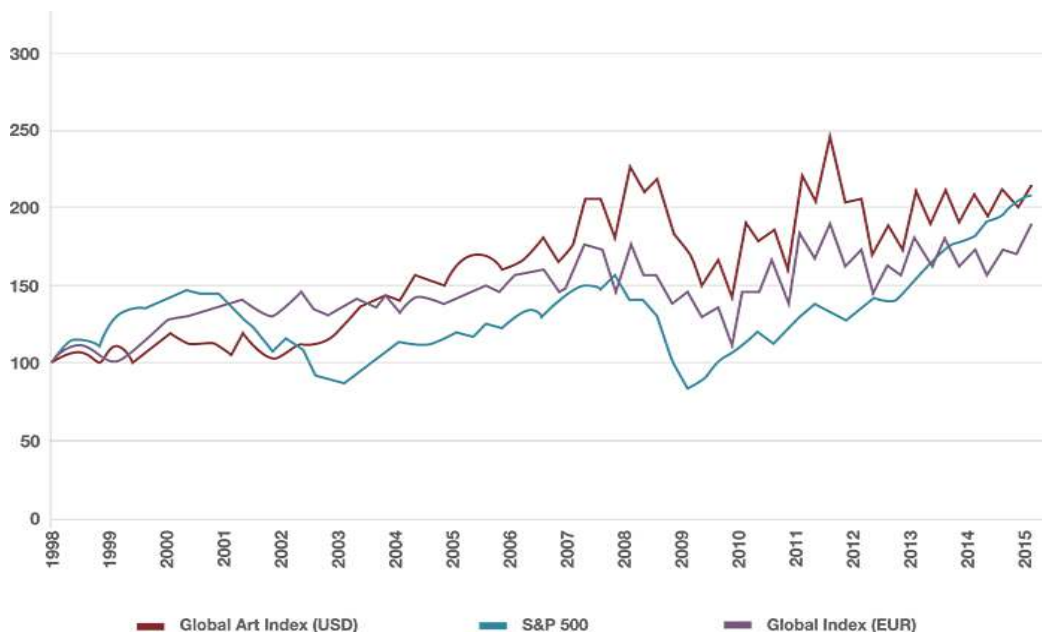




The Resilience of Art as an Investment

Artemundi's investment strategy has long relied on confidence in art as an asset, a unique asset. As has been proved several times in the past, including both after the crisis in 2008 and "black Monday" in August 2015, art is surprisingly resilient to stock market declines. We believe this is true in terms of downside risk as well as price recovery capacity. The statement is also accurate of art's performance not only when held as a tangible possession, but also when held in a securitized form through publicly traded stock or partnership interests in a fund.

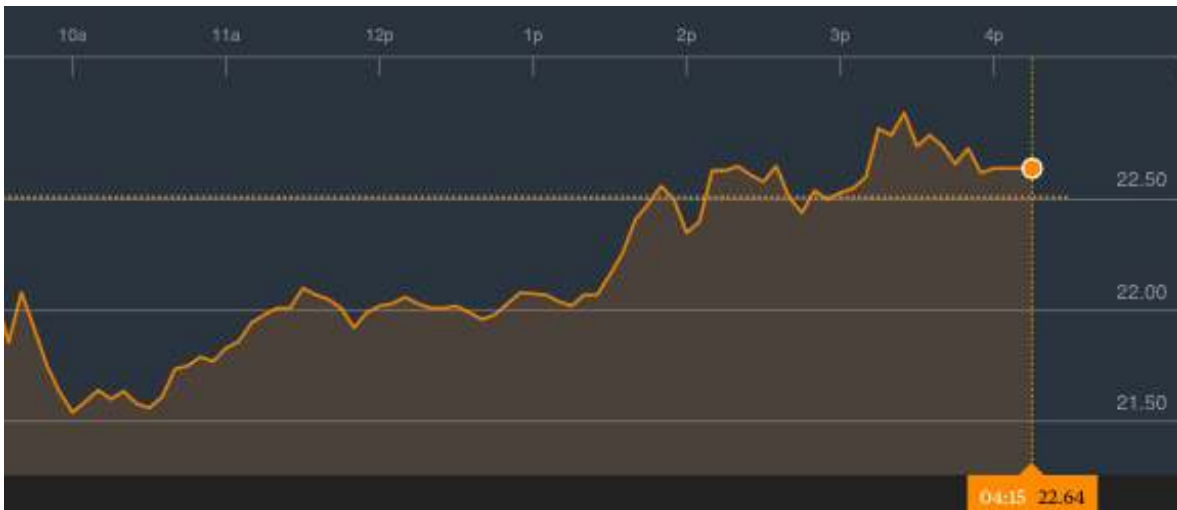
When we recall the S&P's 10% drop and the VIX Index's spike of 250% during "black Monday" in August 2015, we also must bring back to mind the continued stability in the art market, which has traditionally had low correlation to stocks and bonds.¹ Moreover, art's stability was demonstrated during the 2008 recession, when art indexes dropped 4.5%, while the S&P abruptly dropped 37.5%, not to mention that the art market also recovered faster than the stock market. In 2010 the All Art Index increased by 22.6%. In 2011, it grew 10.2% compared to 9.1% for equities.



