Keep Art-Loving Clients From Ghastly Mistakes

By Miriam Rozen October 24, 2013

New analytical tools have made the fine-art market more transparent than it used to be. But that's not saying much. Advisors with art-loving clients should avoid directing their purchases, let alone building them into a financial plan, say those with experience.

Like a home or a collectible sports car, fine art should be bought primarily for love and only secondarily for its investment value, experts warn. "Some art is never going to become investable, and some — Warhol — already is," says **Barry Young**, a private wealth advisor at **UBS Financial Services** in Houston. Young, who leads a team that manages $2.3 billion in assets, is a collector himself, and his wife serves on the board of Houston's Contemporary Arts Museum.

Because UBS has art "in its DNA," as Young says — the bank is famous for its contemporary-art collection — it tends to draw clients who are art enthusiasts, some of whom borrow to make art investments. But the bank turns to outside experts when such clients seek advice about what to purchase. And in Young's own practice, although he has plenty of clients who collect, he wouldn't dream of advising them on what to buy, especially as an investment. "We would go out of our way to steer clear of that," he says.

The demand is there, however. One of **Citi Private Bank**'s services, side by side with trust advice, is Art Advisory & Finance, which works with the wealth managers who serve ultra-high-net-worth clients. The department "educates the advisors to make sure they are well versed to discuss art with a client interested in acquiring art," says **Fotini Xydas**, an art advisor with the department who specializes in modern and Impressionist works.

Xydas believes that passion should take precedence over investment goals when clients buy art, given the market's long cycles and sometimes dizzying fluctuations. "The art market is a tricky place for the uninitiated," she warns.

Barry Young

As a wealth manager, Young describes the risks of art investment in terms that echo finance. "There is an incredible information arbitrage that is necessary," he says. "You really have to understand what moves the art market — not only the artist but the work, the provenance, the gallery, who owned it before."

Companies like **Artnet** and **Beautiful Asset Advisors** offer financial advisors and would-be art investors searchable databases of prices for works sold at public auctions; the service costs less than $300 a year. But absent from the data are comprehensive records of works sold privately by dealers, an omission that leaves out as much as half of the roughly $50 billion global market in artworks.

Due Diligence

Nevertheless, at a time when wealthy investors are looking for asset classes not correlated with stocks, advisors are hearing more clients ask about alternative investments, and art is certainly one of them. **Mei Moses**, a retired business school professor who founded Beautiful Asset Advisors, claims that an allocation to art “can reduce a client’s risk 15 to 20 percent.” His company even sells software that suggests other assets to balance out the risk an art allocation adds to an investment portfolio.

But most experts say it’s not a good idea to confuse art with any other asset class. **Leslie Rankow**, who advises collectors in New York and earns a commission on their purchases, warns novice investors, “This is not cash.” It’s one thing, she says, to spend a little mad money on a lovely work. It’s quite another to make a large investment with an eye to future gain. Wealth managers whose clients have that in mind, she says, would do well to contact someone who, like her, does serious due diligence. By way of comparison, Rankow says, “I have some sense of the securities market. But I would never presume to buy stock without a financial advisor.”