ThinkAdvisor

FEBRUARY 9, 2015

Soaring Fine Art Values Demand More Frequent Appraisals

As the gavel came down on the fall art auction season, pieces by Impressionists like Monet, Modigliani and van Gogh fetched record prices—no surprise to many in this rarefied world. Rather, it was the sale of contemporary paintings by Andy Warhol, Cy Twombly and Francis Bacon that staggered the art market.

Not all that long ago, these artists' works were affordable to the merely wealthy. A case in point is Bacon's "Seated Figure," a painting from 1960 that last sold for $2.5 million at Christie's in 1996. Just 18 years later, the auction house sold it again, this time for an eye-opening $44.9 million.

Other record-smashing sale prices at Christie's included Andy Warhol's paintings of Elvis Presley and Marlon Brando, which brought in a combined $151.5 million; a canvas from Cy Twombly's Blackboard series that sold for $69.6 million (it had been valued at $35 million to $55 million); and Lucian Freud's "Julie and Martin," a painting from 2001 that took in $17 million.

Over at Sotheby's, the Impressionists and Post-Impressionist continued their record-breaking ways, but it was sculptor Giacometti's 1950 bronze "Chariot" that was the talk of the salesroom, tallying a solid $101 million. The sale actually produced a bit of disappointment, *The New York Times* noted. Experts had predicted it would surpass the $104.4 million paid for the artist's "Walking Man" bronze four years earlier. Still, were Giacometti alive today, there is no doubt he would be stupefied by the prices his works now fetch.

From an insurance standpoint, the breakneck speed of rising art values insists upon more frequent appraisals of the value of their holdings. At the same time, the narrowing gap between postwar and pre-war art prices requires more attention paid to diversifying these holdings from an investment standpoint—not that high-net-worth individuals acquire fine art for the same reasons they buy stocks, bonds or real estate. Many love the work and could care less about its fluctuating value.

The subject of the fine art market came up at a breakfast meeting I enjoyed in late-November with Le Conte Moore, managing director at DeWitt Stern, a Manhattan-based brokerage firm (now part of Risk Strategies Company) that serves a high-net-wealth clientele. "Count," as he is known in the industry, pointed out the folly in thinking every important artist from the postwar period is on the verge of fetching record prices.

"Many experts call contemporary art a new asset class, but some artists are hot, some less so," Count explained. "Artists like Warhol, Jeff Koons and Richard Prince are blazing hot. Other artists like Cindy Sherman are joining this class. If collectors have these artists' works, they must check the value of their holdings at least annually."

It's not that the Old Masters and Impressionists aren't still highly desired. "They're just not the kind of art that many affluent people want to hang on their walls these days," Count said. "Contemporary art is the new zeitgeist."

Like Checking the Stock Market

The new asset class also is on a tear, as the recent prices demonstrate. What was worth seven figures a few years ago may now be valued at eight figures. The problem is that many collectors have their art appraised every three to five years, a period of time considered standard.

This made complete sense when art values ticked up (or down) a bit each year. This is no longer the case, however. The art market's blistering pace whips up the substantial risk of being underinsured for the market value of a contemporary piece. Were the work to be damaged, stolen or destroyed, the owner could lose out on millions of dollars.

For example, we had a wealthy older policyholder who owned a Warhol silkscreen of Marilyn Monroe that she had insured for $900,000 several years back. We believed the value of the work had increased, but we had a difficult time convincing the owner that her policy limits needed to increase. When another "Marilyn" sold at auction for $7.8 million, she finally heeded our advice.

DeWitt Stern advises its brokerage clients to think of their art collections like stock portfolios. If prices appreciably rise for a specific artist, action must be taken to lock in the new insured value. "We tell our clients and their financial advisors to immediately pick up the phone or email us to increase the insurance limits, which are made effective that day," Count said. "There is no excuse to put this off."

Diamonds in the Rough

Not just owners of fine art should take this advice to heart. Another high-flying market flying is jewelry, gems and watches. At Sotheby's in November, a pearl necklace once owned by Napoleon Bonaparte's wife sold for $3.4 million, more than double the high estimate. A Kashmir sapphire-and-diamond ring fetched $5.9 million, while a Graves Supercompilation watch sold for $24 million.

The previous month in Hong Kong, the auction house sold an 8.41-carat pear-shaped diamond valued for a record $17.7 million. It had been valued at between $12.8 million and $15.4 million.

Many recent buyers are newly minted billionaires from countries in the Asia Pacific region, eager to diversify their invested assets with rare gemstones, a couple Bacons and a smattering of Warhols. Guiding them in these decisions is a cottage industry of art advisers, the equivalent of a traditional stockbroker. Such specialists also are in the portfolio diversification business.

"They don't necessarily counsel hedging the value of an Old Masters with a Cubist painting here and an Impressionist there; rather they stick to a certain class like Pop Art and advise on a balanced portfolio comprising the hot artists of the moment with up-and-coming-ones in that movement," Count explained.

With regard to more current movements in art—works, for example, by street artists like Banksy and Shepard Fairey—prices are still affordable to the merely wealthy. Of course, no one knows what tomorrow will bring in the art market—much less stocks or fine automobiles, another investment class on a tear.

All this is moot when it comes to the insured limits of the assets, however. Annual appraisals on a consistent basis reflect today's values, whether they're up or down. On that you can rest assured.

~ by Kathleen Tierney
Kathleen Tierney was executive vice president, Chubb & Son, and chief operating officer of Chubb Personal Insurance (CPI) from 2010 until 2015. Ms. Tierney graduated from Williams College with a Bachelor of Arts degree in psychology and received a Master of Business Administration in finance and economics from the Stern School of Business.

Published on THINKADVISOR.com
Web link:
http://www.thinkadvisor.com/2015/02/09/soaring-fine-art-values-demand-more-frequent-appra