Weronika Adamowska

314894

‘Is art such a good investment? Investing in fine art on the international and Polish auction market’

ABSTRACT

Works of art, like commodities, financial instruments or real estate, can be a source of monetary appreciation, and may yield higher returns, relative to alternative asset classes. This view seems to be supported by the news on the stunning gains realized by the sellers coming cyclically from the international art market. The major question is whether those cases are representative of the whole art market, or are they just notable exceptions.

The conclusion that may be drawn from the art investment literature is that, in general, art seems to underperform alternative assets. Moreover, investing in art involves substantial risk. However, it does not mean that art should be considered an inferior investment vehicle. On the contrary, the art market seems to offer some avenues for benefiting from owning an artifact, for example if artworks are used for portfolio diversification purposes or serve as a hedge against downside risk.

Besides art’s monetary performance, relative to alternative asset classes, there is also a wide scope of other important issues related to investing on the art market. One of the major aspects is whether it is possible to predict art price movements and thus beat the market. This still remains a puzzle. Although the ‘nobody knows’ seems to be inherent to the art world, the history shows that some artworks, artists, movements, or artistic schools systematically appreciated over time. Moreover, connoisseurship and experience may give an investor a competitive edge over other market participants and enhance the returns on art. On the other hand, experience of some failed art funds might imply the opposite.

Another important issue is whether there are any ‘fundamentals’ that might guide investors in their choice of particular artifacts. There is some evidence on the close relationship between the art and financial markets. If it holds for the art market in general, stock indices could be used as leading indicators signaling the upcoming boom or downturn on the art market. It would also enable investors to forecast art price movements and reap above-average gains.

The art market clearly differs from other markets, one of its major features being inefficiency. This implies that the persistent anomalies could allow an investor to reap extraordinary gains, especially with the use of superior knowledge and expertise. Moreover, there might be an inverse relationship between the degree of maturity of the art market and returns on art. This would imply that, similarly to the emerging economies, the highest rates of return could be yielded on the fairly underdeveloped art markets, such as the Polish auction market.

In order to verify the validity of this assumption, an empirical study on artworks sold on the Polish auction market in the period 1990-2004, preceded by a research the Polish art market, has been carried out. Although the evidence is mixed, some of the findings suggest that investing on a less developed auction market could result in substantial gains. With the rapid growth of China, India and Russia, and development of their art markets, this aspect may be of particular relevance, especially in the nearest future.

Key words: art market, art investment, financial performance of art, returns on art, determinants of art prices, return factors, predictability of art prices, portfolio diversification, optimal portfolio, maturity of the art market, Polish art market, returns on art in Poland