LUISS

Dipartimento
di Economia e Finanza

Cattedra Financial Markets and Institutions

# The Global Art and Finance Industry: the crucial intersection between Culture and Wealth

Prof. Stefano Di Colli

RELATORE

Culla Costanza - Matr. 223651

CANDIDATO

Anno Accademico 2019/2020

# Summary

# Introduction

Art has always been, through time and space, an object of commercialization. Whoever decided to make the production and execution of Art his or her exclusive source of income had to find a way to profit and make a living out of it. An Artist will therefore always, regardless of the epoch he finds himself living in, need to find a specific market for the products of his work.
This is the reason why, while trying to plot a timeline of the interactions between Art and Finance, the most practical branch of Economics, I decided not to circumscribe my analysis to a specific artistic current, or a specific epoch. In my dissertation, instead, I will enhance the common features of all works of art which define the art market and as a consequence also the investments in this market.
With this in mind, the objective I want to achieve with this dissertation is to present a clear and exclusive picture of the financial market for art, of the main actors that interact in it and of the characteristics that define it and make it a potentially profitable asset class.
In the first chapter I will present an overview of the art market, starting from the history of the interactions between art and finance through history from 1420 with the first appearance of modern banking systems, all the way up to modern days' art investment funds. In the context of the same chapter, I will then outline the main characteristics of works of art and of the Global Art Market with the help of Deloitte's report "Art & Finance 2019". In particular, I will assess the volume and sales of this market also considering the market share of the world protagonists of art trade, namely the US, UK and China. To conclude this introductive part, I will then analyze the relationship between global wealth and the art market, and I will present the main challenges faced by the reputation of investments in this market.
This dissertation is going to follow an outside-in perspective and approach to the issue of investments in art, and that is the reason why the second chapter will be focused on the description of the main actors and stakeholders of the financial market for art, thus further entering in this world and understanding its dynamics from within. The major players I will describe in depth are wealth managers for the supply side of the market and art collectors and professionals for the demand side. In particular I will outline their preferences and the evolution of their tastes over the years taking into account their respective responses to a specific and relevant survey conducted by Deloitte.
Finally, the third and final chapter of this dissertation will be entirely focused on the analysis of the characteristics which define art as an asset class, thus arriving at the heart of the issue of investments in art. In a somewhat opposite flow with respect to the traditional line of reasoning followed when describing any kind of investment, I will first analyze the different types of art related services offered by financial institutions and private banks, then I will mention the reasons the advocates of investments in art give for supporting and fostering such kinds of investments and finally I will conclude

my dissertation with the illustration of the specificity of investments in art considering the most relevant elements in the world of finance and investment banking: risks and rates of return.

# CHAPTER 1: Art and Finance, an Overview

## 1.1 Beginning and History of the Interactions between Art and Finance

If I had to trace, looking back in History, the first Art Investor, I would mention Gaio Clinio Mecenate (69 – 8 b.C.)[1], well known roman *cavaliere*, Emperor Augustus' advisor and influential protector of artists and literati. His contribution to the word of the Arts was so significant that his name became eponymous of the practice of patronage which consisted in the economic and material support by sovereigns, gentlemen, aristocrats and possessors against artist, to relieve them of material worries and allow them to dedicate their lives to the creation of Art. The role of the *Mecenate* subsequently evolved to become in 1600-1700 an intermediary between artists and rich purchasers, an antecedent of the modern Wealth Manager.

But when did the investments on Artists shifted to become investments in the products of their Art? Art in the modern sense of the term began at the same time as the foundation of our financial systems: the Italian Renaissance[2]. Starting from 1420 approximately, the foundations of the modern banking systems started to appear, together with many innovations in the field of finance. The emergence of standardized currencies and organizations offering banking and insurance services facilitated a huge increase in economic activity and an even more impressive development in the commercial activity which fueled Europe. On the other hand, painting's prices remained essentially low throughout the 15$^{th}$ century even though trade in art was growing. Only in the 16th century, when notions of "artists" as opposed to "artisans" started to spread, the art market began to gain currency.

Moreover, the period successive to the First Industrial Revolution can be defined as another pivotal time for the Art Market. During these years, wealthy investors passionate about arts and in search for new ways in which they could invest their growing capital, started to create and develop a real Art market, incredibly similar to modern markets shaped by demand and supply movements. This phenomenon, together with the end of the supremacy of art patrons and commissioned works of art after 1750, led to the birth In Europe of the first auction houses, Christie's and Sotheby's, the main players of the sector also in current days.

Moreover, in the first years of the 20$^{th}$ century, in 1904, the first modern art investment fund was formed in Paris by Andre Level.[3] The latter, together with his friends, pooled the resources needed to buy the works of their contemporaries, the Impressionists, and held them for 10 years. On the eve of WWI, they sold them at auction quadrupling their money. This particular model is a striking example

[1] http://www.treccani.it/vocabolario/mecenate/
[2] https://www.sothebysinstitute.com/news-and-events/news/art-market-histories-of-the-20th-century/
[3] https://www.sothebysinstitute.com/news-and-events/news/art-market-histories-of-the-20th-century/

of the intersection of art and finance which shaped the future art market through the introduction of concepts such as the art fund, the speculative interest in contemporary art, and the question of artists resale rights.

Therefore, Europe remained the center of the art market activity until the beginning of the 20th century when it faced a period of economic recession. Even though, the old world could still count on its many incredible Art collections, investors were scarce and had limited resources at their disposal. In these circumstances, the new world had to step in, and America started to become one of the mail players in the art market. During the 1980s, investing in art became a rather popular and profitable practice and in 1987 the global art market entered a "boom" period characterized by the record prices registered in art auctions. New York became the world capital of the art market.

The 21st century started as a period of increased growth for this market, which reached the value of US$65[4] billions in 2007. However, the issue of investing in works of art gained particular importance in times of economic crisis such as the 2008 recession. In general, the rule with investments in tangible assets such as works of art which represent value storage means is that they are the less affected during periods of economic downturn when investors lose confidence in intangible financial assets. However, the average of the prices in the art market at the end of 2008 fell drastically by 40%[5] after registering the highest growth rates.

Nonetheless, due to the increasing importance of globalization, the market started to recover in 2009 with the appearance of the "new riches" coming from developing countries which started to invest more and more in art assets expanding the borders of the market and as a consequence its volume. The sharp ascent in China came to an end in 2012, causing global sales' values to contract. However, the fact that the market remained strong in other areas of the world, especially in the US, led sales to a historic high of $68.2 billion by 2014[6]. However, confidence in the market was shredded with the economic and political turbulences of 2016 and sales reached $56.9 billion. A growth trend started again in 2017 with the auction sector overcoming in performance the dealer market.

However, whilst High Net Worth Individuals' financial wealth more than doubled between 2008 and 2018, from US$32.8 trillion in 2008 to US$68.1 trillion in 2018, global art market sales, which are positively correlated with global wealth, only experienced an increase of 9 percent over the same period[7]. This pattern has essentially showed that the art market is facing tougher conditions due to increasing political and economic uncertainty, and its future direction is now, more than ever, unforeseeable.

[4] https://quifinanza.it/soldi/arte-mercato-crisi/237/
[5] https://quifinanza.it/soldi/arte-mercato-crisi/237/
[6] The Art Market 2020, an Art Basel and UBS Report prepared by Dr. Clare McAndrew, founder of Arts Economics.
[7] Deloitte Art & Finance Report 2019

## 1.2 Art Market Overview

### *1.2.1 Works of Art: Defining Characteristics*

The traditional definition of work of art is "*something that is considered to have aesthetic value, something that is beautiful, intriguing, interesting, creative or extremely well done*". Works of art are defined as durable consumer goods and assets for storing value and are considerably heterogeneous with values ranging from a few dollars to millions of dollars. They are public goods when hung in a museum, speculative goods and also archetypal collector goods. Art is considered a tangible real asset similar to commodities, but it is not necessary for the functioning of the economy, meaning that it is not used in manufacturing, it is not consumed and is not used by businesses or individuals. In general, the specific and defining characteristics of works of art define the art market itself and therefore also the investments in this market and this is the most proper definition for what concerns the scope of this dissertation. The main features which characterize works of art as described by Joanna Bialynicka-Birula, professor at the Cracow University of Economics, in her paper "Investment in Art – Specificity, Risks, and Rates of Return" are:

- *Heterogeneity and indivisibility:* works of art are goods that do not have close substitutes or possibility of standardization;
- *Uniqueness and originality*: a work of art is also defined and valued in terms of the extent to which it is independent from other ones;
- *Authenticity and attribution*: the attribution of authenticity of a work of art is a fundamental aspect of its definition and is also one of the main features collectors look for when deciding what to purchase;
- *Aesthetic Items*: works of art are items capable of generating feelings of thrill, shock and pleasure in a consumer;
- *Singular goods and singularities*: works of art are considered singularities because they are goods that cannot be studied by standard methods because they are multidimensional, incommensurable, and of uncertain quality;
- *Luxury goods*: works of art are goods with a high income elasticity of demand (> 1);
- *Prestige goods*: works of art are goods which bring esteem and respect in a social environment as they often signal that the owner pertains to a certain social class and has a certain level of wealth. They often symbolize richness and power;

- *Goods of culture (national heritage or world heritage)*: works of art are goods of cultural meaning and as such they are timeless and to remain such they may need a particularly intense level of protection both physical and legal;
- *Cultural Products;*
- *Multidimensionality of value*: works of art have a multiplicity of values ranging from to emotional value to religious value and so on.

### *1.2.2 Characteristics and Economic Impact of the Cultural and Creative Sectors*

Policymakers, financiers, and other economic actors do not take in high consideration the cultural and creative sectors (CCS) as they are not believed to be relevant to the overall economy. However, economic data generally show that they are in fact known to promote growth all over the world. For CCS we intend "*inter alia audio-visual activities, design activities, architecture, activities related to archives, libraries and museums as well as artistic crafts and cultural heritage*"[8]. The common denominator to all of these activities is their drive, creativity and therefore Art.

Just to understand the volume and the importance of this market, it is imperative to highlight a few fundamental data. According to UNESCO, 30 million people worldwide are employed by the CCS sectors and the creation, production, and dissemination of CCS products generated an annual average growth rate of 7.34 percent during the period from 2003 to 2015. Moreover, in the European Union, the CCS account for approximately 4 percent of GDP and the jobs created by these activities account for the 30 percent of total employment in the EU. For all of these reasons, the EU considers the CCS as one of the most dynamic sectors that interact within its borders.[9] A tangible proof of the high consideration in which these sectors are taken by the EU is the setting up of a financial instrument to support the "*Creative Europe*" program (2014 to 2020) to promote Europe's cultural heritage.

For what concerns the past few years and broadening the scope of the analysis to a world overview, there were 310.810 businesses c.a. active in the global art and antiques market in 2019, giving employment to 3 million people[10]. Moreover, the jobs created by this market are not only large in number, but tend to be also highly skilled, knowledge-based, and gender balanced.

In general, the art market contributes significantly to the global economy, as already highlighted by promoting employment, revenues, and the development of specialist knowledge and skills. However, the value added by this sector comes also from a number of adjacent service industries, most of which,

---

[8] EIF (2019), "Market Analysis of Cultural and Creative Sectors in Europe: a sector to invest in". Available at: https://www.eif.org/what_we_do/guarantees/cultural_creative_sectors_guarantee_facility/ccs-market-analysis-europe.pdf

[9] EIF (2019), "Market analysis of Cultural and Creative Sectors in Europe: a sector to invest in". Accessed in June 2019, available at: https://www.eif.org/what_ we_do/guarantees/cultural_creative_sectors_guaran- tee_facility/ccs-market-analysis-europe.pdf

[10] The Art Market 2020, an Art Basel and UBS Report prepared by Dr. Clare McAndrew, founder of Arts Economics.

find their *niche* in the Art sector itself. The largest area of expenditure in this sense comes from art fairs reflecting the huge impact that these events have on their host cities contributing to inject substantial revenue and employment through the influx of high-spending visitors in a very short period of time, perfectly exemplifying the potential indirect impact of Art Trade and Art Market. The other adjacent expenditures and their shares are represented in the following graph.

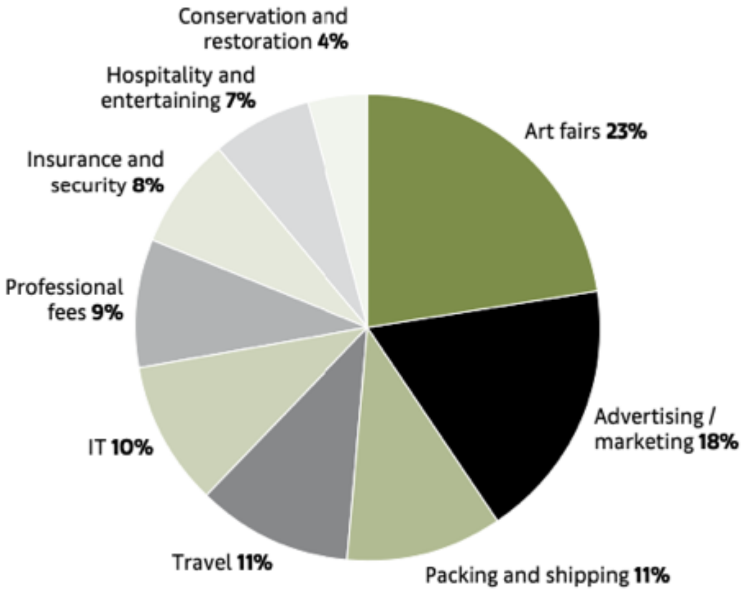



*Figure 1. Share of Expenditure by the Global Art Trade on Ancillary Services in 2019. Source: Art Economics (2020)*

### *1.2.3 Structure of the Art Market*

The term "Art Market" essentially refers to the set of processes through which works of art are sold and distributed and it broadly comprises auction houses and dealers who buy their stock from both auction houses and directly from artists. Works of Art are considered luxury goods and therefore the main markets for them are situated in wealthy and developed countries. In particular New York and London, as measured by auction-house turnover, are the main centers for sale of art works. Moreover, also Paris, Rome and Cologne are cities capable of attracting international prices.[11] Some of these countries also have extremely active local art markets. Italy is a vibrant example in this sense due to its developed economy and its enormous reserve of ancient art. However, art markets have also been spreading in other countries such as China, Taiwan, Honk Kong and South Korea, but also Thailand, Vietnam and Russia.

