CHARLES BEELAERTS
WITH
KEVIN FORDE

Investing in Collectables

An Investor's Guide to Turning Your Passion into a Portfolio

WITH INFORMATION ON:

- Buying and selling through dealers and auctions
- Tips for making a profit
- Tax and other legislation
- How to detect fakes and forgeries
- Conservation and restoration

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Introduction

This book is about investing in collectables. There are no hard and fast rules about what is collectable and the range can vary from such things as lucky charms worth virtually nothing to Old Masters worth millions. However, the focus of this book is how to make a profit out of collecting and this excludes many items that you can legitimately claim as 'collectables'—as they have no real value to other people. One area that is specifically excluded is mass-produced items because one of the features of a profitable collectable market is limited supply. As you might expect, the fewer there is of a collectable in existence, the more valuable it is.

Potential returns

There is worldwide evidence suggesting that investors are turning to collectables to provide better returns than share and fixed interest markets. For example, the current Capgemini and Merrill Lynch World Wealth Report found that investors were seeking items that are perceived to have tangible long-term value. The two categories that the report found most in demand were art and 'other collectables', such as coins, antiques and wine. Auction houses have also recently reported increased demand for these items. For example, according to Artprice, global fine art auctions raised US$3.8 billion in six months, which was nearly as much as for the whole of the previous year. While the amount raised is not high in absolute terms—the turnover of Woodside Petroleum on the Australian Securities Exchange on one day alone can exceed A$4 billion—it represents a significant upwards trend. Note that Artprice's figure is for fine art auctions only and it does not include private and dealer sales.

Did you know ...

Collectables do not correlate strongly with other investments such as shares, bonds or property. In bad economic times collectables often hold their value.

Similarly investment returns are good. The Mei Moses All Art Index, which tracks auction prices, increased by 13.5 per cent in six months compared with a fall of 6.5 per cent in the S&P 500 Index. The Liv-ex Fine Wine Investables Index, which tracks the price of fine wines from 24 chateaux in Bordeaux, increased by 27.2 per cent in eight months. Table 1 shows the adjusted annual return to investors who invested in these indices.

Table 1: comparison returns

	Mei Moses All Art Index	Liv-ex Fine Wine Investables Index	S&P 500 Index
Time period of index	6 months to 30 June 2010	8 months to 31 August 2010	6 months to 30 June 2010
Increase over period	13.5%	27.2%	–06.5%
Annualised return	27.0% p.a.	40.8% p.a.	–13.0% p.a.

Source: adapted from the *Wall Street Journal*.

Note that in table 1 commissions are ignored but they are much higher with art and wine than they are with shares.

Given the vast range of items that people collect it is not possible to generalise about the investment potential of collectables—just as some investment properties can increase in value while others are falling. But if you put the time and effort into identifying desirable collectables—just as you would in identifying 'growth shares' on the sharemarket—it is certainly possible to make handsome profits.

Why invest in collectables?

Apart from above average returns potential, there are other reasons for investing in collectables. These include the following:

- Since collectables are tangible assets where supply may be restricted, they provide an excellent hedge against inflation. If inflation is running at 3 per cent per annum, you need at least this rate of return to keep pace and collectables generally provide this. When financial markets are uncertain there are benefits in owning tangible assets.
- Collectables do not correlate strongly with other investments, such as shares, bonds or property. In bad economic times collectables often hold their value.
- Collectables do not exhibit the same level of volatility found, for example, in the sharemarket. Collectables do not usually increase markedly in price one day and fall back the next, although they are not traded in the same way.
- An investor in collectables does not need to monitor their performance as often as investors in other assets. You can 'buy and forget' to a greater extent than you can with many other types of investments.
- But like any other investment, collectables can rise and fall in price and they can certainly lose considerable value if they go out of fashion. So as an investor in collectables, you need to make decisions with your head, not your heart.
- If all else fails, a collector has invested in items that they can enjoy and that enhance their lifestyle.

Did you know ...

Investment collecting is a long-term venture. Most collectables need to be kept for five to 10 years to show good appreciation in value.

