Can Collectibles Make You Money?

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With the stock market in turbulence, some investors are turning to new pursuits in an effort to build wealth. One consideration is collectibles, items such as rare and sought-after antiques, coins and art. That this can work is illustrated by Herb Fitzgibbon who gleaned a 7.3% per year gain on an art deco antique sideboard that he sold after owning it for nearly two decades.

Still, the overall benefit of buying collectibles to make money is controversial. The British Rail Fund (BRF) used art in its portfolio for 25 years and made an annualized return of 11.3%, which is perfectly respectable, but was not as high as the rest of the BRF's portfolio. Today, the BRF does not invest in art as an asset class. Its concerns could have included the cost of storage and insurance for the art or luxury item. In addition, this category has no dividends or income like stocks and bonds. Moreover, they cannot be disposed of rapidly. They are only worth what someone will pay for them and the market can be thinly traded. Therefore, valuing art/luxury items can be speculation more than a solid determination.

On the other hand, there is recent research that suggests art is worth considering as an asset class, at least for a high net worth individual's investment portfolio. High net worth is generally defined as someone with assets of 25 -30 million or more.

Rachel Campbell published this supporting paper in *The Journal of Alternative Investments* in spring 2008. It was entitled, "Art as a Financial Investment." She looked at art as yet another alternative asset class and treated it like real estate, commodity futures, private equity and hedge funds. Each of these has been used to broaden diversification within an investment portfolio. She focused on bear markets because it is there that the benefit of diversification is most needed. The author used data from both the Art Market Research and Mei Moses All Art Index that compare repeat sales prices of particular items at auction.

Campbell found that using a hypothetical fund (dates 1985-2006) consisting of 30% old masters, 15% European Impressionists, 15% Modern, and 40% contemporary, the average return would be 7.05% with an average annual standard deviation of 6.93. She also found low correlation with other asset classes. This lack of correlation between art and other asset classes offers attractive diversification for the high net worth investor. Campbell concluded: "Optimal portfolio allocations using historical returns make a case for investors to consider art as an attractive, albeit small addition to their investment strategy."

This concept was expanded in a working paper by De Roon et.al. entitled "Emotional Assets." The authors also included wine, stamps, watches and atlases as alternative asset classes. These were chosen because they make up more than 50% of the high net worth investor's luxury sector choices. The authors found that a diverse portfolio, which they termed emotional assets, could provide the investor with a positive and highly significant increase in the Sharpe ratio.

The Sharpe ratio measures the risk-return profile of the investment portfolio. The authors concluded, "before advocating any investment into the emotional asset class arena we would suggest that a comprehensive study of the size of the market is undertaken for each alternative emotional asset class." They also indicate that this is only likely to be of interest to high net worth investors for a small allocation of their portfolio.

It seems that Mr. Fitzgibbons may have been lucky in the profit on his antique sideboard though it was unlikely he bought it for monetary gain. He told me in a personal interview that he purchased it for its esthetic value. This is in contrast to the high net worth investor, who may buy collectibles as a mechanism to diversify a portfolio.

This brings us to our original question, "Can collectibles make you money?" Though recent evidence suggests "yes" (though with qualifications as per above) for a small part of a high net worth investment portfolio, it is less clear for the ordinary investor. Thereby, for most people choosing what they like without expecting a monetary profit at sale appears to be the most realistic approach.

Part of the above was adapted from Shirley M. Mueller's, "The Neuropsychology of the Collector," in Collectibles for the High Net Worth Investor *published this month.*