For what concerns the structure of the market, as Alessia Zorloni describes in her Article "Structure of the Contemporary Art Market and the Profile of Italian Artists", it can be thought of as a pyramid at the base of which the markets is relatively competitive due to abundant supply, free entry,

[11] Structure of the Contemporary Art Market and the Profile of Italian Artist, Alessia Zorloni, International Journal of Arts Management, Vol. 8, No. 1 (FALL 2005), pp. 61-71

homogeneous product and differentiation of similar goods sought by sellers. Therefore, competition in this stage of the market is focused on variety rather than on price. However, as we move up along the pyramid towards higher quality works of art, the market becomes more concentrated, entry is restricted and therefore returns are more uncertain.

The *Primary Market* consists of original works sold for the first time and it involves artist' studios, contemporary art fairs and art galleries. This market is at the same time the most innovative part of the distributive process and the one that yields the highest risk for both dealers and clients as, at this stage, there is little or no information available about the works of art. In particular, this risk is especially higher for products of the art of emerging artists with no market background.

The *Secondary Marker*, on the other hand, consists of the exchange of existing works of art and is therefore of greater interest for the purpose of this dissertation. The participants in secondary markets are distinguished from those of the primaries mainly for the fact that they are well informed about both the artists and the works of art. The latter distinction makes these kinds of markets sensibly less risky and more predictable than primary markets. The main actors of the supply side of these markets are auction houses whose share of profit comes generally from a variable fee based on the selling price, the cost of handling and any other incurred expense. The two main auction houses who share a world duopoly of high-value works are, as mentioned before, the British Christie's and the American Sotheby's. However, a few other houses handle particular national markets (alternative art works) and lower-value decorative objects (junk art works).

Moreover, Art dealers represent another important actor of the market, with sales in the gallery and dealer sector having reached $36.8 billion in 2019[12]. Close to 296.580 businesses are active both in the primary and secondary market for art.

Even though I will further develop an analysis of the main actors of the Art Market later on in my dissertation, for the time being, it is worth specifying that, the traditional division between auction houses and dealers is still relevant even with the emergence of new agents active in it. However, this distinction is starting to become increasingly blurred as major auction houses have increased their involvement in private sales stepping into what has been traditionally seen as dealers' territory. In fact, despite a decline in public action sales has occurred in 2019 (down 17% year-on-year), private sales increased, including sales of over 1.8 billion at Christie's and Sotheby's.

### *1.2.4 The Global Art Market in 2019*

**Sales and Volume in the Global Art Market in 2019**

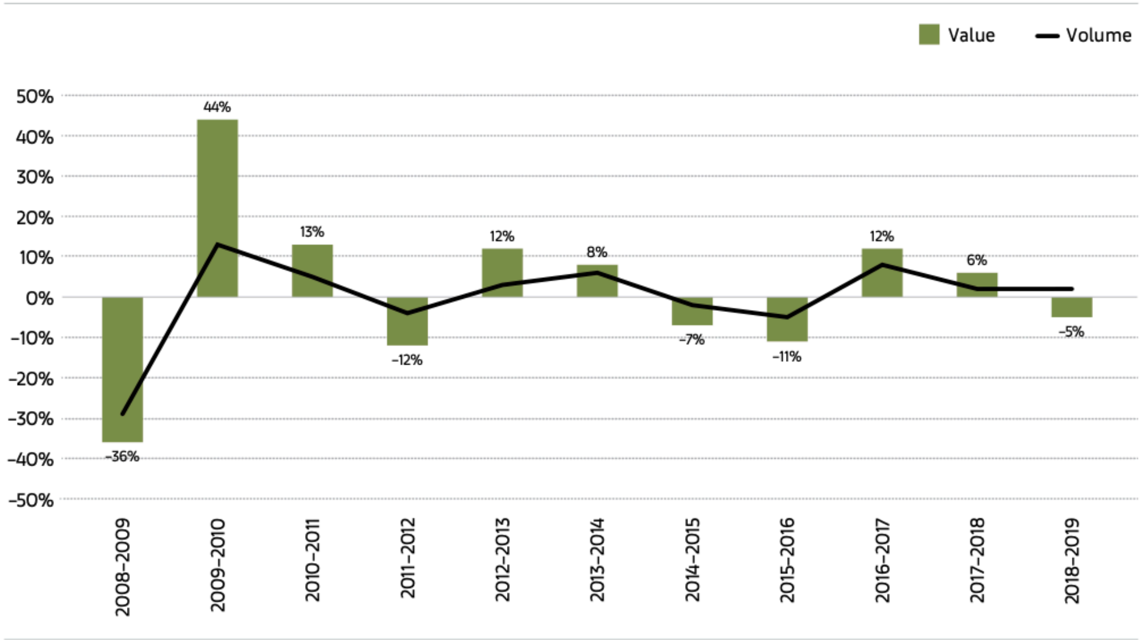
Global sales or art and antiques reached an estimated $64.1 billion in 2019[13]. A relevant trend during the past year has been that of further divergence of the performances of the auctions and dealers' sectors which had already been in act, as mentioned above, since 2017. Sales in the primary and the secondary market carried on by dealers, rose moderately, while sales in the auction market which corresponds to a public market significantly dropped.

For what concerns a more general trend, in the wider global context, 2019 was a year marked by geopolitical tensions and trade issues, with a trade war and an increase in protectionist policies in key economies for the investment market which led to reduced global growth (lowest level since the financial crisis of 2008-2009[14]). In particular, trade conflicts between the two most active art markets of the US and China, the impeachment of the US president Donald J. Trump and the too long protracted and difficult process of UK's Brexit all created uncertainty for both buyers and sellers of art. But how is this possible if we established that the rule with investments in tangible assets such as works of art which represent value storage means is that they are the less affected during periods of economic downturn when investors lose confidence in intangible financial assets? Despite the fact that the art market has always shown resistance to most events in the economy, when the global economy finds itself in uncertain conditions, vendors can perceive greater risk and therefore less potential for results in the public auction sector. This tendency explains both the newfound caution of art investors during the past year and the shift towards private forms of investment in this market which are perceived as less uncertain. The data collected in the Art Basel and UBS Report "*The Art Market 2020*", confirm these predictions showing how the global public auction sector contracted by 17% in 2019, while both private sales by auction houses and dealers grew.

A different trend was registered in the years leading to 2019 for what concerns the volume of sales rather than their value. Indeed, the volume of sales, as measured by the number of transactions, grew by 2% year-on-year reaching 40.5 million[15] transactions, the highest level in a decade. The reason for these results is mainly the high level of transactions maintained by some lower- and middle-priced, higher volume segments of both the dealer and auction markets. Both of the trends just outlined are visible in figure 2.

---

[13] The Art Market 2020, an Art Basel and UBS Report prepared by Dr. Clare McAndrew, founder of Arts Economics.
[14] The Art Market 2020, an Art Basel and UBS Report prepared by Dr. Clare McAndrew, founder of Arts Economics.
[15] The Art Market 2020, an Art Basel and UBS Report prepared by Dr. Clare McAndrew, founder of Arts Economics.




© Arts Economics (2020)

*Figure 2.*

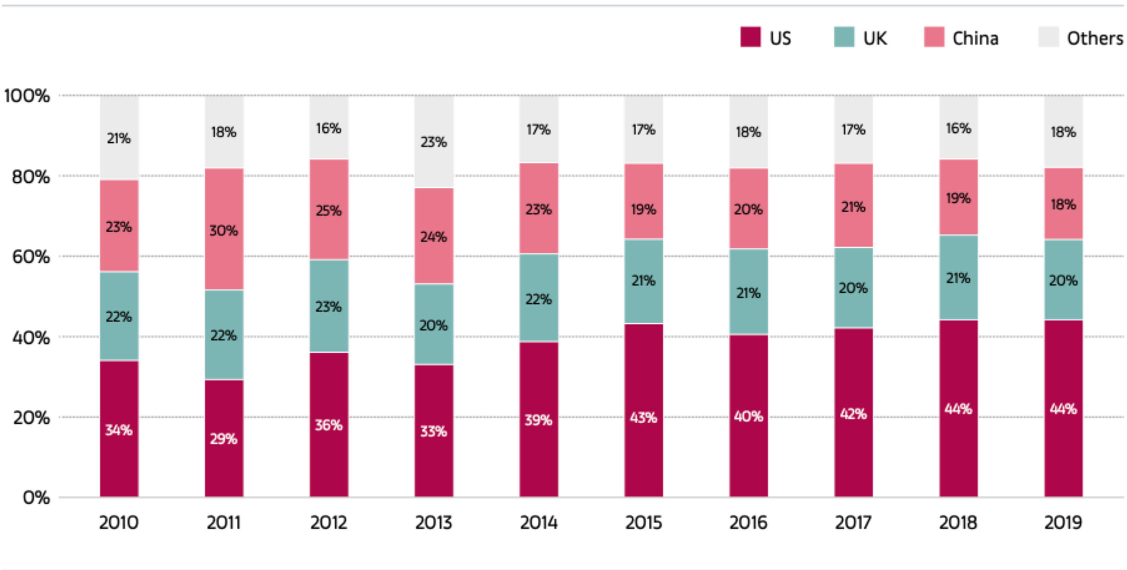
**Market Share in the Global Art Market in 2019**

The three major art market powers have always been the US, the UK and China and also in 2019 they account for the majority of global sales. The combined sales volume of these three markets accounted for 82%[16] of the market's overall value even if both the UK and China lost part of their share. On the other hand, the US maintained its position with a share of 44% of global sales values for most of the last 50 years, thanks to its large base of high net worth and upper-middle income individuals, its modern and efficient infrastructures and services. That is why the change in scope of the current administration in the US towards more protectionist policies has caused many concerns as the trade wars with China and other regions had negative effects on investor and consumer confidence in some industries, such as the Art and luxury goods markets.

The UK retained its second place in the global ranks in 2019 with a share of 20% in spite of the uncertainty and the problems which originated from the departure of the UK from the EU.

China, on his part, during 2019 retained the third place with a market share of 18%. This country pushed ahead of the UK in 2010 achieving a second place in the global market which it kept until 2014. However, in the following years the positions of the two countries reshuffled once again and China has maintained the third place ever since and in 2019 it reached its lowest level of economic growth since 1990.

[16] The Art Market 2020, an Art Basel and UBS Report prepared by Dr. Clare McAndrew, founder of Arts Economics.

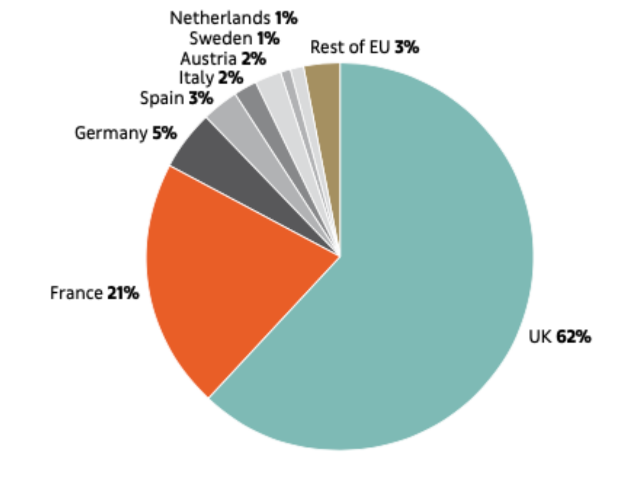



© Arts Economics (2020)

*Figure 3. Global Art Market Share of the US, UK, AND CHINA 2010-2019.*

For what concerns the broader market, a long-developing trend in the globalization of art sales has been observed. Indeed, even though the market results highly concentrated geographically around the US, UK, France, Germany, Italy, and Switzerland, it is far less so than it was in the past. However, the broad market still revolves around the core we highlighted up to this moment, partly due to the headwinds such as trade barriers, entrenched interests of local sales networks and real or perceived limitations to cultural globalization, which limit cross-border flows of art.

The “second tier” of markets comprehends five to ten mostly European countries. Lastly, the long tail of the distribution includes a large number of countries each with almost irrelevant global share.




© Arts Economics (2020)

*Figure 4. EU Art Market Share by Value in 2019.*

### 1.2.5 *Wealth and the Global Art Market*

One of the main characteristics of the financial market for Art, a characteristic which is extremely relevant to the scope of this dissertation, is its positive and fundamental correlation with global wealth. Auction sales data have indeed demonstrated that art is a long-term asset whose value remains protected over time, making it the best choice for high-net-worth individuals who are interested in investing in collectibles. However, surprisingly so, global art market sales have declined over the last 10 years, failing to keep up with the trend which has seen High-Net-Worth individuals' financial wealth more than double during the same time period (from an estimated $32.8 trillion in 2008 to $68.1 trillion in 2018[17]). Indeed, even though, in recent years, art prices have reached new records, as it is the case for the $450 million paid for Leonardo da Vinci in 2017 and the $91 million for the "Rabbit" stainless steel sculpture sold by Jeff Koons in May 2019, figures from the Art Basel and UBS Global Art Market Report 2019 show that global art market sales in 2018 were only 9%[18] higher in nominal terms than global sales registered in 2008.