In addition you can begin operating as an investment collector in a small way. For example, you can buy an ancient Roman coin for a few hundred dollars or a piece of antique furniture for the same price. You can also buy a good painting for only $1000. To buy an investment property costs hundreds of thousands of dollars or a share portfolio will cost you a minimum of $5000.

Table 2 (on pages xvi–xvii) reveals the main features of investing in collectables compared with shares, fixed interest securities and investment property.

Arguments against collectables as an investment

The chief arguments against investing in collectables are that it requires a high degree of skill and that buying and selling commissions are high and are calculated as a percentage of the price of the collectable. Consequently, it is essential to calculate your investment return after tax and after commissions. Also, there are storage and insurance costs that have to be factored in and collectables usually produce no income to offset these expenses, and you generally cannot negatively gear collectables. Consequently, critics say that shares and property are better investments.

Did you know ...

Not everyone thinks that collectables are good investments, but those who don't think so tend not to be investment collectors themselves. You need to catch the bug first.

These issues are addressed in later chapters, but at this stage it needs to be said that you must have a genuine interest in collectables to be a successful investment collector. It is true that profitably investing in collectables requires a degree of skill that you cannot hope to acquire if you do not enjoy researching and learning about your speciality. This is just the first step as you have to buy and sell well, too. It is also true that collectables usually do not generate an income stream and you may have to wait for years to get a return. However, during this time you derive the benefits of owning the collectables, including the enjoyment of their aesthetic appeal, which is generally missing with other forms of investment.

This book is written for genuine investment collectors. If you have $5000 to invest, and any investment will do as long as it provides a high return, you will also benefit from reading our earlier book *Understanding Investments: An Australian Investor's Guide to Stock Market, Property and Cash-Based Investments, 5th Edition* (Wrightbooks, 2010).

Potential for capital gain

Except for art rentals—a highly specialised area—the return from investing in collectables is made up wholly of capital appreciation. As an appropriate investment time horizon for collectables is five to 10 years, it represents a long period during which you receive no income. At the end of this time horizon you might incur a loss as prices can fall as well as increase. This emphasises why you need to invest in something that you like. It also emphasises just how important it is to make a good decision when you invest in a collectable. To do this you need to have become an 'amateur expert' in your field, which requires extensive research before you make your first purchase. There is simply no substitute for doing the work that this entails. Good investment collectors are not lazy by nature, although once you have made a purchase you can relax somewhat.

It should also be noted that in a low interest rate environment the 'opportunity cost' of investing in collectables for capital appreciation is minimal. The opportunity cost of an investment is what you give up by not investing the same amount of money in an alternative project. For example, if you have $5000 to invest and you can get 6 per cent per annum from an online savings account, you are only foregoing $300 a year by investing in collectables. Compare this with a situation where you could get 20 per cent per annum when you would be foregoing $1000 a year.

Table 2: collectables as an investment

Criterion	Shares	Fixed interest	Investment property	Collectables
Aesthetic value	Nil	Nil	Some	High
Buying and selling costs	Very low	Very Low	Moderate	Extremely variable but can be very high
Income generated	Regular dividends on many shares	Regular interest payments	Rental income	None except for rentals
Potential for capital gains	Good with some shares	Possible if interest rates fall	Good	Generally good, but highly variable
Markets where traded	National and international. Uniform prices.	National and international. Uniform prices.	Regional. Prices vary markedly between different locations.	Market specific. No markets in some areas. High cost when accessing international markets.
Ease of buying and selling	Money received in 3 days	Money received in 3 days	Variable. Buying and selling can take several months.	Complicated as markets may be difficult to access. Multiple avenues to consider.

