

Consider adding art to portfolio

Patricia Lovett -Reid, Financial Post · Apr. 20, 2011

When it comes to investing, most of us tend to think in terms of stocks, bonds and fixed income. To diversify, you might look at commodities, global markets and perhaps even real estate. But when was the last time you considered adding a piece of artwork to your investment portfolio? Unlike stock certificates, art is obviously unique. While technically you could hang your stock certificates on your wall, they probably won't give you the same kind of enjoyment as an Emily Carr landscape. But both have attractive value as an investment.

Why should you consider investing in art? Return on investment.

This can be measured through an index such as the Mei-Moses all-art index, which in 2010 saw art increase 16.6%, slightly outperforming the results for the S&P 500 total-return index of 15.06%. While stocks have outperformed art over the past 25 years, over the past 50 years, the returns were very close, with art achieving a respectable compound annual rate of 9.23%, compared to 9.73% for equities.

Art has also proven to have a low correlation with other assets, making it a viable option as a portfolio diversifier. But keep in mind that art has higher volatility and lower liquidity than most financial assets.

So what should you look for in a good art investment?

While it would be great to own work by Dali or Picasso, their art is out of reach for most of us. In the art world, the goal is always to find the next big name. As recently as the 1950s, you could have bought a Mark Rothko for less than \$3,000. One of his works was recently sold for \$79million. Not a bad return on investment! But returns like these are few and far between. Investing in younger talent is akin to buying speculative penny stock. You really don't know if they're going to grow and develop into worldrenowned artists. But unlike a Picasso, the investment doesn't have to be a million dollars. In Canada, it is possible to buy an original piece of art from an up-and-coming artist for around \$5,000.

I recently had an opportunity to speak to TD's curator of art, Natalie Ribkoff. Her top piece of advice to aspiring art collectors is "do your homework before entering the market. Spend the necessary time getting to know an artist and their particular work." Reading art magazines and visiting galleries gives you the chance to get a sense of the artwork you like, narrow down your choices and talk to artists before you buy.

Working with an art consultant is also something Natalie highly recommends. They can serve in the same capacity as an investment advisor when it comes to purchasing investments. Their in-depth knowledge of the art industry and years of experience can help guide you in the right direction.

Before you start shopping, here are a few other considerations:

Only buy what you can afford. Set a budget before you begin your hunt to avoid getting caught in a bidding war or falling in love with something you can't manage to pay for. But rather than buying multiple little pieces, buy the single best piece you can afford.

Keep in mind that not all pieces, even if from the same artist, are created equal. Just because it is from a reputable artist, it doesn't necessarily mean it will be valuable.

Remember liquidity can be an issue when selling art so investors need to have a longterm horizon.

Try to identify young, talented artists before they become famous.

Just like other investments, reduce your risk through diversification: if you are buying multiple pieces, consider works from a variety of artists.

In addition to the aesthetics of the art and the price, some other factors to consider are due diligence on the art's provenance and maintenance.

Art as an investment does have drawbacks as it does not pay dividends or interest and it is less liquid than other assets. However, as a portfolio diversification strategy, it's hard to beat an investment that has the potential to significantly appreciate while making a statement on your living room wall.