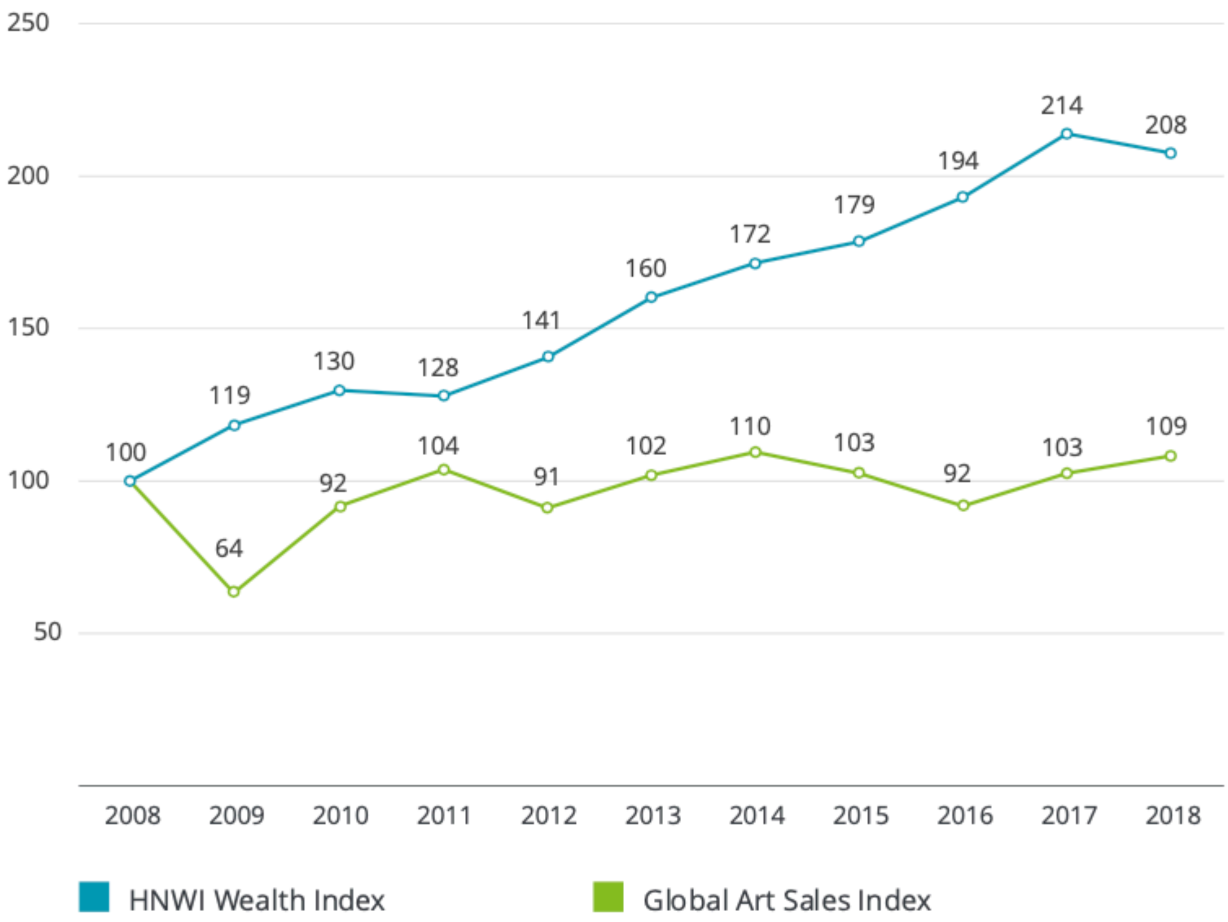



*Figure 5. HNWI wealth growth (US$) vs global art market sales (US$) growth*

*Source: Capgemini World Wealth Report, Art Basel and UBS Global Art Market Report*

[17] Deloitte Art & Finance Report 2019
[18] Deloitte Art & Finance Report 2019

In its *Art & Investment* report of 2019, Deloitte has interpreted this diverging pattern as a response to the changing characteristics of high-net-worth investors who today, more than ever, prioritize emotional satisfaction alongside financial gain. Investors like these, connected through technology and extremely aware of social injustice and other modern issues, pose continuous challenges to Wealth Managers who have to find new ways through which they can attract them and build with them long lasting commercial relationships. Even though we will discuss the role of Wealth Managers more in depth later on in the dissertation, these findings are extremely relevant in understanding the structure, performance and future prospects of the Global Art Market.
Indeed, as a financial market performs the essential economic function of channeling funds from investors to businesses, governments and other institutions, it is imperative to understand the motivation and the characteristics of Art investors to better penetrate the structure of Art Markets. With this in mind, after a brief parenthesis regarding the limits of the art market, we turn to the next chapter of this dissertation which focuses its attention to the stakeholders of the financial Art Market.

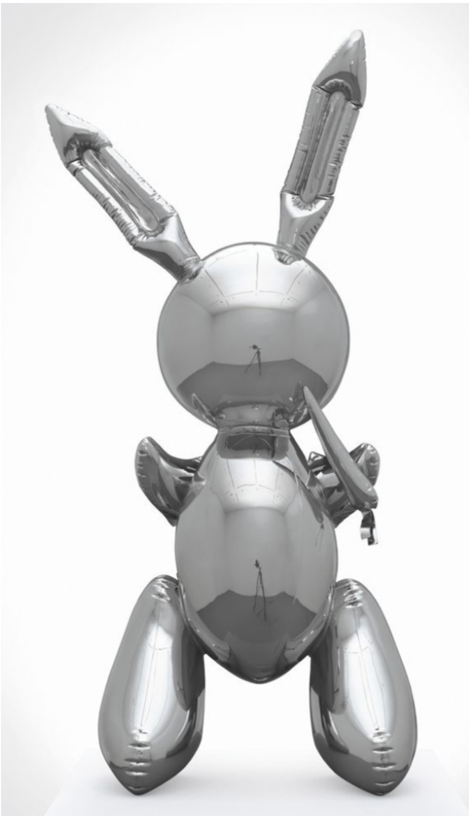


*Figure 6.“Rabbit”, by Jeff Koons, 1986, stainless steel sculpture* *Figure 7.“Salvator Mundi” by Leonardo da Vinci, c.1500, oil on walnut.*

### *1.2.6 Current Threats to the Art Market’s Reputation*

The main limitation to the further development of the Art Market is the perception by potential investors of a lack of transparency, which has increased in the last two years proportionately to the astronomical value levels reached by many works of art. Many active investors indeed perceive decreased democracy within the art market as well as reduced openness and increased price manipulation and conflicts of interests. Other important issued highlighted by wealth managers and art professionals seem to be related to authenticity, provenance, forgery and attribution of the works of art exchanged in the market. Another major impediment to the confidence of many investors appears to be the lack of an infrastructure which allows stakeholders to track and identify the owner and provenance of artworks. Moreover, the wealth management community expressed a strong concern about money laundering risks in the art world. To respond to these many concerns, the fifth EU anti-money laundering directive was promulgated and came into force in January 2020, requiring auction houses, art dealers, and other art intermediaries to undertake anti-money laundering checks on customers. It is not yet visible how this regulation will effectively impact the market and put a strain on the worries and uncertainty of investors but, despite the challenges that it will pose to the art industry, it is likely that that the reputational benefits will be enormous, considering the increased level of trust in the market this regulation will bring to investors.

In particular, many collectors, taxman and law enforcement officials, who are the main supporters of the need of increased regulation, believe that augmented transparency would not only fix many wrongdoings and concerns about authenticity and provenance of works of art, but that it would also boost the art market performance by ensuring consumer protection.

# CHAPTER 2: The main Stakeholders of the Financial Market for Art

## 2.1 The Financialization of the Art Market and the Main Stakeholders

“*The art market is being financialized. Like the broader economy, the art market is impacted by the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies. The overlap between actors in the art and financial markets has increased over time, along with the translation of financial practices in the art market*.” This quote, taken from “The Art Index as Art” article by Jennifer Gradecki, perfectly works as an introduction to this second chapter of my dissertation. Having in mind the inherent complexity of the interactions between the two worlds of Finance and Art and acknowledging the progressive dissolving of many of the traditional boarders between them, I will try to outline the main characteristics of the major stakeholders which were born or evolved with the encounter of Art and Finance. Financial language is increasingly translating into the art market and wealthy art collectors are now described as bringing “liquidity” to galleries, and dealers are described as “underwriters” when they fund production and transportation of works of art. Some examples of the “encounter” of Art and Finance can be found in the fact that some banks, such as Goldman Sachs, now offer art-backed loans, and High Net Worth Individuals (HNWI) are starting to use their collections as collateral when borrowing. This trend goes as far as including art critics and art historians whose works have traditionally been excluded from the market and are now being quantified with algorithms to determine prices.

If the art market is undergoing a financialization, it is also true that both auction houses and galleries, which represent the beating heart of this market, are starting to launch their own art market tools and financial analytics for their clients. That is the case of the acquisition by Sotheby’s of the art index company Mei & Moses and of the analytics available on the global network of art galleries known as Gagosian.

From Deloitte’s Art and Finance report 2019 it emerged that 81% of the interviewed art professionals stated that their clients bought art for collecting purposes, but with investment purposes in mind and the majority of collectors (65%) stated they bought art for both emotional and financial reasons. With the increases in prices, in interest from the media and in the financial value of art, it is clear that collectors and art professionals are becoming more aware of the financial aspect of art ownership.

The so called “securitization” of art has given birth to and has helped develop art advisory firms which are either inherent in or linked to major banks. This trend is unlikely to come to an end any time soon and many of its implications have affected professional personalities coming both from the world of Art and from the world of finance. The next chapter will analyze these different actors more in depth.

## 2.2 Wealth Managers

Wealth management is a tailored professional service generally aimed at handling the assets of a certain niche of affluent clients, the already mentioned High Net Worth Individuals (HNWI). The protagonists of wealth management are major private and investment banks, financial advisors, securities firms and asset management companies.

A wealth management advisor, also known as wealth manager, is a type of financial advisor who manages affluent clients' wealth through a variety of financial disciplines such as financial investment and advice, legal or estate planning, accounting, and tax services as well as retirement planning. High Net Worth Individuals are increasingly relying on these advisors as they enjoy a holistic approach to the coordination of the services needed to manage their assets, their money, their current financial situation and their future prospects and investment opportunities.

Wealth managers may happen to work as a part of small or large businesses generally associated with the world of finance. They can either work alone or as part of a wealth management team designated to special requests and they often specialize in advisory services focused on specific investment opportunities as it is the case for wealth managers invested in the Art market.

Professionals in the wealth management industry, whatever the nature of the wealth they manage, have to be keen to adapt to the different and changing needs of the new generations of clients, which can be broadly identified with the HNWI.

With respect to this, a recent research by Capgemini[19] has showed that the new emerging wealth manager dynamic with his clients is forcing the industry to rethink and revolutionize the client experience, a trend which will presumable accelerate and eventually transform the industry. This research highlighted the fact that, as international markets and HNWI wealth weakened over the past few years, as already mentioned, HNW clients shifted their assets allocations towards cash and cash equivalents and away from equities reflecting a tendency in the direction of risk-averse preferences. These findings suggest that wealth managers are increasingly finding themselves in a position in which they have to go out of their way to engage in permanent relationships with their clients and to gain their trust. The abovementioned research indeed highlights the fact that the next generation of wealth management clients seek emotional and personal connection and therefore suggests that

[19] World Wealth Report 2019, Capgemini

wealth managers should consider connecting at those levels with their clients in order to become more competitive in the marketplace.

As the Deloitte's Art and Finance Report 2019 states, "*it is in the domain of personal and emotional connections specifically that…art and wealth management could develop a mutually beneficial partnership*". Individuals who are interested in investing in Art and Art backed assets want their wealth managers to deeply understand their interests, hobbies and passions. Moreover, they are always looking for innovative and sophisticated ways of collecting art market data and information and they expect their wealth managers to do so as well.

The Deloitte's Art and Finance Report 2019 includes the findings of a survey conducted specifically to understand the role, the believes and opinions of wealth managers with respect to art and collectibles. This survey showed how wealth managers see significant benefits in including the latter in their product and service offering.


*Figure 8. Source: Deloitte's Art and Finance Report 2019*

The key argument for the inclusion of such assets as part of the service offering is known as the "holistic" approach to wealth management aimed at considering diverse asset markets in order to come up with a custom-made strategy able to effectively respond to the needs and wants of the new generation of HNWI. Indeed, art and collectibles are surely not chosen by wealth managers for their inherent characteristics as assets. There is a widespread lack of understanding of the art market and its trends and wealth managers often do not know how to assess the risks and returns associated with the assets traded in it and therefore it is extremely difficult for them to come up with art-related services aimed at protecting, enhancing, and leveraging the increasing value of art.

Therefore, together with the "holistic" approach argument, the main reason for the increasing presence of art-related services in the offerings of wealth management firms lies in the so-called portfolio diversification argument. Indeed, the results of the beforementioned Deloitte's survey indicate that always more wealth managers believe that art and collectibles offer portfolio and asset diversification benefits which, as I will explain later on in my dissertation, also reflects the motivation of art collectors and art professionals for purchasing such assets.

Both the motivation and effort of wealth managers to include art-related services in their offering and the increasing demand for such services by wealth management clients has resulted in an increasing trend towards their inclusion and promotion. 72 percent of the wealth managers surveyed by Deloitte has confirmed that they were currently providing art-related services, up from the 64 percent of wealth managers in 2017. These results are a clear representation of the increasingly important presence of art in the finance and wealth management world promoted both by private banks and family offices. This year's findings are in fact the highest figures since the launch of the survey in 2011.

For what concerns the future of this trend and of the linkages between Art and wealth management, it seems to be somewhat uncertain. Even though all of the parties involved signaled increasing interest and attention to the inclusion of art and collectible in their day-to-day operations, the 2019 survey's findings showed that the level of focus on most activities related to Art and Finance is instead decreasing. Some of the data included in Deloitte's survey show the relevance of this discrepancy. In 2019, 67 percent of wealth managers stated that they expected their clients to want to include art assets in their wealth reports in order to have a clearer understanding of their wealth and exposure. However, in the same year, 84 percent of the collectors and art professionals surveyed stated that their clients were likely to want to include art assets in their report, exemplifying the difference between what wealth managers are currently offering and what their clients would like to see.