¹ For further information, please refer to: Edid, Giovana and León de la Vega, Federico. "The Impossibility of a Two Digit Drop (as many days) in the Art Market". *Artemundi*. August 26th, 2015. <http://artemundiglobalfund.com/wp-content/uploads/2012/08/black-monday-2.pdf>



Another example of this has been provided by the stock markets yesterday, January 20th, 2016. The Dow Jones Industrial Average plunged at one point in the morning as much as -9.5% (-565 points) and oil crashed to -36.4% (\$27 a barrel). The MSCI All-Country World Index extended its drop to 20% below the previous low record.² While some of the indexes improved by the time of the bell in New York City, the DJIA closing “just” 250 points below, the message was loud and clear, and probably rang in the ears of many sitting at the Swiss Alps in Davos at the ongoing World Economic Forum.³ For all of the many potential reasons to explain the dramatically unfavorable numbers, which were argued by an array of renown experts and included the Chinese exchange rate problem, the accumulated effect of quantitative easing in the U.S., a “price correction” that was pending, the weight of oil stocks in the FTSE, sovereign investors leaving to more stable assets and others, the simple fact is that the stock market remains alarmingly volatile.



Sotheby's BID:US Graph taken from Bloomberg Business: <http://www.bloomberg.com/quote/BID:US>

Yet, Sotheby's (NYSE: BID) did relatively well considering the circumstances. We do not wish to read too much into it but, closing at \$22.67 USD and up 0.69% for the day, the shares of the publicly traded auction house merit an additional observation.⁴ Perhaps, yesterday's result for Sotheby's stock is less indicative of the company's performance than it is of the underlying asset: art. The argument might

² www.bloomberg.com

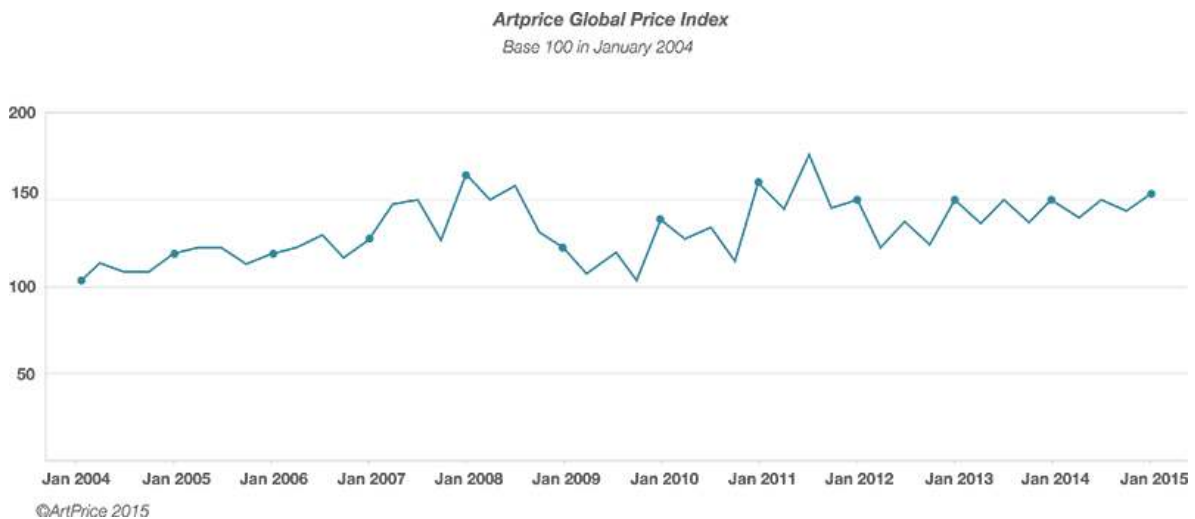
³ "From Horrible to Just Bad: Dow Ends down 249 Points." *CNNMoney*. Cable News Network, 20 Jan. 2016. Web. 20 Jan. 2016. <<http://money.cnn.com/2016/01/20/investing/stocks-markets-dow-oil-china/index.html?iid=surge-grid-dom>>.

