

Investing in beauty: BMO helps clients find value in art

Bank of Montreal is helping its high-net-worth clients explore art as an investment.



Aaron Harris / For the Toronto Star

BMO Harris Private Banking director Solomon Amos with art work in First Canadian Place in Toronto.

By: Rita Trichur Business Reporter, Published on Sat Nov 13 2010

On a cool evening in late October, a who's who of Toronto high society gathered at the Art Gallery of Ontario for a private event with celebrated photographer Edward Burtynsky.

They congregated in Baillie Court, a 7,200 square-foot hall that features wood accents and a sweeping view of the city.

As the sunlight faded, the crowd sipped wine and nibbled on duck prosciutto before digging in to a three-course dinner.

But the main draw wasn't the sumptuous fare — it was the priceless opportunity to learn about art as a “passion investment.” Meeting a high-profile artist like Burtynsky was a key part.

That's why the event's host, Bank of Montreal, has started an exclusive new program to teach its ultra-rich clients how to successfully collect art.

While art investing is generally associated with more exotic global locales like Paris and Hong Kong, BMO says there is growing demand from wealthy Canadians.

So much so that the BMO Harris Private Banking Art Series will be expanded beyond Toronto to other cities like Vancouver, Calgary and Montreal.

By doing so, BMO is entering a niche market that includes few Canadian banks. Overseas, the market is dominated by global banking behemoths like UBS and HSBC.

“In the business, they call this the passion investment,” said Sol Amos, director, BMO Harris Private Banking.

Passion investments also include other luxury collectibles such as wine, jewelry and cars. Paris-based consulting firm Capgemini is predicting worldwide demand for passion investments will increase from 6 per cent of client portfolios in 2009 to 8 per cent in 2011.

Global fine art auction sales totaled \$4.6 billion (U.S.) in 2009. That tally is expected to improve this year despite lingering concerns over the global economy.

Increased demand is largely being fuelled by the growing ranks of the rich in China, India and the Middle East. In India, for instance, the appetite is so strong that collectors can invest in art funds which are akin to mutual funds.

Amos is not aware of any equivalent product in Canada. The domestic market is relatively new.

Still, a growing number of BMO's private banking clients — who have at least \$1 million in assets (excluding property) — have a keen interest in art collecting.

Those clients come from a variety of backgrounds, including established families and new wealth. Some are senior executives and entrepreneurs.

The bank's role is to educate those clients on art collecting and how to make informed decisions.

The program covers a variety of topics, including corporate art collections, gallery basics, auctions, meeting an artist, public art and the administration of art collections, including issues like catalogues and trusts.

Each session attracts an average of 50 to 60 clients. “What we try to do is to keep it as intimate as possible,” Amos said.

The bank will also refer clients to external experts to assist with issues such as insurance and valuations.

Currently, BMO does not provide financing for art purchases but has not ruled out doing so in the future.

BMO’s new program does face some competition from other banks.

The Bank of Nova Scotia offers both formal and informal art advisory services to clients. That includes its “Art as an Alternative Asset” presentation for its Scotia Private Client Group and Scotia McLeod Heritage clients.

The Scotiabank Group Fine Art Collection also offers one-on-one consulting for clients and executives. Jane Nokes, director of corporate archives and fine art, covers topics such as negotiating purchases, organizing commissions, insurance and art conservation.

Royal Bank of Canada’s art curator, Robin Anthony, also discusses “collecting strategies” with clients at events such as the RBC Canadian Painting Competition, gallery openings and Toronto International Art Fair.

“RBC is starting to focus on having lectures for clients at art exhibitions that we sponsor,” said spokesperson Jackie Braden.

Toronto-Dominion Bank does not have a formal art program but curator Natalie Ribkoff fields inquiries.

Among foreign banks, UBS has an Art Competence Center based in Zurich. Depending on the project’s size, the service is available in Canada on a “case-by-case” basis.

The centre’s mandate is to mitigate financial risks by conducting due diligence on art owned by UBS ultra-high-net worth clients. It also provides advice on building collections, transactions and estate planning.

Art is hardly a traditional investment. And there are good reasons that collecting remains the preserve of the wealthy.