However, this evident contradiction between increasing demand and decreasing supply, is probably, as I will analyze more in depth later on, due to the perception and fears associated with the intrinsic characteristics of Art as an asset class and to the uncertainty related to current art market practices that risk undermining confidence in the returns associated with such investments within the wealth management industry.

### 2.2.1 *Art-related Services offered by the Wealth Management Industry*

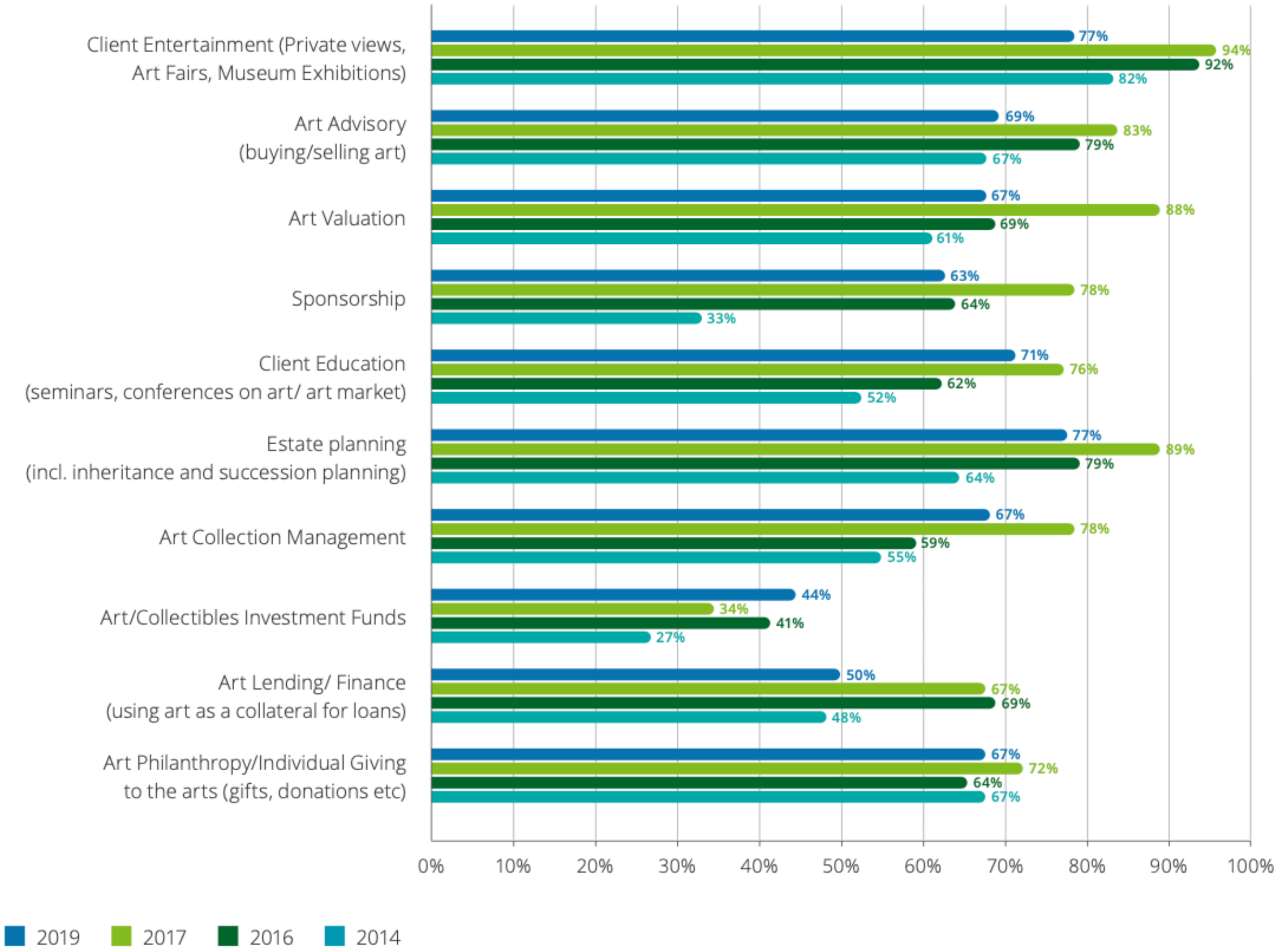



*Figure 9. Percentages shown represent banks who offer art-related services either in-house or through a third-party provider. Source: Deloitte Luxembourg and ArtTactic Art & Finance Report 2019*

This graph represents the main sectors of art-related services that wealth managers currently offer to their client. In 2019, client entertainment services resulted to be the main focus of wealth management offering in the form of private viewings, visit to art fairs, museum exhibitions, and so on. Other sectors which rank high on the list presented are estate planning and philanthropy. A basic estate plan is indeed an essential asset aimed at addressing issues such as the disposal of assets after the passing of a loved one and the subsequent family disputes over them making this service especially interesting and needed by HNWI as the wealth currently held by UHNWIs (Ultra-High-Net-Worth-Individuals: those with assets, excluding their main property, worth US$ 30 million or more) is estimated to amount to US$ 1.74 trillion[20] which is likely to be passed on to the next generation and to include art and collectibles.


*Figure 10. Source: Deloitte's Art and Finance Report 2019*

Particularly relevant to the scope of this dissertation is the fact that more than half of wealth managers offer to their clients the option of investing in art and collectible funds. Wealth managers are indeed starting to fully appreciate the opportunities offered by such markets considering the changing expectations and preferences of their HNW clients. These individuals often entertain multiple relationships with different private banking institutions at once and it is therefore imperative for wealth managers who want to maintain their own or their institution of reference's competitiveness to provide services which satisfy and are connected to the main aspects of their clients' lives and interests which are increasingly moving towards art, cars, watches, wine and more luxury assets which often need to be insured, maintained, and tracked and for investors to decide on ad hoc strategies for acquiring and divesting in them. All of these goods, known as "passion investments", have therefore gained importance over the past 15 years and can no longer be ignored by wealth management firms. Another indicator of the increasing interest of wealth managers to engage in client's passion investment is the recent trend to educate business school students and future investment bankers on the importance of the art market and of investing in art.

A wealth manager today has the main goal to protect the interests of his clients and, as this survey's findings show, wealth managers are managing more than just their client's wealth expanding to areas such as real estate planning, loan, debt, debt management, education, insurance, and retirement planning and working to become as "holistic" as possible.

[20] Art & Finance Report 2019

### 2.2.2 *Key Challenges faced by Wealth Managers related to the Art Market*

As noted in the previous paragraph, wealth managers today are struggling in incorporating art and collectibles into their service offering mainly due to the characteristics of the art market itself. The latter, indeed, suffers of lack of transparency which was cited as the "top challenge" by 58 percent of the wealth managers interviewed by Deloitte and is caused by the scarce availability and diffusion of information and research on this market which is also highly unregulated, another characteristic which poses numerous challenges to wealth managers who decide to operate in it. The issues in this sense concern the "opacity"[21] that surrounds transactions in this market, particularly those carried on at its top end. This lack of transparency has indeed been the cause of many recent cases of failure and dismissal of galleries and art dealers found guilty of selling fakes for decades. The loudest examples which had a significant impact on investors' expectations and perceptions of the market as a whole are the shutting down of the New York's 165-year-old Knoedler Gallery in 2011 and the conviction of the Michigan art dealer Eric Spoutz who sold numerous counterfeit artworks to unsuspecting buyers. Other than the lack of transparency, also the scarcity and ineffectiveness of market regulations are prime causes of these disasters which seriously undermined customer's trust in wealth managers proposals to diversify their portfolio through investments in art and collectibles. This issue is particularly tedious and hard to resolve as dealers and galleries often are forced to compromise their transparency in order to respect their vendors' requests to remain unidentified as they could otherwise just look for different outlets for their business.

Moreover, offering art related services requires internal expertise and knowledge of the market which necessitate a significant employment of time and resources to find or form and are therefore extremely scarce. The main characteristics of art markets, as summarize by Deloitte are indeed: "*high-risk investment, illiquid, opaque, unregulated, with high transaction costs, at the mercy of erratic public taste and short-lived trends*". Finally, another significant challenge wealth managers who specialize in art related services have to face is the difficulty in measuring their benefits which makes them hard to sell internally. This in turn leads to a loss of confidence in such assets by investors who are discouraged by the absence of a transparent art pricing and valuation mechanism commonly and universally accepted. Even though some price indexes for works of art are starting to emerge and gain importance, there is no guarantee that most of the current prices encountered by investors are the result of an attentive and systematic quantitative analysis as these assets are more often valuated following a qualitative analysis conducted by expert appraisers who use relative valuation which entails looking at the prices of similar assets in the market, at the qualitative distinctive characteristics

[21] https://www.ft.com/content/77cba886-251b-11e7-a34a-538b4cb30025

of the work of art, at the supply and demand analysis and at consumption utility and individual perception.

The following graph summarizes these findings in the form of results of the same interview conducted in three different years.

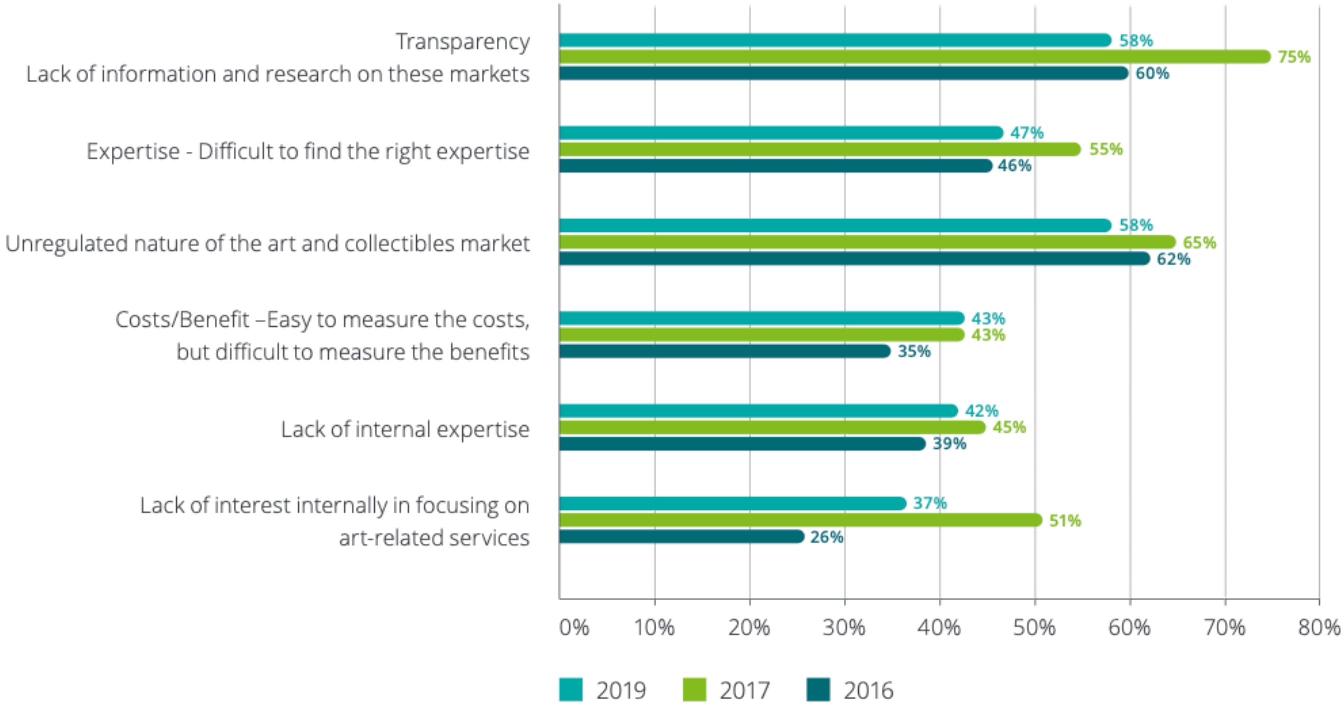



*Figure 11. Wealth managers: what do you see as the biggest challenge in offering art-related services/products? Source: Deloitte Luxembourg and ArtTactic Art & Finance Report 2019*

## 2.3 Art Collectors and Art Professionals

### *2.3.1 Art Collectors*

To fully understand this group of stakeholders I believe that the best definition can be found in the division developed by Evan Beard, head of the art division of Bank of America, of serious collectors into four "tribes"[22] each with their own behaviors, insecurities, strengths and motivations for acquiring art.

These four tribes of collectors have also been inserted by Evan Beard in a matrix developed on two dimensions. On the horizontal axis of the matrix is represented the degree span of the financial motivation for collecting art. On the vertical axis of the matrix is represented the degree span of the academic motivation for collecting art.

