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Fine Art and High Finance. Expert Advice on the Economics of Ownership

“The art trade is big business”. This is one of the first statements that opens the book “Fine Art and High Finance”, edited by Clare McAndrew. Written primarily but not exclusively for art investors, collectors and legal advisers, this book offers an interesting overview of the economic aspect of art ownership and at the same time could be considered a guide for those who want to invest in art.

Despite the persisting economic and financial crisis, the international art market records a growing turnover. The TEFAF Art Market Report 2014 estimates a turnover of € 47.4 billion in 2013, with an increase of 8% compared to the previous year. These data are however approximate. In fact, “due to the opacity of the market and the lack of information on private dealers’ sales, measuring the art market is not easy”.

So how does this unique market work? Which is the relation between art and finance? Published in 2010, the book offers a still actual perspective. Although geographically focused – in term of value – on the two main centres of London and New York, the art market is a global business, with sales of art taking place all around the world. This shift as well as the market growth are strongly linked to the burst on the scene of the emerging economies and the increasing wealth of their population. However, a singular characteristic of this market should be take into account.

The “art market” is not “a single homogenous entity, but rather a conglomeration of distinct markets”, an “aggregation of many independently moving and unique submarkets”, that are defined by artists and genres, behave in different ways and have very different returns and risks. That is why art could be an interesting investment asset class.

Artworks in fact yield not only nonmonetary viewing effects, being something to enjoy, but also return from their appreciation in value over time like other financial assets. Two important characteristics however distinct artworks from other financial assets. First, “each work of art is unique and has no close substitutes, which will always bring a measure to subjectivity into valuation”. Second, it is an illiquid asset. These two aspects make difficult assessing returns and risks of an art investment and they are not the only ones.

The art market fragmentation – combined with its opacity and the often-subjective elements in valuation – leads to information asymmetries and to a definition of art prices, which suffers from some complexities that cannot be found in other markets.

While art supply “is essentially fixed” that is, “no matter how large the change in price, the quantity supplied cannot change”, the demand side of the art market “is driven by the characteristics and preferences of a number of different participants”, such as collectors, investors, museums, dealers, companies and so on.

However, if assessing financial returns and risks is more difficult, it does not mean that art is a less worthwhile investment. “The flip side of investment returns is risk. While the returns to art can vary considerably between different genres and artists and across time, the potential to use art for risk diversification in an investment portfolio is undoubtedly its most tangible and attractive feature as an asset class", as stated by the editor Clare McAndrew in her "Introduction to Art and Finance".

Fine Art and High Finance
Expert Advice on the Economics of Ownership
Clare McAndrew (Edited by)
Bloomberg Press, 2010
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