



## Art — Is It an Investment Asset Class?

By Shaileja Mammen

**Reports of pieces of art selling for huge profits often appear in newspapers. The kind of return art has achieved at some auctions is comparable to that of any other asset class. But art is yet to be widely recognized as an asset class for investment purposes.**



The art market is in a nascent stage. Accurate information on the returns art provides is not yet available as there is no organized market for this asset class. In the absence of an organized market, there is no benchmark against which the returns can be measured.

Art is frequently sold at auctions, which lack transparency and liquidity. The cost of a transaction when art is bought or sold is often very high and uncertain. Arranging for an auction, employing auctioneers, and paying professional assessors to ascertain that the art is genuine and not fake adds to the cost. Art is showcased in traveling exhibitions, museums, and private collectors' homes. Shipping art from one destination to another for exhibitions costs a lot of time and money. Art is also exposed to risks such as theft and damage, the management of which require costly precautions. In short, a variety of expenses can add up to make the overhead costs associated with art considerable.

That said, while the art market has in the past been restricted to Europe and America, it is now expanding all across the world. The market is now many times bigger than it was only a decade ago, with more and more countries, such as Russia, China, India, and the United Arab Emirates, actively participating in the market.

A study done by economists at New York University has found that art provides regular returns; though lower than the returns provided by the S&P 500, the returns on art are higher than those provided by bonds. Another study — this one completed by analysts at a bank in Frankfurt — also shows that the returns from art in the long term outperform stocks and bonds. That said, there are researchers and investment professionals who believe that when the economy is weak, the price of art falls sharply due to a strong correlation with consumers' understanding of economic wellbeing.

Understanding the potential of art as an asset class, hedge funds around the world have set up several art funds. Nonetheless, determining an accurate valuation of an art portfolio remains difficult, and the cost of administration, storage, and insurance remains high.

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