[22] https://www.artsy.net/article/evan-beard-four-tribes-art-collectors

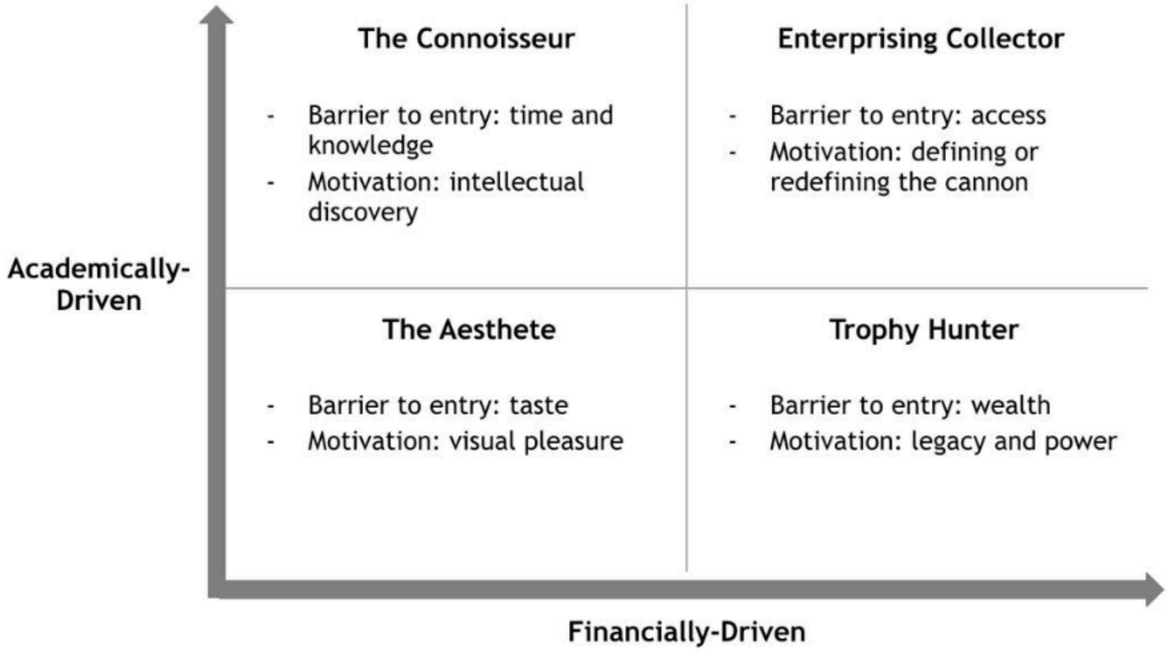



*Figure 12. Source: The Four Tribes of Art Collectors - Artsy*

1. *The Connoisseur*: "*Connoisseurs are the intellectuals of the art market*", mainly driven by the history of artistic objects and almost never interested in purchasing them as investments. This "tribe" is incredibly independent of the believes and tastes prevalent in its time. Rather, they pay close attention to the opinions of a few selected experts. These collectors develop their status over time through research, effort and devotion to the cause.
2. *The Enterprising Collector*: Enterprise collectors are dynamic and "gossipy" individuals open to the new and experimental and "*engaged in a kind of moral combat to identify and elevate the art that will matter*". For what concerns their personal characteristics, they are usually first-generation entrepreneurs from professions such as finance and real estate and who therefore are keen to view art as an asset class even though they do not consider it as merely an investment. This "society" is not easy to access and within it, owning the right painting is an indicator of a certain social status. Moreover, these collectors are aware of their power as, today, placing a work of art of a young artist with the right collector is the fastest way to legitimize it and is even quicker in this sense than the blessing of a curator or a critic.
3. *The Aesthete*: for these collectors, who are the least self-conscious ones, art in an end in itself and is therefore completely separate from social status or financial gains. These collectors are therefore the least interesting and appealing potential clients for wealth managers who offer art related services. Yves Saint Laurent is considered a famous aesthete, driven by a "visceral response" to the art object.

4. *The Trophy Hunter*: this group of collectors is all about making money which for them is incredibly easy. "*Trophy hunter wealth is often more abstract than the painting on the canvas*". For this tribe acquisition of art is an end in itself and this makes them the perfect target for a wealth manager looking to promote investments in art-related services. This is perfectly exemplified by the following statement of a famous art collector interviewed by Evan Beard: "*Art delivers two types of pleasures: the joy of looking and the adrenaline of procuring. I'll let posterity enjoy the former as long as I can enjoy the latter*". These collectors tend to be the biggest borrowers and they often leverage their art to undertake big actions such as taking over a large company.

### *2.3.2 Art Professionals*

The broad category of Art Professionals includes museum curators, gallerists, art dealers, art advisors, art critics, auctioneers and artists themselves. All of these actors can be considered the tastemakers of today's art generation.

- *Museum Curators*: a museum curator is responsible for the management of collections of works of art and artifacts and takes care of the display of these items as well as of the acquisition of new pieces, usually with the final objective of educating the public. Museum curators are increasingly identified as this institutions' managers as they often carry on public relations, found raising, marketing and educational duties. Moreover, they take care of budgeting issues and management of the museum human resources. Additional responsibilities of museum curaors, which vary from one museum to the other, may be deciding which objects to choose for display, overseeing documentation, conducting research about the history and provenience of a collection and finding packaging for art during transportation. Finally, these art professionals also have to deal with inquiries from the public, clients, stakeholders, community groups, management boards, governors, trustees and council members and have to entertain active relationships with other museums and gallery members;
- *Gallerists*: gallerists play an important role in guaranteeing and encouraging the success of an artist or the growth of an art collection. As their main task, indeed, gallerists select and promote artists with the objective of consolidating their artistic and commercial value. Moreover, they take care of the exhibition and sale of works of art by artists with whom they entertain close relationships at museums, institutions, auctions, private sales or other occasions. They are also responsible for the maintenance and enlargement of contacts between all of the protagonists of the art world. Gallerists have to be constantly updated on the evolution of the art scene and have to take active participation in national and international fairs;

- *Art Dealers*: art dealers are educated professionals specialized in the field of art business. They too, as gallerists, always have to be updated on new tendencies on what is innovative, exciting and collectible. They buy from auction houses, artists or both and then sell the works they acquired in their own galleries or to a third interested party. Art dealers have to build relationships with collectors and exposition spaces who may be potentially interested in the art they represent. To summarize the characteristics of these actors of the market it is useful to think of them as "middlemen" between artists and the people or institutions interested in purchasing art.
- *Art Advisors*: art advisors, also known as art consultants, are responsible for finding exactly the kind of art their clients are looking for, considering their tastes, preferences and budget. Art advisors can be considered professionals as they are not tied to specific artists, galleries or other institutions even though they have to entertain active relationships with these art stakeholders. Also these art professionals have the duty to remain informed and up to date with the latest tendencies and preferences of the market. Looking at the broader category of art advisors, it is not uncommon to find professionals specialized in educating young collectors or simply suggesting art pieces to display in an apartment;
- *Art Critics*: these art professionals study and interpret works of art and artists and, together with art historians, create art theory. These actors are responsible for giving certain pieces of art, art movements and artists a place in art history. They are considered highly influential as they have been held responsible historically for the coining of otherwise undefined art movements and currents;
- *Auctioneers*: these art professionals work in auction houses, which, as noted before, represent the secondary market for art. The sales of works of art in auctions, where buyers announce the prices at which they are willing to buy and sellers announce the prices at which they are willing to sell works of art, are facilitated and governed by auctioneers who are responsible for leading the auction. They carry on the whole bidding process and finally sell the artwork to the highest bidder.

### *2.3.3 Preferences of Collectors and Art Professionals when Investing in Art*

Market experts estimate that 6 percent of the assets held in global wealth portfolios in 2018 were "luxury investments" which amounts to approximately US$ 1.74 trillion in art and collectible wealth held by HNWI. In light of these data, wealth managers are increasingly focusing on enriching and reinforcing the relationships and connections with their clients through the emotional and sentiment attached to investments in art and collectibles. In 2019, 81 percent of the collectors surveyed by Deloitte for its Art and Finance Report for the same year declared that they wanted wealth managers to incorporate art and collectible-related services into their offering. These findings highlight the fact that also art collectors are starting to consider their art pieces as investments or at least as integrated part of their overall wealth which is further sustained by the fact the 84 percent of the same sample of art collectors stated that they wanted to include their art and collectibles into their wealth reports in order to maintain a clear understanding and overview of their wealth and their exposure.

For what concerns the art ownership models and preferences of art collectors, these past few years have seen a conspicuous shift towards a more financially motivated approach to purchases and acquisitions of works of art. The following graph shows the results of the abovementioned survey, in particular is shows the answers of the interviewed collectors to the question: "*Which of the following motivations are most important in buying art*?"

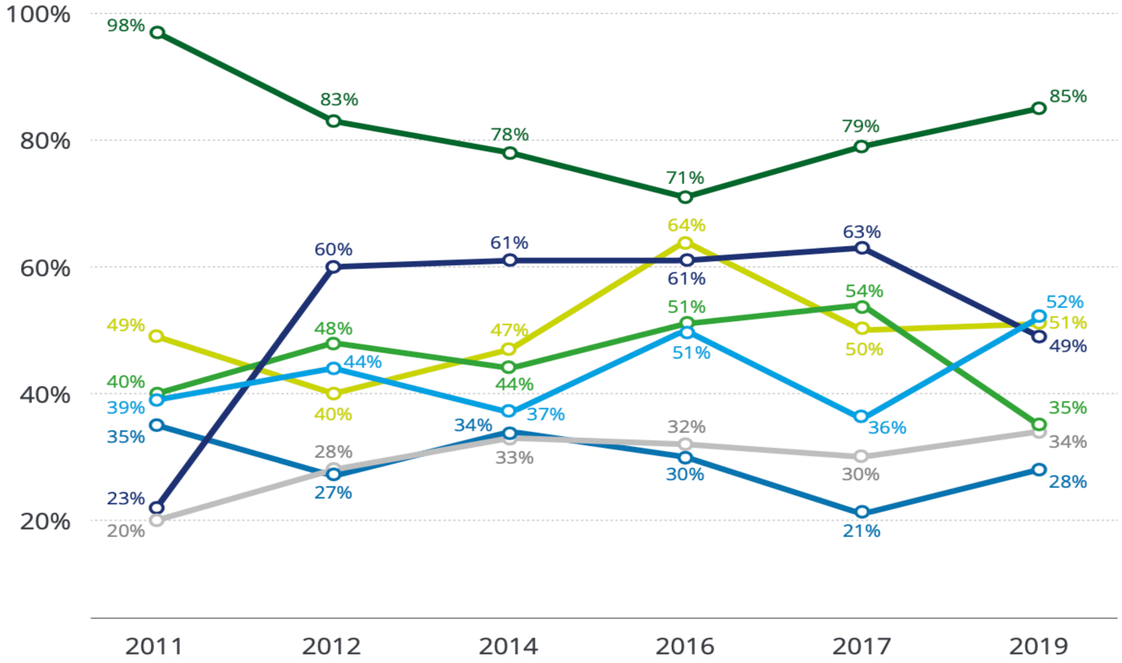



*Figure 13. Source: Deloitte Luxembourg and ArtTactic Art & Finance Report 2019*

Emotional Value Luxury Goods Investment Returns Safe Heaven

Portfolio Diversification Inflation Hedge Social Value

From this representation of the preferences of the art collector's sample, which also includes some art professionals, the most evident and striking inference which can be made is the reemergence and increasing importance attributed to the emotional pleasure and happiness gained through investments in art and collectibles as opposed to the decreasing relevance of social status as a motive to enrich personal wealth through these investments. This finding is particularly relevant as it exemplifies a shift from external values focused on the perception of others of oneself towards internal values of personal and individual satisfaction. This aspect must be taken into account by wealth managers, private banks and financial institutions when thinking of offering art-related services as the new

HNWI, as already noted, have to be acknowledged as a completely different generation of investors with respect to their predecessors, with different preferences and most importantly different perceptions of the relationships they want to have with their wealth and with those in charge of maintaining and enlarging it.

However, it would be naïve to believe that these new investors only consider emotional factors when they decide to purchase art and collectibles. The following figures show the results of another part of the abovementioned survey which further investigates the motivations behind collectors' and art professional clients' reasons for purchasing art asking the very precise question: "*Emotion vs investment: why do your clients buy art*?" to art professionals and "*Emotion vs investment: why do you buy art*?" to art collectors. The three different and most relevant purposes which emerged from the answers of these two different groups of stakeholders of the art market are: Investment purpose, Collecting Purpose, and Colleting Purpose but with an investment in view. The latter has to be interpreted as the blend of emotional and lucrative motivations typical of the new generation of HNWI.