⁴ "BID:New York Stock Quote." *Bloomberg*. 20 Jan. 2016. Web. 20 Jan. 2016. <<http://www.bloomberg.com/quote/BID:US>>.



make more sense when seen in light of Sotheby's recent acquisition of the advisory firm Art Agency Partners (announced for \$50 million in cash), which implies an expansion of their business model calling for Sotheby's to hold art on its balance sheet for private sale, as opposed to only taking art under consignment for sale at auction (without taking on the market risk that their clients usually have to bear).

Most analysts, both in the finance and art industries, would agree that Sotheby's has taken more than quite a few wrong turns recently, perhaps the most distressing being the issuance of the expensive auction guarantees on the Taubman Collection. To no one's surprise, the latest one-year return for the company is calculated at minus 43.81%. But it could have done much worse if it weren't, arguably, for the fact that it holds art as an asset. Yesterday's market behavior clearly signaled that investors are immediately willing and prepared to fly to safety. Gold was up considerably during the session and in many international markets the increase in the metal's value seemed to be in almost perfect direct proportion against the course taken by the stock markets.



Art is certainly no exemption when it comes to investments with a greater degree of stability. Detractors however, would hold that art is also in a bubble and that it may soon be subject to price corrections too.⁵ Evidence suffices to conclude that this “bubble”, in any case, is mostly in the Contemporary art category. But, for impartiality's sake, we could mention the present situation of

⁵ Neuendorf, Henri. "Academics Claim That The Art Market Will Crash - Artnet News." *Artnet News*. 19 Jan. 2016. Web. 20 Jan. 2016. <<https://news.artnet.com/market/art-market-bubble-report-409136>>.



Russian art. This category, in particular, has interestingly not been resorted to much as a safe haven from the falling prices of traditional investments. Why? Well, those who buy Russian art are mostly...Russian. Slumping oil prices are starving Russia of export revenue and have pushed the Ruble to record lows. The currency fell 4.1% to more than 81 units per Dollar yesterday, surpassing the previous record at the peak of Russia's financial turmoil in December 2014.⁶ The Ruble's depreciation of almost 10% and the decrease of more than 60% in the price of oil during the past two years have driven Russia's earnings to its lowest since 2010.

Although only 1% of art collectors are located in Russia⁷ -specifically Moscow- this national economic downturn has shrunk the local art market and the appetite for Russian art as a category. "Many active Russian buyers from 2003 to 2007 have become sellers" said Vladimir Ovcharenko, owner of Moscow's Regina Gallery and founder of the Vladey auction house.⁸ During the Russian art sales in Q4 of 2015 at London, auction houses reported that results had been the lowest on record since 2007 and that the bought-in rates had reached a whopping 58%.

Nevertheless, the case of Russian art seems to be an exception. 38% of art collectors are located in Europe, 28% in the US, and the remaining 34% are distributed worldwide.⁹ The flight to safety yesterday was at an international scale. Most categories of art enjoy a healthy participation from collectors all over the globe. Artemundi reiterates that a combined portfolio comprising different categories of art in diverse geographical markets is good shelter, not only from stock market volatility, but inflation and other financial pitfalls such as unstable currencies (e.g. Mexico's Peso devalued yet another 44 cents against the US Dollar yesterday closing at 18.9 units, when only a year ago the exchange rate was at 14.6). We would expect the current situation in the stock markets to increase the volume of art investments and push average art prices up.

January 21th, 2016

by Federico León de la Vega and Giovana Edid

⁶ "Ruble Tumbles to Record as Oil Slump Hinders Russia's Recovery." Bloomberg, 20 Jan. 2016. Web. 20 Jan. 2016. <<http://www.bloomberg.com/news/articles/2016-01-20/ruble-trades-at-record-low-as-oil-impact-worse-than-sanctions>>.

⁷ Noe, Christoph. *Art Collector Report 2014*. Zurich: Larry's List, 2015. p. 07

⁸ "Russian Art Is Latest Oil Casualty as Auction Houses Pull Back." Bloomberg, 15 Dec. 2015. Web. 20 Jan. 2016. <<http://www.bloomberg.com/news/articles/2015-12-15/russian-art-is-latest-oil-casualty-as-auction-houses-pull-back>>.

⁹ Noe, Christoph. *Art Collector Report 2014*. Zurich: Larry's List, 2015. p. 27