



Who says you have to be Donald Trump to be a big-time art investor? Follow these simple rules and, who knows, in a few years, you may be the next Donald Trump. By Tracy Staton

## Art Buying 101

HERE'S A SCENARIO: Russian oligarchs drive up to an art showing in limos. Mixing and mingling, they size up contemporary pieces set for auction by Sotheby's. Cyrillic boldfaced names are abundant. Look, there's Daria Zhukova, the heiress and companion of billionaire Roman Abramovich,

who happens to own a British soccer team and is building the most expensive house in the UK. Is she here to scope out paintings for its walls?

Apparently so. At the May 14 sale, Abramovich paid a record \$86 million for Francis Bacon's *Triptych* — on top of the \$33.6 mil-

lion he'd spent the day before at Christie's for Lucian Freud's *Benefits* Supervisor Sleeping.

Just another day in the high-flying world

of art investing, right? Well, no. That Sotheby's auction was a record setter, its \$362 million haul so stunning that the auction house's chief executive wandered the room in a daze afterward.

But to read the popular press, it's these multimillion-dollar purchases that define the art world. Buyers are either megarich or so well educated, so in the know, they can afford to plunk down their life savings on a painting, because it'll double in value in five years. Little do most people realize that most art collectors buy on a budget, and their small-time purchases tend to outreturn high-profile sales.

"The whole notion in the art market is to buy masterpieces," says Mike Moses, the cocreator of the Mei Moses art indexes, market indexes that track auction sales. "That is not the case. It actually turns out that masterpieces underperform the market and low-price works perform the best."

Moses isn't talking about a painting you'd buy at a starving-artist fair because it matches your sofa, though. He's talking about serious pieces, acquired by people with their brains in the game, as well as their skins. He's talking about investing in aesthetics — and no, that's not an oxymoron.

This investing game has its own rules and procedures, and it's not for the dilettante, because following the rules takes a lot of work. It's not for the timid either. Truthfully, it's not for the type of investor who keeps daily or even monthly track of his portfolio; nor is it for the type who buys on a whim or a tip and sells at the slightest sign of weakness. And if you don't really love art, forget it. In the realm of art investing, the cool heads, good eyes, and warm hearts prevail.

#### **RULE NO. 1 FIND YOUR NICHE**

The world of art is big — global, spanning centuries. You can't be an expert on all of it. So, decide which sliver you want to delve into, and dig deeply.

Yes, it's much easier said than done. Picking a period, a geographic region, perhaps even an artist or two to collect takes a lot of strolling through museums and galleries. You have to look at art, then look at more art, and then look and look and look again. Eventually, you'll figure out which styles draw you; you'll find yourself tilting your head in front of a particular artist's work over and over. That's when you know.

"Too many people buy too fast," San Francisco art consultant and appraiser Alan Bamberger says. "The more you see, the better your eye gets. ... Eventually you say, 'I like floral still lifes by women artists who painted in California in the first half of the twentieth century.' Generally, you get that narrow. The more experience you have, the more narrow your focus gets."

#### **RULE NO. 2 ASK QUESTIONS**

Shift into fact-finding mode. Learn about

the artists you like. If they've been shown at curated galleries, track down the catalogs from those exhibitions. Look them up in Who's Who. Query dealers who've handled their works. In the end, you'll want to be able to identify your pet artist's representative work, reputable dealers who traffic in it, and an assortment of sale prices, both retail

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(at a gallery) and at auction. How much of your favorite artist's last show actually sold? "You have to fish around and see how much of a going concern an artist is," says Bamberger, who's also author of *The Art of Buying Art*.

Do the same in researching dealers. Hint: If a dealer offers you only a certificate of authenticity, pass on it. "You may want a letter from an expert saying the art is real," says Howard Rehs, owner of New York's Rehs Gallery and president of the Fine Art Dealers Association. "Our guarantee of authenticity is noted on our invoice and states that we stand behind the works we sell for as long as the buyer owns the piece."

And don't be afraid to question the list price. Ask whether the dealer can show you comparable works that have sold at similar prices. "When you find a seller who's offended at that question, it's a good time to walk away," Bamberger advises.

#### RULE NO. 3 BUY THE BEST YOU CAN AFFORD

The trick to getting a work of art that might be a good investment at a price you can stomach lies in mining that intersection of quality and price. And here's where your niche comes into play. It makes no sense to target a really high-profile artist's work if your budget is, say, \$5,000. You might be able to buy a piece bearing that person's signature, but it won't be the sort of artwork with lasting value. "If your budget won't allow you to buy a great painting by a certain artist, don't buy that artist," Rehs says. "Find the artist who paints in a similar style whose top work is selling at your number."

For a cautionary tale, simply look to the 1980s, when flush Japanese collectors were snapping up Impressionist works. "[Bad] Renoirs were selling for six, seven, eight hundred thousand," Rehs recalls. "After [the Japanese] real estate market collapsed, people were coming in with those paintings, asking \$100,000. I wouldn't have paid \$20,000 in the first place. But great paintings by those artists will always be great paintings."



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What you want is a work that's among the top 20 percent of the artist's portfolio. Plus, you'll want that artist's signature images. George Rodrigue is known for his Blue Dog series of paintings. So if you want a Rodrigue piece, buy a Blue Dog.