**Art Professionals' Responses**

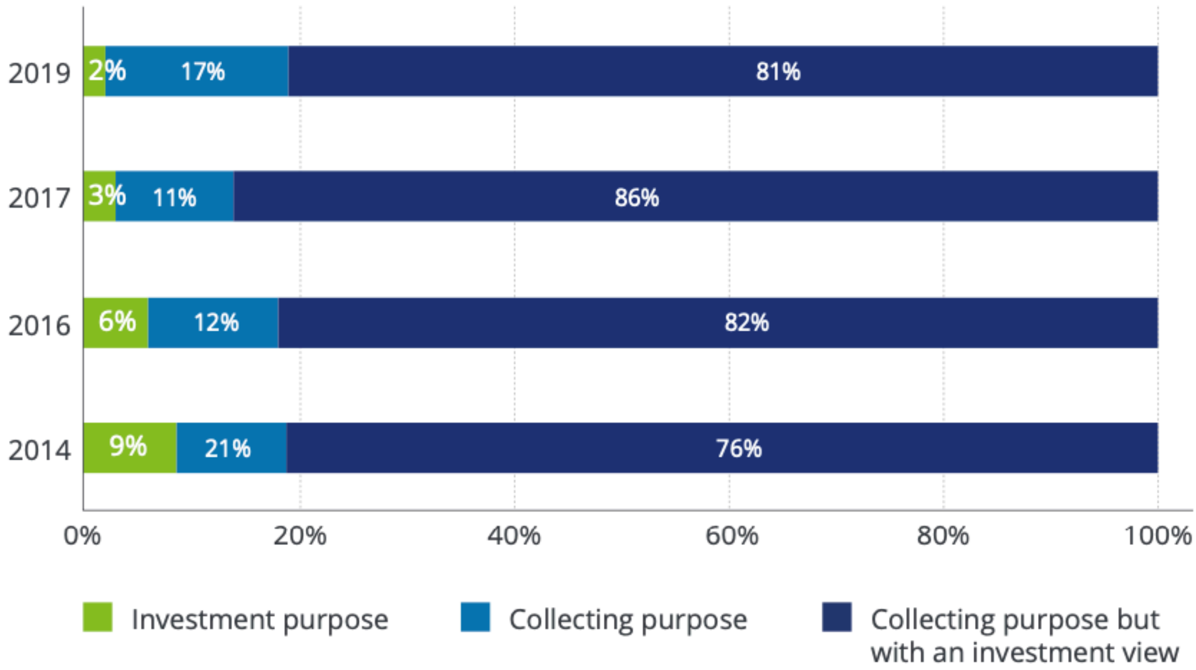



*Figure 14. Source: Deloitte Luxembourg and ArtTactic Art & Finance Report 2019*

**Art Collectors' Responses**

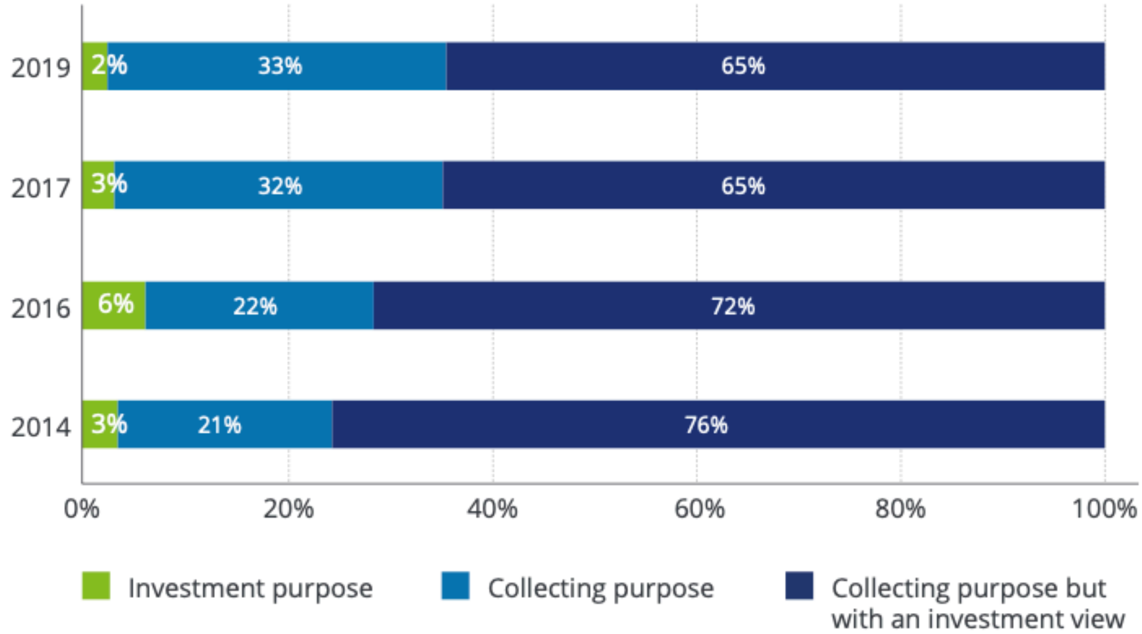



*Figure 15. Source: Deloitte Luxembourg and ArtTactic Art & Finance Report 2019*

As it is clearly visible, these results perfectly support the prediction that new HNWI, when investing in art, may not be as concerned about social status or owning luxury goods, but they are still extremely attached to the possible profits they could or could not make through such investments.

Another interesting and different perspective on the preferences of art collectors in particular, is the one of Christian Kaspar Schwarm, founder of "Independent Collectors", the first global, non-commercial online platform for collectors of contemporary art. Even though, due to the nature of the platform itself which is completely different from traditional exchange spaces for art collectors, one would expect a different outcome for what concerns collectors' preferences as reflected from the observations of the trends displayed on this platform, the answer is always the same. More specifically, Christian Kaspar Schwarm has witnessed what he called "*major changes in terms of the general mindset and the behavior of most collectors*" on his platform in the last 11 years. The most basic shift in preferences observed, behind which lie most of the reasons for the answers of collector to Deloitte's survey, is the willingness of these actors to make their own collection publicly visible. Works of art that had been kept behind closed doors are nowadays increasingly displayed either in real life or online and the prevailing philosophy at the time of the foundation of "Independent Collectors" of creating a safe space, free of commercial interest for likeminded collectors, has completely disappeared. Surely, the rise of the technological era and the general shift towards greater publicity caused by the social media phenomenon have played an important role in guiding this preferences "revolution". However, the most important element of the latter which is also what confirms Deloitte's findings is the fact that the function of collecting art has changed, becoming an increasingly multidimensional passion. Christian Kaspar Schwarm, with respect to this, mentioned the French philosopher Pierre Bourdieu and explained how he differentiated between economic, social and cultural capital. This is relevant as, while in the past most art collectors focused only on one of these aspects when investing in art and collectibles, modern collectors treat them as completely interdependent. Basically, once again, it is confirmed how there is no sharp and definite line anymore between emotional/cultural motivations and investment opportunities when talking about purchasing and acquiring art.

Having established that financial motivations are increasingly important aspects of collectors' and art professionals clients' decisions of purchasing art and collectibles, and to conclude this chapter of the dissertation on the main stakeholders of the art market and of its intersections with the world of finance, it is important to distinguish between three different dimensions of the financial aspects of investing in art. With respect to this, UBS and Art Basel's Report on the Art Market in 2020[23], investigated the importance of these three "Financial Motivations" for purchasing works of art:

1. *Expected return on investment*;
2. *Portfolio diversification*;
3. *Hedge against inflation*.

Moreover, they conducted such research by market, taking into consideration the seven currently most relevant and active markets in art and collectibles exchange: US, UK, France, Germany, Singapore, Hong Kong, and Taiwan. The results of this investigation are shown in the following graph:

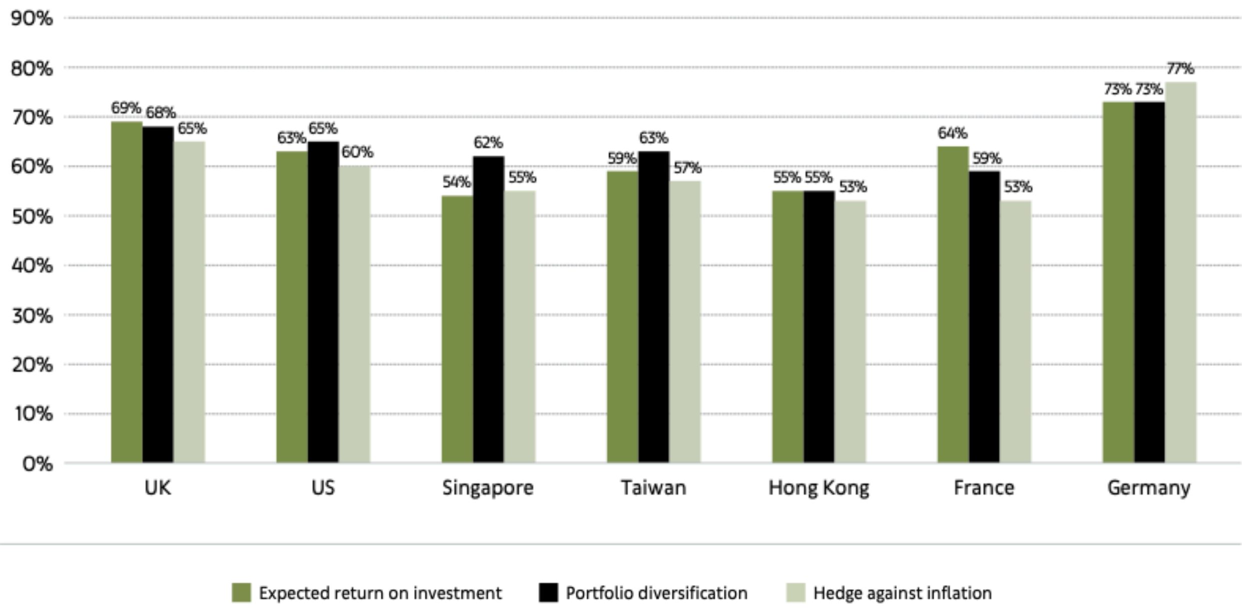



*Figure 16. Source: Arts Economics (2020)*

[23] The Art Market 2020, an Art Basel and UBS Report prepared by Dr. Clare McAndrew, founder of Arts Economics.

These findings may seem to be contradictory as "expected return on investment" as a financial motivation ranks lower than the other two almost in every market. This may seem to indicate that most collectors are reluctant to sell works of art from their collection in order to realize a profit, which is in fact a real concern for some kinds of collectors. However, UBS and Art Basel, went further in their analysis and broke down the broad category of collectors into three distinct groups:

1. Average;
2. Millennials;
3. Wealth > $5m.

They then investigated the share of each of these groups of collectors who resold at a profit works form their personal collections, always considering the seven markets beforementioned, and summarized their results in the following graph.

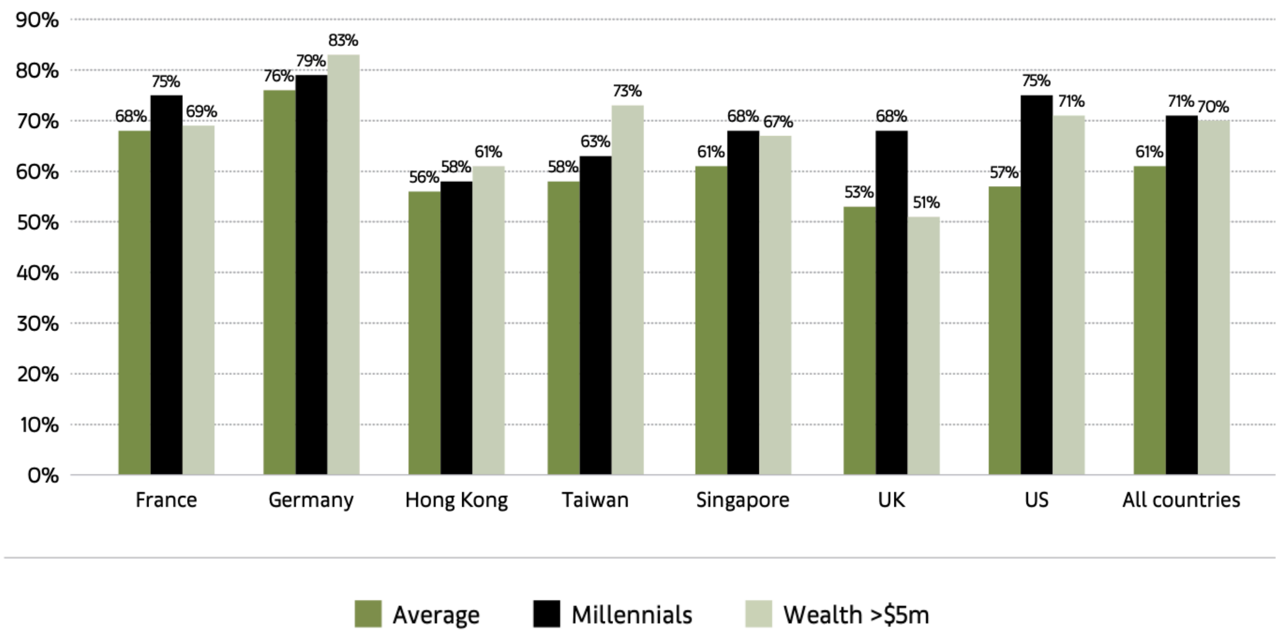



*Figure 17. Source: Arts Economics (2020)*

The most relevant result for this dissertation which can be inferred from these findings is that, as it is visible, millennial collectors, the ones that we have called up to this point the "new generation of investors", result to be likely to have resold works of their collections in all of the considered markets, once again exemplifying the changing and shifting preferences of these actors of the market.

Therefore, the high level of resales for the majority of these and also other groups of collectors indicates that, despite the fact that many of them still declare their investing in art activity as guided by emotional and aesthetic reasons, they are constantly and on a fluid basis getting in and out of their investments just as any other active investor in any other asset class would do.

It does, therefore, make sense to conclude that both sides of the financial market for art, that is, wealth managers on one side and art collectors and professionals on the other, are gaining more confidence and trust on this once considered risky, “obscure” and thus inaccessible market.
As already noted when describing wealth managers and their relationships with art related financial services, it is up to this category to fill the void between supply and demand of these services and to duly consider the benefits that this market could potentially bring. The promotion and encouragement to invest in art and collectibles will in fact encompass the mere financial gains which will present themselves to all parties involved, and it will educate the new generation of investors fostering the values of beauty and equilibrium which every work of art inherently carries even if held for a short period of time or used as a mean to achieve a profit.
Up to this point we have considered the characteristics of the art market and the main actors who interact in it. These elements have to be considered the building blocks to understand the processes and the dynamics of this particular kind of exchange, but one question still remains unanswered, or at least not fully answered and it is: “*Why should you invest in Art?”*.
In the next and final chapter of my dissertation I will try to answer this question as precisely as possible considering the characteristics of Art as an asset class.

# CHAPTER 3: Art as an Asset Class

## 3.1 The Three Categories of Art Services Offered by Financial Institutions

We have said that the fine art markets have been for a long time considered fascinating but also worrying by investors who gravitated around it. However, we have also highlighted the fact that due to the long-term worldwide trend of increasing wealth and to increased knowledge and control over this market, a much larger community started to seriously consider investing in art and collectibles. These brave and driven investors, even if highly motivated to pursue the opportunities offered by the art market, up until not too long ago encountered a scarce response to their demand for such services from the financial industry.

Today, as already noted, the latter has instead come to understand and appreciate such opportunities and is now working towards the implementation of art-related services in order to seize them. While, indeed, a "tacit relation" between art and finance has been existing for centuries, only in the past few years financial institutions and small financial boutiques have introduced and perfected in particular three categories of art services: Art advisory services, Art lending and Art investment services.

