale value quintupled in a six-month period.*

**T**o invest successfully in fine arts or collectibles, the investor who has the widest knowledge of the field will always come out ahead. The most efficient way to provide this overview for the reader is to trace a successful transaction.

A very important painting by an Italian master of the 17th century appeared on the art market in Switzerland six months ago. This painting belonged to the class of works of art that represent precious assets of civilization in world terms, in contrast to the current "speculative bubble" of hot money seeking investment in objects of no enduring worth.

The painting obviously came out of a private collection in Italy, but because of the export restrictions on old works of art in Italy, its source was not revealed.

Italy requires export licenses on all paintings and charges an export tax based on a percentage of the sale price as listed by the exporter. If the exporter should put down an artificially low figure he runs another risk. The Italian government can stop any painting from export that it chooses, and can acquire it at the listed price. To further discourage the exporter, the customs officer will often allow a painting to languish for months before an export license is issued. The predictable result is to encourage clandestine export of works of art.

A second law governing works of art in Italy is considerably more important. This is an old law, re-

newed in the Fascist era, which establishes a list of national monuments for which export is a criminal violation (violation of the first law carries only a fiscal penalty). Therefore, the prudent dealer or collector will always ensure that he is not involved with a painting that has been "notified," as these listed paintings are called.

In the present case the painting was unknown and clearly not "notified." One of the results of the Italian laws is that a class of paintings in Italy is considerably less expensive than the world market price for them, so that if they can be bought near the frontier, as it were, they can be bought exceedingly well. One cannot do this long-distance, but only on the spot, and one has to assess the quality of the work for oneself; the Italian dealers involved in such trade function as feeders to large international centers such as New York and London.

Since the time of Bernard Berenson and before, Duveen and Colnaghi's benefited greatly from this trade. Therefore, to intercept the market at the point of entry where the painting is freshly available in Switzerland is advantageous. Since it is a fast turnover trade, it does not allow for drawn-out negotiations.

This particular painting was bought for \$60,000. It was offered in London to a major American museum at \$175,000 and was considered inexpensive for the artist. The museum eventually turned it down. The reason had to do with

the condition, that is, the physical state of preservation of the work.

Note that when a painting is offered to a museum, one finds that to complete a sale one has to treat not only with the director and the curator, but also with the museum's restorer and its board of directors, so that in the end one is dealing with 6 to 10 persons, all of whom have to agree on the purchase. This explains why museum purchases usually require protracted negotiations. Only the large London and New York dealers can afford to be tied up so long.

The present painting is a case in point. After the museum rejected the work, it was immediately sold to a New York dealer for \$100,000 cash plus a third interest in the eventual resale. Since the painting was now priced at \$300,000, this meant that the total value of the transaction would eventually be \$165,000. The painting is now being considered by a major museum for \$300,000.

Clearly, the earlier an investor is placed in the chain of events, the better. We also see that the museum market is extremely unreliable. Often, a museum director will prefer to offer its board a painting for \$300,000 rather than \$150,000, especially if it comes from one of a half-dozen dealers. Therefore, it is important to have the option of selling at a profitable margin to a big dealer in this vertically oriented business. This depends upon how well the work was bought originally.

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