While we're talking price: If you're looking at a work that's been sold before, the previous price can help you decide how much to pay now. Pull out your calculator and apply an art-tracking index like one of the Mei Moses indexes to the previous sales price. Inflate it by the annual expected return for that type of art index and use the result as a benchmark. "Try and find a work that appeared at auction before," Moses says, "and don't spend more than the indexinflated price. The more you pay over that inflated purchase price, the lower your returns are going to be."

#### RULE NO. 4 TRUST YOUR (WELL-EDUCATED) INSTINCTS

You run across a piece that fits your budget. Because you've done your research, you know the price is good. And — no small thing — you love it. So, snap it up. Trust the footwork you've done and the advice you've solicited. That same piece may not be back on the market for decades.

That said, do be patient. Don't compromise the parameters you've set; wait for the right piece of art to come along. After all, you'll be living with it for a long time.

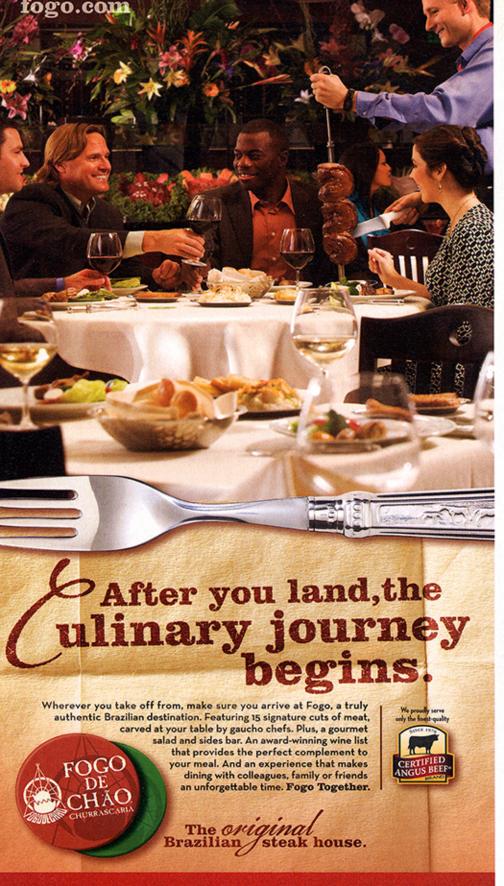
#### RULE NO. 5 BUY ONLY WHAT YOU LOVE

The smartest art collectors can't divorce a painting's value from their own emotional reaction to it. It's not about the money; it's about sitting and staring at a sculpture that never stops fascinating you. "Don't buy something for its investment potential," Rehs advises. "You won't enjoy looking at it. You have to love what you buy and want to look at it every day."

Bamberger has personal experience with this. He owns a Native American carving that he once gazed upon lovingly. He knew it was a representative work from a skilled artist, but he couldn't put a dollar figure on it because Native American works aren't his specialty. Then, one day, an expert visited, and Bamberger asked for his opinion. "He picked up this thing I'd always cherished and held it like such a piece of merchandise," Bamberger remembers. "It destroyed the pleasure I had in looking at that thing. So I say, if you know you have a fair price, take it home and enjoy it — and keep your fingers crossed."

#### **RULE NO. 6 THINK LONG-TERM**

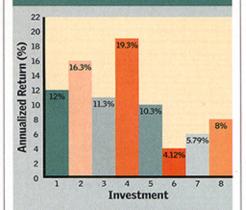
Just as small-time investors shouldn't pretend they're professional bond traders, art collectors on a budget shouldn't expect to be able to buy a painting one day and resell it three months later for a handsome profit. It could happen; just don't expect it to. The best strategy for investing in your own aesthetic is a buy-and-hold one. Your financial adviser probably tells you the same thing about stocks: In the long run, stocks outperform other instruments, so be prepared to hang on through the rough patches and trust in long-term appreciation. Ditto for



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#### GROWTH POTENTIAL

Though the art market resembles financial markets only in the sense that money changes hands — hopefully more on the back end than on the front — we thought it would be fun to compare the ROI from a few notable art sales with the easier-to-monitor returns on the usual inhabitants of an investment portfolio.



- Vincent van Gogh's Irises
   Sold in 1987 for \$53.9 million
   Last previous sale: \$84,000 in 1948
   Annualized return: 12%
- Pablo Picasso's Garçon à la Pipe Sold in 2004 for \$104 million Last previous sale: \$30,000 in 1950 Annualized return: 16.3%
- British Rail Pension Fund's art collection Invested: About \$70 million over 29 years Liquidated: 2003 Annualized return: 11.3%
- 4. Mei Moses Postwar and Contemporary Art Index

Annualized return, 1997 to 2007: 19.3%

- Mei Moses art indexes (overall)
   Annualized return, 1997 to 2007: 10.3%
- U.S. Treasury Bills
   Annualized return, 1997 to 2007: 4.12%
- 7. S&P 500 Annualized return, 1997 to 2007; 5.79%
- Annualized return, 1997 to 2007: 8%

art. "Paintings generally appreciate over a 20- to 30-year period," Rehs notes. "Some take a year or five or 10, but over the long haul, good art tends to do very well. Works we sold when I came into the art world in 1981? They were selling in the \$3,000-to-\$25,000 range then; now they're \$500,000 or \$700,000.

"I wish we'd kept them all."

TRACY STATON is a contributing editor to American Way.

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