### *3.1.1 Art Advisory Services*

These services are the most common in the financial sector and the main aim of private banks in providing them is to offer "*non-financial lifestyle services*" which are essential to the construction of the already mentioned holistic approach to wealth management. These services indeed allow wealth managers and private bankers to build closer relationships with their clients, understanding their needs and passions. Buying and selling art, as we have confirmed, is not an easy or risk-free task and art advisors make it their prerogative to offer guidance at every stage of these transactions. This service is considered unique in terms of the expertise, knowledge and understanding of the value of art and of holding a work of art as an investment characteristic of art advisors. The main art advisory services are:

- *Art Research*;
- *Art Transactions*;
- *Art Management*;
- *Structured Solutions*;

### *3.1.2 Art Lending*

These art-related services are not very developed or diffused yet in the financial sector, but they are implemented and supported by some specialized boutiques. They mainly entail the attempt to turn art into a working asset. The birth and development of these services in the world of finance, considered by many a true phenomenon, dates back to the past few years only. Even though there are many different art lending services, this practice in its broader sense offers the possibility to obtain a loan in exchange for the deposit as collateral of one or more works of art. This instrument allows collectors to pledge high value works of art on the market in exchange for liquidity, thus, transforming them in a true asset class. The current amount of loans completely collateralized by works of art is estimated to range between 15 and 20 billion dollars.[24] The reason why this type of service has been growing in importance only in the last few years is attributable, once again, to the peculiarity of the characteristics of works of art which have always been considered by many hard to evaluate and authenticate and of the art market which, as we know, still lacks full transparency. The main art lending services, that is, lending services with art as collateral, already in place are:

- *Term loan*: borrow against art;
- *Acquisition financing*;
- *Revolving lines of credit*;
- *Dealer inventory financing*;
- *Bridging loans, advances and auction guarantees* (works of art are monetized while waiting to be sold);
- *Arranging loans to museums and exhibitions*.

#### *3.1.3 Art Investment Services*

These services are still in their "infancy" and are essentially the result of the growing recognition and value attributed to art as a new asset class which generated increasing interest in the role of art as a mean through which portfolios can be positively diversified. However, the only relevant initiatives in this sense have been carried on by the academic world and individuals who combine a strong expertise in art and finance. No large banks have indeed started to provide these kinds of services yet. The main art investment services are:

- *Art Investment Research*;
- *Portfolio management*;
- *Monitoring and selection of art funds*;
- *Structuring of art investment funds, funds of art funds and art investment clubs*;
- *Art Securitization*.

[24] https://www.artribune.com/professioni-e-professionisti/mercato/2017/06/fenomeno-art-lending-economia/

## 3.2 The Reasons for Investing in Art

"*There is a growing recognition of art as an investment asset class by investors. People become more sophisticated in their financial planning and estate planning and they begin to view art as an investment*" - Adriano Picinati di Torcello, Senior Manager at Deloitte Luxembourg. Before entering into a proper analysis of the characteristics of art as an asset class and of the aspects that differentiate it from other securities, I believe it is relevant to briefly consider some of the reasons which make art a potentially fruitful investment. Namely, investing in art brings many financial benefits other than the traditional "aesthetic dividends"[25]:

- *Potential high returns*: aware and knowledgeable investments in this category of assets have a potential for extremely high returns;
- *Inflation Hedge*: investing in art offers a hedge against inflation and against currency devaluation. Indeed, the price of art should keep up with inflation because of its limited supply and the fact that it is not denominated in any particular currency therefore being immune to expansionary monetary and fiscal policies of any particular government;
- *Tax Advantages*: In some countries, art enjoys favored tax treatment, especially for what concerns inheritance taxes. It is indeed possible to receive tax benefits for the purchase of art if you fall into a particular tax bracket;
- *No minimum investment* is required;
- *Diversification*: due to its different characteristics with respect to many other asset classes and therefore to the low correlation it has with them, art can reduce risk in a given portfolio because of the diversification benefits it offers;
- *Income Source*: lending works of art may generate revenues through the sharing of the aesthetic dividends with the public, for example, lending pieces of personal collections to museums or galleries;
- *Movable*: Art has no geographical risk as it can be moved or transferred easily as needed;
- *Insurable*: works of art are insurable and can therefore be protected from calamity risks.

## 3.3 Specificity, Risk and Rates of Return of Investments in Art

In order to offer a clear picture of art as an object of investment, I will follow the reasoning of Joanna Bialynicka-Birula, professor at the Cracow University of Economics, who, in her paper "Investment

[25] The Investment Assets Handbook: A definitive practical guide to asset classes

in Art – Specificity, Risks, and Rates of Return”, presents the features of works of art and of the art market in comparison with the characteristics of other securities and of the stock exchange market. The abovementioned paper analyses these differences taking into account: commodity features, ownerships characteristic, markets’ classification, liquidity, access to information on prices (market values), kinds of values, incomes, time horizon of investment, market indexes used for the art market and stock exchange indexes.
For what concerns the general and broader characteristics of works of art, the ones indicated in paragraph *1.2.1 – Works of Art: defining characteristics,* are still relevant in this section and are extracted from the work of professor Bialynicka-Birula as well. However, in order to fully understand the role of art as an asset class we must introduce some further specifications with respect to the features of works of art when considered objects of investments.

### *3.3.1 Comparison of Characteristic Features of Investment Objects and their Markets*

In this paragraph I will tackle the issue of defining works of art as objects of investment from the perspective, studied and presented by professor Bialynicka-Birula, of a comparison with other securities and their respective markets considering as comparative criteria the following variables: features of objects of investment, necessity to ensure special maintenance conditions, classification of objects of investment (Blue chip, Midcap, Smallcap), character of ownership, market classification (primary, secondary), institutional markets (auctions, stock exchanges) and informal markets, frequency of organizing auctions and stock exchange sessions, availability of information on prices of concluded transactions, price indices used for art markets and securities markets.

- *Features:*
  - **Works of art**: works of art are rare, unique, unrepeatable and as such cannot be considered perfect substitutes. The macro-area of works of art comprehends a wide range of goods often heterogeneous among one another;
  - **Securities**: there exists a large number of securities that are homogeneous and perfectly substitutable an are therefore characterized by replaceability and homogeneity;
- *Special Maintenance:*
  - **Works of art**: to ensure the proper maintenance of these objects of investment specific levels of temperature, humidity, lighting and protection against theft;
  - **Securities**: securities do not need special maintenance;
- *Classification of objects of investment:* for this comparative criterion the traditional categorization of stocks according to their investment characteristics is applied to both works of art and securities. The most common categories for what concerns market capitalization are: blue-chip stocks

which are stocks of large and stable companies whose return consists mostly of dividends; midcap stocks which are stocks whose market capitalization ranges from the top of the small-cap market to the bottom of the large-cap market; smallcap stocks are stocks of small companies that have the greatest potential of growth.

- **Works of art**:
  - Blue chips: paintings of the most globally recognized painters are included in this category. These paintings and their authors have to have contributed significantly to the development of global painting. Some examples are paintings from Monet, Renoir and Picasso;
  - Midcap: paintings attributed to the so-called “second league” painters are included in this category. These paintings and their authors are, however, still considered of national significance;
  - Smallcap: paintings by painters considered part of the “third league” are included in this category. These paintings and their authors are considered relevant at the regional or local level;
- **Securities**:
  - Blue chips: shares in renowned and large companies which have stable foundations, high capitalization, a high share of dividends paid, and stable prices are included in this category;
  - Midcap: shares in companies which have medium capitalization, weaker foundations and a higher variability in their price levels are included in this category;
  - Smallcap: shares in companies which have low capitalization, an unstable financial situation and a significantly higher level of price variability;

- *Freedom:*
  - **Works of art**: works of art and their owners interact in a market relatively free of competition. Often enough, indeed, the owner of a work of art can be considered as acting like a monopolist not restricted by competition;
  - **Securities**: securities and their owners interact in a competitive market;
- *Market Classification:*
  - **Works of art**: as already mentioned, the art market is classified into a primary and a secondary market;
  - **Securities**: also securities’ markets are classified following the traditional distinction between primary and secondary markets;

- *Type of Market:*
  - **Works of art**: the market for works of art is considered an elite and luxury market;
  - **Securities**: the market for securities is considered a mass market;
- *Institutional Market:*
  - **Works of art**: works of art trade in the institutional market of auctions;
  - **Securities**: securities trade in the institutional market known as stock exchange;
- *Informal Market:*
  - **Works of art**: works of art also trade in what can be defined as an informal market as it is also possible, for example, to purchase them directly in the artist's workshop;
  - **Securities**: securities do not trade in an informal market;
- *Frequency of Sessions:*
  - **Works of art**: auctions sessions are not organized frequently, often following specific time intervals. This leads to the seasonality of this type of market, a characteristic which is likely to decrease the number of concluded transactions;
  - **Securities**: stock exchange transactions are extremely frequent as the trading system in which they operate is a continuous one and is therefore characterized by a higher frequency and number of concluded transactions;
- *Availability of Information on Transaction Prices:*
  - **Works of art**: works of art prices (out of auction) are often retained as private information known only to the parties involved in the final transaction and exchange;
  - **Securities**: securities' prices are known to the public through stock exchange listings;
- *Price Indices:*
  - **Works of art**: MM - Mei-Moses Fine Art Index (the most important group of art market indices which includes more than 30 thousand works of art which were resold by the biggest auction houses around the world), AMR (Art Market Research Price Index), Sotheby's Art Index, Art Price Index, Fase i van Tol Index, Hislop's Art Sales Index, Gabrius Index;
  - **Securities**: Dow Jones Industrial Average, NASDAQ, FTSE 100, DAX, CAC 40, PS 50, WIG.

Now that we have formed a clearer understanding of what kind of asset an individual will have to deal with when deciding to invest in art or use art as a collateral for some kind of loan and of what differentiates such object of investment form the other most traditional and traded ones, we can further dive in in the analysis of the specificity of investments in art.

### 3.3.2 *Specificity of Investment in Art*

Investment in Art may take two different forms:

1. *Direct Investment:* directly investing in art entails purchasing works of art directly either in the primary or secondary market. This type of investment always involves the actual purchase and subsequent ownership of the work of art. Direct investments in art are characterized by very low liquidity, a very long time horizon which makes them long-term investments, by the fact that they are not a source of fixed income except for the option to earn rent form their exhibition, and by their purpose which is a non-financial one and it instead revolves around aesthetic, psychological and social factors making direct investors in art less concerned with financial returns;
2. *Indirect Investment:* indirectly investing in art entails making an investment not related with the possession of a work of art. This type of investment takes the form of either the purchase of shares in companies active in the art market (Sotheby's Holding Inc., Artnet AG, Arprice S.A., Art in Motion Income Fund) or the purchase of shares in specialize art investment funds such as the Fine Art Fund or the Collectors Fund. Indirect investments in art are characterized by a higher liquidity with respect to comparable direct investments which makes them more similar to securities than the latter. Moreover, also the fact that usually the time horizon of these investments is sensibly shorter as well as the fact that they pay dividends when in form of shares, makes them comparable with investments in securities. Finally, investors who decide to use this form of investment are mainly concerned with their financial purpose and are therefore attentive to look for positive financial returns rates and give less significance to the non-financial goals of their investments.

**Risks of Investments in Art**

As with any other type of investment, the two most important dimensions to take into account are risk and rate of return which are also strongly related among each other. The golden rule of finance is indeed considered the fundamental notion that, as investment risk increases also the returns associated with it increase proportionately. For what concerns works of art and their markets, some of the risks associated with them are specific to these objects or associated to the art market system itself but they can also be related to their immediate and distant environment. To analyze in detail such risks, once again, the research and classification carried on by professor Bialynicka-Birula is particularly relevant as she proceeded to the identification of the kinds of risks and their characteristics associated both with works of art and the parties involved in the exchange of such assets. The findings of professor Bialynicka-Birula are:

- ***Works of Art***:
  - Risk of authenticity and attribution of a work of art: authenticity risk is one of the most relevant concern of investors when entering the art market and it has to do with incorrect attribution, lack of a certification of the authenticity of the object, possible purchase of false works of art and possible acquisition of a work of art with an altered or falsified signature;
  - Risk of provenance of a work of art: provenance risk has to do with the likely possibility to purchase a work of art with an uncertain or false origin;
  - Risk of a work of art's quality: this type of risk has to do mainly with the technical aspects of the artistic process including durability and resistance to external adverse conditions of the materials used to produce the work of art. The concern the owners of these assets must continuously exercise to preserve their quality and ensure their maintenance, is surely a deterrent which sometimes makes investors refrain from placing their wealth in such unstable investment objects.
  - Physical risk: as physical assets, works of art incur in the risk of destruction or damage caused by incorrect storage, deliberate devastation or vandalism. Moreover, also loss or theft of the object is a considerable risk to take into account when deciding whether to invest in art or not.
- ***Parties to the transaction (sellers/buyers)***:
  - Legal risk: this type of risk is associated with the possibility of incurring in a seller without property rights, of cheating or of other violations of legal regulations by either side of the transaction;
  - Risk of changes in attributes of the parties to transaction: this type of risk includes the risk of changing non-material situation, taste or preferences of the work of art's owner.
- ***Auction/Agent***:
  - Agency risk: this type of risk is related to selection issues for what concerns the agents who will carry on the transaction, to these agent's knowledge of the market and of the work of art in question and to his possible manipulation by either the auctioneer or other agents.
- ***Immediate Environment***
  - Market risk: the risks associated with the immediate environment of the transaction are associated with changes in the conditions and preferences in the art market. In particular, the liquidity risk associated with investments in works of art might increase and it may become increasingly difficult for investors to sell the latter if necessary, there may be substantial changes in the transaction costs, information costs, fees, taxes, export licenses, etc. in the market, institutions may decide to modify legal regulations such as the extent of legal

protection of works of art against their exportation and finally tastes and trends regarding painting schools and artists may vary significantly;

- ***Distant Environment***
  - Economic risk: this type of risk is associated with changes in the art market tide, in the stock exchange or in markets of alternative investments which can be considered similar to investment in art such as gold and other precious stones, real estate and alcohols;
  - Legal risk: this type of risk when considered with respect to the distant environment comprehends issues related to property rights, nationalization, purchase of work of art from unauthorized persons, substantial changes in legal regulations concerning art trade, the possibility to export or restitution issues;
  - Political risk: this type of risk concerns all of the externalities associated with armed or non-armed conflicts between nations, social unrest or political disruptions;
  - Force Majeure risk: this type of risk has to do with the possibility of destruction of works of art as a result of a natural disaster such as a flood, a fire or a hurricane;
  - Crime risk: this type of risk concerns issues of theft, illegal exportation, and similar.