Criterion	Shares	Fixed interest	Investment property	Collectables
Potential for negative gearing	Good	None	Very good	Only possible with rentals
Capital gains tax liability	Payable on any capital gain	Payable on any capital gain	Payable on any capital gain	Payable on collectables that cost more than $500. Cars costing $10 000 or less are excluded.
Ongoing maintenance	None	None	Repairs and renovations as needed	Can be very high. Repairs should be avoided. Storage important.
Insurance	Not needed	Not needed	Includes property insurance and mortgage repayment insurance	Depends on collectables. Some covered by household contents insurance. Special cover may be needed.
Availability of information	Very good	Very good	Good	Research necessary. Much needed information costs money. Time-consuming. Often difficult to know how much a collectable will sell for.
Investment time horizon	Short, medium and long-term	Short, medium and long-term	Medium to long-term	Except for speculation, long-term

Liquidity

Shares and bonds are very liquid investments because you can generally sell them and receive payment in three business days. Property is less liquid because it may take months to sell. Collectables are the least liquid of all, but this can be an advantage because it can lead to the avoidance of poor short-term market-driven investment decisions. On the other hand, the market may move against you while you are waiting to sell.

Collectables as an asset class

There are four prime asset classes, namely, shares (domestic and international), fixed-interest securities (domestic and international), property and cash. From time to time, promoters of investments will attempt to enhance the credibility of their investments by encouraging the investing public to consider them as an asset class in their own right. In previous years, gold has been suggested as a separate asset class, while in 2001 there was an attempt to classify hedge funds as 'alternative' investments. The truth is that neither are separate asset classes. Nevertheless, the *Australian Financial Review* in October 2008 described art as an 'asset class for all kinds of weather'.

In this book

Chapter 1 examines the advantages and disadvantages of collectables from an investment viewpoint and reveals the key determinants of value. In chapter 2 we review several types of collectables, including art, wine, stamps, coins, banknotes, books, memorabilia, and fads, hobbies and obsessions. Chapter 3 covers international markets. Conservation, restoration and insurance are dealt with in chapter 4, while tax and other legislation are considered in chapter 5. Chapter 6 discusses buying and selling privately and through dealers. Chapter 7 looks at buying and selling at auction, and chapter 8 examines buying and selling online. Chapter 9 looks at 'dos and don'ts' when buying and selling collectables, chapter 10 examines fraud, and chapter 11 reviews how to make money from investing in collectables. The 'Useful resources' section then provides details for sources of further information.

Fascinating collectables ...

Classic wallpaper

Over the last 100 years the popularity of wallpaper has been subjected to boom and bust. From 1960 to about 1980 it was very popular in homes, but then householders demonstrated a distinct preference for painted or untreated surfaces and the industry collapsed. In recent times wallpaper has made a comeback and the same wallpaper that was worth only a few dollars a roll back in the 1980s is now worth hundreds of dollars a roll. However, not all wallpaper is considered 'classic' and therefore valuable, even if it is 50 years old or more. Only about 1 per cent of the wallpaper produced is in this category. Hence, the main task is to determine exactly what is collectable. People who bought large quantities of classic wallpaper when it went out of favour in the late 1980s are now sitting on sizeable investments. The main risk, of course, is that the demand for wallpaper will again collapse as tastes change.

Classic designs that are collectable nowadays include fanciful designs of the 1950s, which sell for $50 a roll, and psychedelic patterns of the late 1960s, which sell for about $100 a roll. However, probably the most well-known name in Australian wallpaper is designer Florence Broadhurst, who produced more than 800 designs before she was murdered in an unsolved crime in 1977. A stained-glass pattern of Broadhurst's that was produced for an interior designer in Sydney in the late 1960s is worth about $200 a roll. A 1959 Florence Broadhurst sample book has an estimated value of $1000 and it is estimated that six to seven matching rolls of hers would be worth about $1000.

1

Collectables as an investment

Buying art, antiques and other collectables with the aim of making a profit is like no other form of investing. With shares, bonds, investment property, derivatives, hedge funds and other more mainstream investments it is essential that you do not develop a love and passion for the area in which you are investing. Some shareholders make the mistake of falling in love with their shares, which distorts their judgement when making decisions about buying and selling them. With collectables generally the opposite is true; you need to be interested in, and have an appreciation for, the items you collect. Otherwise you will lack the eye for detail and expertise of the true collector. It is also essential that your particular collectables appeal to you because you may own them for many years. In some cases your passion may lead you to collect objects which do not appreciate in value; for example, Coca-Cola cans or key rings. Clearly, here the enjoyment factor is important as the potential for profit is limited.

