



## REDISCOVERING THE VALUE AND RISK OF ART

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The counterpart to this article addresses -from the business perspective- the risks of investing in art and some of the specific measures that *Artemundi Management Limited*, as a professional art investment manager, has taken to reduce the same in the present day art market.<sup>1</sup> This piece, however, seeks to provide the investor with a brief historical insight that will hopefully lead him to “rediscover” some of the reasons that art became an object of value in the first place, and therefore, a possession subject to risk and loss. Risk may be defined as “the chance that an investment will lose value.”<sup>2</sup> In order for risk to exist, there must also be then, something of value that may be lost. So, why is art considered to be valuable?

Ernst Fischer considered that art displays the history of humanity in images. Intentionally or not, implied in this statement is the importance of collecting art as a record of honorable **ancestry**. Art is, in this sense, linked to self-image and **status**. The desire of collecting art can be intimately bound to the sense of self-projection of an individual, a group or a nation.<sup>3</sup> The word “**title**” may refer to (i) right or claim to ownership of property, but also refers to (ii) a social or official rank. While both uses are intrinsically and historically related, the latter and more ancient conception of title in connection to art may have first emerged in the ancient Greece of King Attalis I of Pergamon,<sup>4</sup> whose possessions included crafts, paintings and sculptures that represented gods and goddesses, members of the most renown families of the time and Olympic champions. Thus, art became synonymous with **social recognition and political influence** (as well as achievement), as only weighty figures were depicted and mainly given that art was commissioned specifically with such ends in mind by authorities or sovereigns. The Greek influence was such that the Romans, in their frequent sackings, sought to satisfy aspirations of prestige by collecting Greek pieces. With time, early collectors began gaining expertise in different categories, becoming the first “tastemakers.”

“Title recognition” (in both senses of the word “title”) evolved during the *Quattrocento*, when art patrons (many of them upper-middle above class merchants) valued art and antiquities not only for their aesthetic qualities but, more importantly, for social mobility (climbing) purposes. The **provenance** of art was a main concern during this period because it historically legitimated the lineage and distinction of the possessor of the work within the community. During this period, artists had gained, by their own right, a relevant position within society and responded to small court assignments in search of prestige. First became, the Catholic Church, amongst other religions, used art as an instrument to scope the faith to the illiterate through images, and made it part of its patrimony with the idea that art feeds the soul and spreads peace. Yet, religious collections allowed clergymen to flaunt their influence, further confirming art as a sign of power.

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<sup>1</sup> Please refer to “Managing Investment Risks”

<sup>2</sup> Merriam-Webster On-line Dictionary, 2015

<sup>3</sup> Please refer to Lumbreras, Javier, *The Art of Collecting Art*, Ed., Fomento Cultural Banamex, Barcelona, 2011, page 83.

<sup>4</sup> *Idem*, p. 84



In the Enlightenment of the XVIII century, it was generally accepted that a true “gentleman” required an adequate knowledge of art and a noteworthy cultural level.<sup>5</sup> Not only possessing art, but knowledge and understanding of art and its underlying concepts, became an element of high-class legitimacy. Napoleon Bonaparte is frequently portrayed as particularly conscious of the importance of art as a symbol of **historical legacy** (not to mention *de facto* military supremacy and alleged cultural superiority). The Egyptian campaign and his many battles were behind possibly the most significant expansion of the Louvre Museum, as was the subsequent loot of the English behind the British Museum’s. As we all know, many of the antiquities pillaged by European superpowers in the past, some as early as the XV century, are still at the root of major title controversies, in an age where restitution is frequently discussed.

The **value** of art may thus be explained by the high regard humans have placed on ancestry, status, social recognition and historical legacy since ancient times. The **risks** associated with buying and owning art however, become increasingly clearer as we move through the centuries towards a more evolved **art market** and the emergence of **private collections**. There is information supporting the view that private art collections started at the time of European expansion, and that ever since the XV century, private art collectors have been keen in noting both the economic benefits and the prestige associated with owning masterpieces. It could be worth mentioning artworks by Frans Francken -the young-, David Teniers or Giovanni Paolo Pannini, which have come to represent the influence of private collections. The first historical reference to a collector, in the modern occidental way, points to Oliviero Forzetta, the son and nephew of moneylenders in Treviso, north of Venice. Forzetta collected classical artworks which archeological digging has become restricted.<sup>6</sup> As collections gained greater importance between the elite, the self-regulation of offer and demand evolved into a market. As a formal modern “art market” developed and a larger number of buyers and sellers started to participate (and not only the upper echelons of society), the increase in the volume of exchanges led to a larger number of contingencies and the adoption of mainstream and specific measures in the management of the risks associated with art. Some of these, as mentioned initially above, are described briefly in the business counterpart to this article.

From the historical perspective, a defining moment that made the risks of owning art very palpable to living generations came with the Second World War. This most important event of recent highlighted, yet again, the risk of **physical loss** in an act of war, and to this day still leads to challenges and new questions on the **legitimate title** over artworks. Acutely aware of the ideological significance of art, Hitler sought to dispossess the Jewish nation (and others) not only of their influence, earthly possessions and their lives, but also the art that narrated their history as human beings.<sup>7</sup> Seventy years after the end of the war, the return of numerous artworks that were stolen and hidden by the Nazis is still demanded, and the whereabouts of many pieces are still unknown. WWII had enduring effects in other aspects as well. Many present risk-reducing financial strategies and legal instruments used in the art market find their origin and/or most recent precedents in the horrifying situations suffered by millions of people during the war and its aftermath: insurance, asset protection, asset diversification, confidentiality, arm’s-length treatment, *inter alia*...the list could go on and on.