All of these items and different kinds of possible risks associated with investments in works of art may seem highly discouraging and are, in reality, one of the reasons why the financial market for art has been, despite the many opportunities for profit it offers, in the shadows for many years. However, as I have already repeated multiple times in this dissertation, the increasing level of transparency required by new regulations implemented in this market and the substantial effort made by the dedicated institutions to exercise more control on the dynamics of such trading environment, are starting to show positive results and responses from investors who are becoming increasingly interested and attracted by the financial market for art. In the case in which, indeed, the specific risks associated and due to the characteristics of works of art as assets which have scared investors away for the longest time, will be even partially eliminated, then the remaining risks related to politics, crime, force majeure, agency and so on, will not be enough to deter individuals to invest in art as such issues are typical of almost any other traded asset.

**Returns from Works of Art**

In these final pages of my dissertation, I will turn my attention to the analysis of maybe the most relevant aspect of any investment: its Rate of Return. Up to this point, I have often highlighted the fact that one of the main issues related to the definition and affirmation of art as an asset class are the difficulties encountered when trying to define its value in terms of returns on investment. There is, indeed, no universally recognized method to evaluate works of art or their possible returns as objects of investments. The only shared approach to such valuation has been that of observing the monetary fluctuations in value in time of different works of art. However, the heterogeneity of the latter has posed many obstacles in the process of setting a rate of return from investment criterion for works of art. In particular, ever since the 1970s economists have tried to explicitly specify the profitability of investments in art and they have come to identify five different main methods of setting returns from investments in art:

1. *Naïve Price Index Method*[26]: This method, in order to calculate the rate of return on investment on works of art, computes the average and the median of the auction prices of paintings which do not show significant quality variations over time. In an alternative version of this method, a basket of representative paintings is created and the price of the paintings which art part of it, and are not sold in a subsequent period, are either periodically re-evaluated by experts or are replaced with close substitutes such as paintings of the same artist and of the same quality and size. The fact that to determine these substitutes mainly subjective criteria are used is the main flaw of this method. The main advantage of this method is the fact that, since information on repeated sales of paintings is scarce, returns based on averaged, median and art basket indices are the best we can hope for.

| | | All paintings ( oil,w.c.,etch.) | | Oil paintings | |
|---|---|---|---|---|---|
| | | Averaged index | Median index | Averaged index | Median index |
| **Geometric mean (1970-97) (buy and hold):** | | 7.6% | 4.5% | 9.8% | 5.5% |
| **Standard deviation of annual returns :** | | 36.6% | 29.4% | 46.5% | 30.9% |
| **Buy and hold return 1970-89 :** | | 13.7% | 12.1% | 16.8% | 12.6% |
| | **Return and risk 1970-97 :** | | | | |
| **Impressionism** | Geometric mean | 6.3% | 3.8% | 6.5% | 3.8% |
| | Stand. dev. of ann. returns | 71.8% | 38.8% | 70.9% | 40.3% |
| **Realism** | Geometric mean | 13.0% | 6.0% | 13.1% | 6.0% |
| | Stand.dev. of ann. returns | 99.0% | 32.6% | 108.2% | 36.3% |
| **Expressionism** | Geometric mean | 4.6% | 4.8% | 4.6% | 5.0% |
| | Stand.dev. of ann. returns | 35.8% | 40.7% | 39.3% | 40.2% |
| **Luminism** | Geometric mean | 9.2% | 8.9% | 10.4% | 9.9% |
| | Stand. dev. of ann. returns | 63.3% | 84.7% | 64.8% | 77.7% |
| **Symbolism** | Geometric mean | 7.2% | 4.2% | 9.1% | 8.6% |
| | Stand.dev. of ann. returns | 62.5% | 79.4% | 104.4% | 97.0% |
| **Pointillism** | Geometric mean | 4.8% | 4.6% | 6.0% | 6.9% |
| | Stand.dev. of ann. returns | 70.0% | 76.0% | 68.9% | 55.9% |
| **Surrealism** | Geometric mean | 9.3% | -2.2% | 15.0% | 13.4% |
| | Stand.dev. of ann. returns | 61.2% | 126.9% | 48.6% | 101.1% |
| **Other (Ensor, Evenepoel)** | Geometric mean | 6.2% | -1.0% | 7.7% | 1.1% |
| | Stand.dev. of ann. returns | 135.1% | 97.4% | 105.0% | 225.7% |
| | | **1970-97** | **1970-89** | | |
| **World Stock Index** | Geometric mean | 8.7% | 9.9% | | |
| **S&P 500** | Geometric mean | 8.3% | 7.3% | | |
| **Europ. Stock Index** | Geometric mean | 9.2% | 9.8% | | |

*Figure 18. Source: Calculations of Luc Renneboogand Tom Van Houtte, authors of the paper: "The Monetary Appreciation of Paintings: from Realism to Magritte.*

[26] https://core.ac.uk/download/pdf/6651861.pdf

The table above shows the geometric and arithmetic returns for all paintings and for oil paintings separately. I decided to include this table just to give a more realistic perception of how this method works and operates. The main finding that can be inferred from this table and that therefore exemplifies the utility of such method of assessing art returns is the fact that the difference in averaged and median based rates of return reveals that skills in picking high quality paintings as well as skills in selecting currents of art likely to be trendy pay off in the form of superior returns.

2. *Repeated Sales Regression*: This method uses prices of individual objects traded and then analyzes the change in the prices of the same object at two distinct moments in time. The main advantages of this method are the fact that it does not require any measurement of the quality as artistic characteristics do not change over time, that by using it art heterogeneity issues are bypassed. However, the difference between transaction prices at two dates is a function solely of the intervening time period. Moreover, this methodology relies on the frequency of sales and only those works of art that have been traded at least twice can be used which inevitably constrains the sample size and it leads to sample selection bias as some works of art are not traded frequently. In general, such methodology tends to potentially include more popular and well-performing paintings thus creating an upward bias.
3. *Hedonic Regression*: This method generates index values based on the characteristics of works of art (artist's name, size, medium, subject matter) and it places less importance on the change in value of the specific object over time. This methodology essentially allows to consider how different characteristics affect the value of a work of art and is therefore a qualitative instrument of analysis. In essence, this method generates prices which are a sum of non-observable partial utilities of respective features. The main advantage of this method, which differentiates it from the repeated sales regression method, is the fact that, being constructed from all sales and not just from an often small subset of available transactions, it allows for the analysis of samples of larger size which generally produce more precise results. The hedonic approach allows us to give a specific weight and importance to the different features of works of art while determining their price which is extremely important given the heterogeneity of works of art but is not considered in any of the two main methodologies just mentioned. For what concerns the drawbacks of such method, they are mainly related to the fact that measuring such qualitative attributes is often an extremely complicated job.
4. *Hybrid Model*: This method follows the same principles of the Repeated Sales Regression model, but it adopts the structure of a Hedonic Regression model and, instead pairing sales, each sale is considered on its own. This methodology allows us to jointly estimate hedonic and repeat sales

relationships (using the full data set of single sales and repeat sales) thus maximizing sample size and removing related transactions.

5. *2-Step Hedonic Approach*: This method enables the researcher to use every single auction record, instead of only those auction records that belong to a subsample of selected artists. The advantages of such methodology are the fact that it allows researchers to benefit from the use of a s larger sample size, thus sensibly decreasing the selection bias associated to the traditional hedonic and repeat sales methodologies.

It is important to highlight that, no matter what the methodology of measurement chosen may be, an element which equally affects any kind of result on the Rate of Return on Investments in art are transaction costs which characterize the art market. These costs are indeed sensibly higher in this market than in any other transaction concerning other financial instruments. The most relevant transaction costs associated with the sale or purchase of works of art are: commissions of auction houses, additional fees and taxes related to the purchase (municipality taxes, VAT), fees related to the object's exportation, potential costs of advertisement, costs of exhibition, costs of proper maintenance of the object and sometimes costs of preservation and restoration. All of these transaction costs are known to considerably reduce the financial rate of return from investments in works of art.

# Conclusions

Works of art are economic goods, considered both durable consumer goods and store of value assets. They are also considerably heterogeneous with values ranging from a few dollars to millions of dollars. The Art Market refers to the set of processes through which works of art are sold and distributed and it broadly comprises auction houses and dealers who buy their stock from both auction houses and directly from artists. Works of Art are considered luxury goods and therefore the main markets for them are situated in wealthy and developed countries such as the US, the UK and recently China, Taiwan, Honk Kong and South Korea, but also Thailand, Vietnam and Russia. For what concerns the structure of the market, the most relevant classification consists of the traditional division between a primary and a secondary market typical of most markets.

Global sales of art and antiques on the Global Art market reached an estimated $64.1 billion in 2019. A general trend, in the wide global context, experienced by this market was the fact that 2019 was a year marked by geopolitical tensions and trade issues, with a trade war and an increase in protectionist policies in key economies for the investment market which led to reduced global growth which is highly correlated with the performance of luxury markets such as the market for Art. With respect to this correlation, I found especially surprising the fact that global art market sales have declined over the last 10 years, failing to keep up with the trend which has seen High-Net-Worth individuals' financial wealth more than double during the same time period. This trend is however attributable once again to the political and economic uncertainty of the past few years and to the intrinsic characteristics of works of art and of the art market which are often known to scare away potential investors. Many active investors indeed perceive decreased democracy within the art market as well as reduced openness and increased price manipulation and conflicts of interests. Other important issued seem to be related to authenticity, provenance, forgery and attribution of the works of art exchanged in the market and to the lack of appropriate control infrastructures and regulations.

Nonetheless, both sides of the financial market for art, namely wealth managers on the supply side, and art professionals and collectors on the demand side, seem to be working in the direction of increased provision and demand for art related financial services. After having described in depth the preferences of all of these actors of the financial market for art, I feel indeed confident enough to be able to confirm this trend towards greater integration of Art and Finance.

Finally, it is striking to see how the financial language is increasingly translating into the art market as shown by the many trends I highlighted in this dissertation. All of these trends are the result of the increasing perception of the validity of Art as an actual asset class. Even though, indeed, many differences can be spotted in terms of liquidity, time horizon of investment and characteristics of the

specific markets, works of art can be effectively compared to securities as potential objects of investment.
The only blind spot which still discourages many investors from effectively considering art as an asset class is the fact that there does not exist a universally accepted method for assessing the rate of return from an investment in such asset, making it hard to fully appreciate their potential. There is, indeed, no better or more affirmed method of measuring returns from investments in art and the debate is still open for what concerns new possible models to implement. While conducting my researches for this dissertation and thus having the possibility to immerse myself in the literature on the topic of investments in art, I did not find a single paper which used precisely the same methodology as the others in assessing the returns of different kinds of art or of the same works of art pertaining to different or the same artistic currents. Each scholar conducted his or her analysis either using one of the five different models described in this dissertation or combining pairs or triplets of them in different orders.
This finding made me aware of the fact that the issue of the uncertainty of the returns of investments in art, at least for what concerns their measurement, is still largely present and important and still discourages many investors.
However, considering all of the other aspects of the blend of Art and Finance which I have highlighted in this dissertation, I remain confident of the potential of the financial market for art, especially considering the effort and the attention of all of the major players of these two respective worlds in promoting, educating and reassuring the new generation of investors on the great potential of this union.

# References

Deloitte, Art & Finance Report 2019

Adriano Picinati di Torcello, Senior Manager Deloitte Luxembourg, “Why should art be considered as an asset class?”, 2011

Dominic Taylor and Les Coleman, “Price determinants of Aboriginal art, and its role as an alternative asset class”, Journal of Banking & Finance, 2011

Ventura Charlin and Arturo Cifuentes, “On the uncertainty of art market returns”, Journal of Banking & Finance, 2016

Jennifer Gradecki, “The Art Index as Art”, Visual Resources, 2018

Buelens, N., and V. Ginsburgh, revisiting Baumol’s ‘art as floating crap game’. European Economic Review, 1993

Campbell, R., Art finance. Handbook of Finance. http://onlinel brary.wiley.com, 2008

Alessia Zorloni, “Structure of the Contemporary Art Market and the Profile of Italian Artists”, International Journal of Arts Management, 2005

Guido Guerzoni, “Reflections on Historical Series of Art Prices: Reitlinger's Data Revisited”, Journal of Cultural Economics, 1995

Joanna Bialynicka-Birula, “Investment in Art – Specificity, Risks, and Rates of Return”, Conference paper, 2013

William N. Goetzmann, “Accounting for Taste: Art and the Financial Markets Over Three Centuries”, American Economic Association, 1993

Evan Beard, “The Four Tribes of Art Collectors”, Artsy.net, 2018

AGNELLO R.J. “Investment Returns and Risk for Art: Evidence from Auctions of American Paintings”, Eastern Economic Journal, 2008

UBS / PWC, Billionaires Report 2019

UBS, Billionaire Insights Reports (various years)

UBS, Global Financial Markets Reports (2019/2020)

IMF, World Economic Outlook (Database)

UN, Comtrade Database (Imports and Exports)

Merrill Lynch and Capgemini, World Wealth Reports

Credit Suisse, Global Wealth Databook

Forbes, Billionaire Lists and Database

Eurostat, Labour Force Surveys

Bureau of Labor Statistics Database

https://www.masterworks.io

https://journals.openedition.org/transatlantica/5044

https://www.sothebysinstitute.com/news-and-events/news/art-market-histories-of-the-20th-century/

https://www.economist.com/special-report/2009/11/28/suspended-animation

https://www.jpmorgan.com/country/IT/en/jpmorgan/is/thought/magazine/3Q2013/art

http://www.treccani.it/vocabolario/mecenate/

https://www.sothebysinstitute.com/news-and-events/news/art-market-histories-of-the-20th-century/

https://www.sothebysinstitute.com/news-and-events/news/art-market-histories-of-the-20th-century/