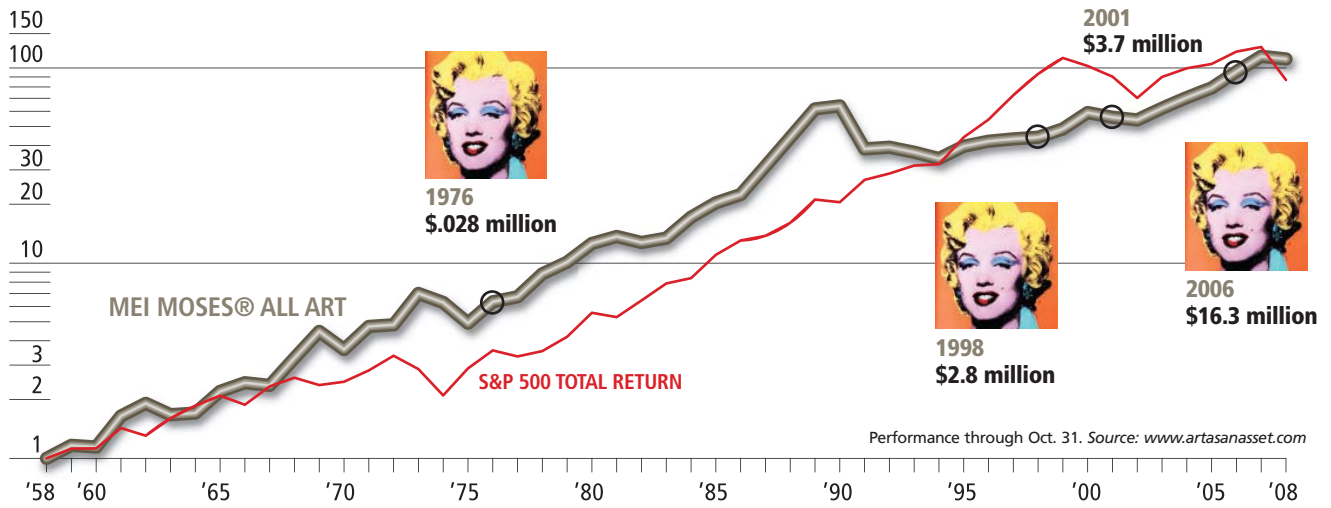


SMART COLLECTING



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As a long-term investment, which artist has brought the best return?
By Jianping Mei and Michael Moses

A LONG WITH STOCKS, BONDS AND COMMODITIES, art retreated in November. Sales at Sotheby's and Christie's sank, in the case of contemporary art, to 2006 levels or below. A few works brought record highs; but these were far outnumbered by others that sold for less than their low estimate or didn't sell at all. Christie's offered "Study for Self-Portrait" by Francis Bacon with a CK\$40 million low estimate. No one brought it home.

After five years of above-average growth the market has turned down. But over the long term art has performed quite well. We know this from data we have collected on prices for artwork that have appeared more than once at auction.

Unlike stocks and bonds, homes and artwork are unique. They trade infrequently. Thus, an index based on average prices over time may say more about the mix of objects that come to market than changes in values. To address this problem, we created the Mei Moses Art Indices, based on repeat auction sales of the same works. Our database contains approximately 13,200 repeat sale pairs. (The well-known Case-Shiller index for residential real estate works in a similar fashion.) Five subindexes cover the following categories of artwork (mainly paintings): American

before 1950, impressionist and modern, old master and 19th century, postwar and contemporary, and Latin American.

The chart (*above*) compares our All Art Index with the S&P 500 (with dividends reinvested) from 1958 through Oct. 31. Stocks have beaten art for the past quarter-century but done worse than art for the past half-century. Also worth noting, if you think of art as pure investment rather than enjoyment, is that insurance, capital gains tax and transaction costs are much higher on art.

Two other facts of interest to investment bean counters: A diversified art portfolio would be less volatile than a stock index fund if you look at year-to-year returns, but riskier if your holding period is decades. Also, the correlation between annual returns on art and those on stocks (or bonds) is close to zero. So art plays a positive role in wealth diversification.

How much were unrealistic expectations to blame for November's poor results? Our data allow us to extrapolate the current value of a piece that hasn't sold in years. Take Mark Rothko's "No. 43 Mauve," which Christie's put up for sale in November with an estimate of \$20 million to \$30 million. The same work sold in 1988 for \$1.5 million. If marked to market by our Postwar Index, its value would have been \$7.6 million. No surprise it failed to sell.

Which artists have performed best? To answer this question we do the same thing that FORBES does in evaluating new-issues underwriters. We look at all the price pairs we have for an artist, calculating for each pair an annualized performance and seeing how that stacks up against the All Art Index over the same time period.

Of the 25 most liquid artists—a group that includes Renoir, Picasso, Monet, Sargent and Hassam—Warhol wins, palette down. He averages 10.3 percentage points a year better than the index. Of course, at any auction a lack of buyers or an inflated expectation by the owner may leave a work unsold. The Warhol portrait of Mao, for example, failed to sell in a November auction. It was supposed to haul in at least \$4.5 million. **F**

Jianpink Mei is professor of finance at Chung Kong School of Business in Beijing; Michael Moses is a retired NYU professor of business and cofounder of Artasanasset.com.

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