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<sup>5</sup> Please refer to Lumbreras, Javier, *The Art of Collecting Art*, Ed., Fomento Cultural Banamex, Barcelona, 2011, page 96.

<sup>6</sup> *Idem* p. 86.

<sup>7</sup> *Idem* p. 99.



Some risks associated with art seem to have always been present. Such could be the case of **authenticity**. Walter Benjamin, in *The Work of Art in the Age of Mechanical Reproduction*, declares: “In principle a work of art has always been reproducible. Man-made artifacts could always be imitated by men. Replicas were made by pupils in practice of their craft, by masters for diffusing their works, and, finally, by third parties in the pursuit of gain.”<sup>8</sup> Benjamin goes on: “Even the most perfect reproduction of a work of art is lacking in one element: its presence in time and space, its unique existence at the place where it happens to be. This unique existence of the work of art determined the history to which it was subject throughout the time of its existence.”<sup>9</sup>

Authenticity can further get complicated when one considers the issue of restoration. There has always been a heated discussion about art restoration against art conservation. The question standing is: if a piece of art is flaking or falling apart, should it be restored to its "original" state? And would so doing make it any less “authentic”? If a piece of an artwork is missing, should a restorer help maintain the integrity of the artwork by adding a new portion, but slightly discolor it, so viewers know the difference between the original and the new part? Some conservators think that if a work of art is disintegrating, that it should go, because any care taken to preserve it subtracts from the artist's original intent and workmanship.<sup>10</sup>

While we hold that currency risk is not a major contingency in the current art market given its international depth and global presence, the risk itself is as old as the rivalries between nations. Beattie mentions in this regard that banks and the ruling classes started buying currencies from other nations and created the first currency market with the macroeconomic risk itself. The stability of a particular monarchy or government affected the value of the country's currency and the ability for that country to trade on an increasingly international market. The competition between countries often led to currency wars, where competing countries would try to affect the value of the competitor's currency by driving it up and making the enemy's goods too expensive (including artworks), by driving it down and reducing the enemy's buying power (and ability to pay for a war), or by eliminating the currency completely.<sup>11</sup>

Finally, a very important aspect of the art market is information. And by being a particularly unregulated market, art prices are vulnerable to asymmetric information and considerable distortions. But, as stated before by Artemundi, the historical dilemma is that while the market still relies on very

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<sup>8</sup> Benjamin, Walther, *The Work of Art in the Age of Mechanical Reproduction*, Ed. Itaca. First Edition 2003. p. 39. Recovered from:

[http://monoskop.org/images/9/99/Benjamin\\_Walter\\_La\\_obra\\_de\\_arte\\_en\\_la\\_epoca\\_de\\_su\\_reproductibilidad\\_tecnica.pdf](http://monoskop.org/images/9/99/Benjamin_Walter_La_obra_de_arte_en_la_epoca_de_su_reproductibilidad_tecnica.pdf)

<sup>9</sup> *Idem*

<sup>10</sup> “One the most respected scholars of Renaissance art has spoken out against the world-wide mania for restoring works of art -notably, the brighter-than-bright colours following the cleaning of the Michelangelo frescos in the Sistine Chapel, Rome, and what he describes as a “much-damaged”. Charles Hope, a lecturer at the Warburg Institute, at the University of London, has attacked the mistakes made in the name of restoration. He argues that if there are lessons to be learnt “from this unhappy episode . . . we ought to be prepared to tolerate darker pictures, and that in restoration, the wisest course is often the most conservative”. Alberge, Dalya, *Art expert attacks restoration works*. The Independent. Tuesday 02 November 1993. Recovered from: <http://www.independent.co.uk/news/uk/art-expert-attacks-restoration-works-1501550.html>

<sup>11</sup> Please refer to Beattie, Andrew, *The History Of Money: From Barter To Banknotes*. Recovered from: [http://www.investopedia.com/articles/07/roots\\_of\\_money.asp](http://www.investopedia.com/articles/07/roots_of_money.asp)



old principles and conventions, these have, notwithstanding, held it together for at least 200 years.<sup>12</sup> And in fact, the art market has not only held together, but has also remained attractive over the passing of centuries. It appealed the kings, aristocrats and aspiring merchants of the past as it presently continues to engaged world leaders, millionaire investors and the ambitioning bourgeoisie. Throughout centuries and still at present, art patronage and collecting are a vital instrument of self-recognition. Collecting art translates into the projection of intellectual and and material wealth. The legacy and prestige of art offer a powerful statement regardless of the risks involved in the investment, whether one preferably chooses to recur to a professional art investment manager as Artemundi, or not.

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<sup>12</sup> Please refer to Lumbreras, Javier, *The Art of Collecting Art*, Ed., Fomento Cultural Banamex, Barcelona, 2011, pages 83-102