ACQUIRING ART SEEMS TO BE FASHIONABLE – IS IT ALSO A GOOD INVESTMENT?

We know that the story behind a painting can even be more dramatic than the most thrilling novel by John Le Carre: The twists and turns behind the November 2017 sale of Leonard da Vinci´s *Salvador Mundi*, when a 19 minute bidding war at a Christie´s auction finally ended with the highest ever offer made for a painting, is the best example for this: The *Salvator Mundi* US$ 450m price tag (including charges) broke all historical records. – However, the investment performance of Leonardo´s work is a more mixed affair.

If you had been one of *Salvator Mundi*´s owners over the last sixty years, then you were lucky. – In 1958 the work was acquired for a mere STG 45 at an auction at Sotheby´s. At that time, however, the painting had been – wrongly – attributed to a pupil of Leonardo and not the Master himself. Nearly fifty years later, in 2005, the canvas resurfaced again in the U.S., when a New York art dealer acquired the work jointly with an investment consortium for US$ 10,000: Hence, over a period of 47 years the previous owner had made an annual return of just below 10%, taking into account the historical exchange rate. – A pretty good, but not necessarily whopping performance.

Over the following six years the new owners had the painting refurbished, whereby it became clear that the canvas was actually an original: Da Vinci had not signed his work, but a previous owner, Queen Henrietta Maria, had an engraved copy of the *Salvator Mundi* with her when she took it to England in 1625. That included the note: "Leonardus da Vinci pinxit", which means nothing less than that Leonardo had painted it. - Or at least, sort of: Because some leading scholars still doubt the work´s authenticity or think that the canvas is a wreck and would therefore only speak of the "Master´s involvement" with it. At least the frame may be authentic, one remarked. [1]

In 2013 the *Salvator Mundi* was sold on in a private sale to Yves Bouvier, a specialist in moving and storing goods and collectibles. The actual price was never disclosed but is believed to have been around US$ 75 – 80m. In this case the selling consortium had made an estimated return of more than 200% in each year, and over a period of nearly eight years! – Needless to say that any venture capital fund would be glad with such a performance.

It was still 2013 and Mr Bouvier flipped the *Salvator Mundi*, selling it to Russian businessman Dmitry Ryobolovlev for just over US$ 127m. This time, the seller achieved an approximate annualized return of 70-85%, whereby this is an estimate as it is not entirely clear for how long Mr Bouvier actually held on to the canvas. However, after this transaction arrest, litigations, lawsuits were the consequences of several bitter and still ongoing disputes between Mr Bouvier and Mr Ryobolovlev. – The *Salvator Mundi* escaped all this and Mr. Ryobolovlev put the painting for sale again in 2017: With the achieved price of US$ 400m (including fees US$ 450m) Mr Ryobolovlev made a handsome approximate 35% annual yield over four years: Also this performance seems adequate, even by the notoriously demanding yield requirements of Russian investors.

Salvator Mundi´s current owner from the Middle East does not regard the canvas as an investment, but instead a trophy asset: The painting will be shown in the recently opened Louvre Abu Dhabi complex and is expected to stay there.

In conclusion, the *Salvador Mundi* was undoubtedly a handsome investment for each owner since 1958. However, this would not quite have been the case for *Salvator Mundi*´s first owner, French King Louis XII, who acquired the canvas from Leonardo around 1500: No records exist pointing towards a price at which the work may have changed hands back then. However, a recent article by

[1] https://www.theguardian.com/artanddesign/2017/nov/20/artistic-license-experts-doubt-leonardo-da-vinci-painted-450m-salvator-mundi

Jason Zweig[2] sheds some light on this issue by using Leonardo´s master piece *Mona Lisa* as a proxy. In 1519, the year of Leonard´s death, the *Mona Lisa* was sold either by the Master himself or his heir for 4,000 gold ducats: In today´s terms this would equal a price of just under US$ 600,000. One may keep in mind, though, that this sale happened nearly twenty years after the *Salvator Mundi* had been acquired, whereby Leonardo was now at the end of his life and being treated as a superstar. Now, had Louis XII treated the the *Salvator Mundi* as an investment, held on to the painting and sold it at the Christie´s auction in 2017, then this would have given him a compounded annual yield of just above 1.3%, over a period of not quite 500 years. This is, suffice to say, a rather meagre performance.

However, the long-term yield of the *Salvator Mundi* perfectly fits in the overall investment performance of the fine arts of between 1.5 – 2.0% annually over the last century, thereby only outperforming cash and gold (both ca 1.0%), but certainly vastly underperforming global shares (ca 5.0%).[3] Better long-term annual yields in investing in collectibles could have been achieved with wine (ca 4.0%), stamps or violins (both ca 2.0 – 2.5%).

Although, estimating the returns from collectibles – especially after cost - is tricky: To start with, indices covering art or musical instruments are not comprehensive. Besides, there is inherently an upward bias embedded in the returns of collectibles, as successful works are more likely to survive. And further, arts-related indices do not take into account the relatively high costs incurred by trading these assets or insuring them.

Therefore it is not really surprising that only about 5% of acquirers of collectibles hold these purely for an investment purpose, whilst the vast majority buys collectibles for collecting purpose but with an investment view. [4]

Whereby, holding collectibles is definitely a hedge against inflation and currency devaluation, besides the correlation with other asset categories is low. Also, collectibles can usually be moved easily, they can be insured, and, if wisely purchased, the risk of losing the principle is somehow limited. – One should keep in mind, though, that leaving a gallery with a just acquired painting equals an instant loss for the buyer due to the high fees galleries charge of anywhere between 20-50%.

Besides a historically meagre long-term performance, there may be other good reasons not to invest in the arts: Foremost, as each piece is a unique and heterogeneous asset and for the vast majority of collectibles the market liquidity is extremely low. Also, objective evaluations are basically impossible. And finally, the success of selling a collectible by auction will entirely depend upon whether the right target audience is in the room at that very moment.

And then a final thought: Believing you will identify a young artist as the next Warhol or Picasso, then give it up. This exercise will prove to be as disappointing as aiming to identify early on the next Apple, Google or Facebook. Instead, buy art or collectibles you like and enjoy them!

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[2] https://blogs.wsj.com/moneybeat/2017/11/16/is-da-vincis-salvator-mundi-worth-450-million-or-454680

[3] https://www.economist.com/news/finance-and-economics/21737259-investing-finer-things-life-long-term-returns-collectibles

[4] https://www2.deloitte.com/content/dam/Deloitte/at/Documents/finance/art-and-finance-report-2017.pdf