There is a wide range of collectables in which you could invest. Depending on what is in favour, they include the following:

- 19th-century Australian colonial and traditional painting
- Australian impressionists
- indigenous art
- modern Australian painting
- contemporary Australian art
- original prints
- British art
- Chinese ceramics and works of art
- Japanese art
- Art Nouveau and Art Deco ceramics, glass, furniture and works of art
- silver
- Australian jewels
- Australian glass
- English, German and Italian glass
- antiquities
- Islamic works of art, including rugs and pottery
- Australian colonial furniture
- English and European furniture
- English and European pottery and porcelain
- wine
- coins and medals
- stamps
- books
- cars/automobilia
- music and sport memorabilia.

Collectables including stamps, wine, paintings, coins, furniture, jewellery, rare books, sporting and music memorabilia, glassware and china are generally considered to be investments for the long-term. Collecting and buying and selling them for profit requires special skill and expertise to assess their authenticity, value, condition, rarity and general potential for appreciation. If you have an eye on profit when selecting an area of collectables in which to invest, focus on those that appeal to dealers and auction houses because this helps to ensure fairness and liquidity.

In 1974 the British Rail Pension Fund (Railpen) decided to invest in collectables as a hedge against inflation. As a result it invested a total of UK£40 million in over 2400 works of art. The artworks included paintings and sculptures, and many were lent to museums to reduce storage and insurance costs. In the early 1980s index-linked government bonds were introduced, which represented a hedge against inflation. Consequently Railpen decided to sell its portfolio of artwork. The final sales of artwork took place in late 2003 and by then Railpen had realised UK£172 million for a profit of UK£132 million over a period of approximately 30 years. This amounted to a return of 4 per cent better than the rate of inflation over this 30-year period.

Often the skills required to make money in a specialist area are developed over a long period of interest in the collectable. To acquire the necessary skills there are many information resources available, ranging from books, magazines, the internet, and television and radio programs through to attending auctions and exhibitions, trade fairs and antique shows, or visiting dealers and seeking the opinion of experts. While you can always refer to external sources or the specialist opinion of others, you will still need to develop your own understanding of your speciality area to know what to look for and which questions to ask.

Did you know ...

An 1813 NSW Colonial Dump coin in extremely fine condition was worth only $165 in 1967. In December 2008 it was worth $210 000. An extremely fine Holey Dollar, out of which the Dump was made, is today worth around $330 000.

Advantages and disadvantages of collectables as an investment

For some people the disadvantages of investing in collectables outweigh the advantages, while for others it is the enjoyment they receive from collecting that swings their preferences in favour of collectables investing. Whether you decide to invest in collectables rather than traditional asset classes comes down to how comfortable you are with this form of investing—and how much time you want to spend on researching particular collectables. Perhaps the overriding consideration is that you choose an area in which you are personally interested so that you derive nonfinancial benefits in the course of making a profit.

Advantages of collectables as an investment

There are advantages and disadvantages associated with investing in collectables with the aim of making a profit. Advantages include:

- As collectables are generally a long-term investment you can buy them and store them securely and just forget about them. Unlike more conventional investments, such as shares or property, you don't have to monitor their progress daily or monthly. Unrealised capital gains are not taxed. Hence you can buy collectables that appreciate in value and manage your tax liability by not selling them.
- Although collectables go in and out of fashion, they are usually not as volatile as traditional investments. Collectables tend not to be positively correlated with movements in the traditional asset classes. For example, when the sharemarket or the property market is trending downwards, collectables tend to hold their value or even increase. During the global financial crisis when world sharemarkets fell 30 to 40 per cent, the value of gold increased. Collectables that contained a high proportion of gold, such as some jewellery and gold coins, increased in value as well.
- Unless you are in business as a collector, or you are in the business of renting out your collectables, you do not pay income tax on your profits (see chapter 5). Investing in collectables is a hobby that can pay off.