It is not a liquid asset and investors must have a long-term horizon. They must also navigate hazards such as forgeries and tax considerations.

Most importantly, future values are nearly impossible to predict even though some indices do track historical prices.

The best known are the Mei Moses Art Indexes, created by New York University professors Jianping Mei and Michael Moses. They are based on more than 13,000 auction transactions over the past 15 years.

The main Mei Moses All Art Index posted an overall gain of 8.2 per cent for the period from the end of 2009 to Oct. 15, 2010. That outpaced the 6-per-cent gain for the S&P 500 Total Return Index for the same period.

“Our research has shown that art is like most other assets. It has its periods of excesses, 1985-1990 when our index grew at a compound annual rate of over 30 per cent, and failures, 1991-1995 when it lost 65 per cent of its value,” Mei and Moses wrote in a recent report.

“Whether the future will be like the last 10, 25 or even 50 years is impossible to predict.’

In Canada, there are signs that demand for certain types of art remains strong. Earlier this month, Waddington’s Auctioneers Fall Inuit Art Auction collected \$1 million from 483 works.

“Fine Inuit art at auction continues to defy economic and market realities as it did during the last recession,” Waddington’s said, noting that U.S. and U.K. collectors bid “aggressively” on those works.

Miriam Shiell, president of the Art Dealers Association of Canada, predicts domestic collectors will increasingly use art as a hedge against inflation. “The question is what will they buy?”

Purchasing quality paintings from the Group of Seven or other historical artists is nearly impossible because those works are in short supply.

Going forward, the greatest growth will likely be in post-war art, she said. That includes works from Jean-Paul Riopelle and Jack Bush.

Riopelle’s older works (1949-1955) sell for millions, whereas his pieces from the 1960s and ‘70s range \$300,000 to \$600,000 (Canadian). In contrast, Bush’s best works sell for \$150,000 to \$350,000.

Moreover, Shiell argues that the Painters Eleven, formed in Oshawa during the 1950s, is the most “undervalued area” of the market.

Contemporary art may be attracting younger buyers in their 30s and 40s but picking winners is a total “crapshoot.” As with any genre, shifting trends and tastes remain the wild card.

Nonetheless, she says Canada’s rich are increasingly interested in parking money in art. “I’ve always felt it is a bad investment and good store of value,” Shiell said.

Banks and corporate art

Canadian banks, through marketing sponsorships and their own corporate art collections, play a key role in building the market for contemporary art, says Richard Rhodes, editor of Canadian Art magazine.

“The collecting scene in Canada has grown by leaps and bounds over the past decade, partly as a mirror of what’s been happening internationally,” he said.

“I think collectors are starting younger than before and the banks have played a big role in this.”

Canadians are now starting collections in their late 30s and early 40s, while the pastime is also increasingly popular with new immigrants. “They aren’t all in the Thomson or Eaton family,” said Rhodes.

Banks generally house their collections across Canada in offices and branches. The art is purchased to enhance the working environment and to support local artists, rather than for investment purposes.

Quick facts about the banks’ art collections:

BMO

- BMO’s collection includes more than 6,600 works comprised of paintings, drawings, engravings, lithographs and mixed media works by Canadian artists
- The BMO Gallery, located on the 68th floor of 100 King St. W. in Toronto, features contemporary works. The adjacent BMO Project Room houses annual installations in non-traditional media. The public may visit both by appointment.

TD Bank

- The Contemporary Canadian Collection includes about 6,000 works including hand-pulled prints, paintings and sculptures

- The Inuit Collection has 608 pieces including hand-pulled prints and sculptures. Those pieces are housed at Toronto Dominion Gallery of Inuit Art at 79 Wellington St. W., which is open to the public at no cost.

RBC

- RBC's collection includes more than 4,000 original works by Canadian artists including paintings, prints, sculpture, photographs and video
- The 11th floor of the new RBC Centre will feature a large painting by Elizabeth McIntosh, which recently graced the cover of Canadian Art magazine

Scotiabank

- Scotiabank Group Fine Art Collection includes 1,800 works including paintings, limited edition prints and photography
- The collection includes Canada's largest indoor mural, Derek Michael Besant's "Waterfall" in Scotia Plaza.