

Art as an Alternative Asset Class: Considerations for Proper Risk Management to Avoid Catastrophic Loss

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As passion investments of art, jewelry, wine, vintage automobiles, and other private collectibles continue to attract buyers of all generations, it's important for collectors and their trusted advisors to understand how best to develop a robust insurance and risk management plan, because not protecting collections from unforeseen losses could have catastrophic consequences on the portfolio's value.

At a recent art event, Anna Brusco, National Product Development Leader with Marsh McLennan Agency Private Client Services and its insurance company partner, Treadwell Fine Art & Collections Underwriters, shared some [art industry](#) statistics

and market trends.

Here are a few takeaways from the conversation:

- Investment in the art market has grown over \$50B from \$20B in 2003 to over \$70B in 2022.
- 32% of individuals with a net worth of greater than \$10M collect art.
- It is estimated that between \$2 - \$4 Trillion of art is held in private collections.
- UHNW individuals spend on average between 3-11% of total net worth on Art; their collections are often their largest asset class.
- Collections are increasingly viewed as viable alternative asset classes by wealth managers.
- The art-secured lending market is projected to be worth \$31.3B in 2022, up 11% year over year.
- The online art market has fueled growth, and in 2022, online art sales were approx. \$20B dollars. Buyers have easy access to an incredibly broad array of collectible objects. Examples of the range of items include a laptop infected with six notorious viruses that sold for \$1.3M and a Chinese vase that was estimated at \$400 which sold for \$812,500.

While some collectors acquire items due to a passion for their collectibles, aesthetic or decorative purposes, others invest for asset diversification purposes. Based on art market trends over the last several years, returns on these investments have skyrocketed. Some examples of recent 10-year period returns include whiskey, with values up 383%, vintage autos, with values up 185%, watches, with values up 147%, and wine, with values up 162%.

Auction sales for private collectibles also continue to amaze:

- Paul Newman's Rolex watch was sold for \$17 million by an ex-boyfriend of Newman's daughter after Newman received the watch from his wife decades earlier.
- A copy of the U.S. Constitution sold for \$43M, and a Bible is expected to become the most expensive book ever sold when auctioned at Sotheby's this spring for an estimated \$50M.

- Beeple's NFT entitled "Everydays: The first 5,000 Days" sold for \$69M in 2021.
- A 1952 Mickey Mantle baseball card sold for \$12.6M in 2022.

It is critical for collectors to [engage the right professional team](#) to ensure that collections are not at risk for losses that can diminish their value. Some common considerations include proper valuation, display, location, geography, loaning/consigning frequency, transit exposures, storage exposures, and trust/tax ramifications.

Insurance policies covering private collectibles are usually issued on an "all risk" coverage basis and generally provide coverage for physical loss or damage due to flood, fire, theft, partial damage, hurricane, wildfire, earthquake, accidental damage, and mysterious disappearance. Most insurance company losses are due to accidental damage or damage in transit, and both are losses that can be prevented with a strong risk management plan in place.

Private collectors may benefit from investing in a stand-alone Private Collections insurance policy, which is specifically designed to cover the exposures outlined above. While homeowners insurance policies typically provide some coverage for private collections, often the coverage limits are too low, the coverages provided are more restrictive in nature and they are often subject to deductibles.

Additionally, updated valuations and appraisals are very important. Collectors should consider the following:

- Keeping appraisals and valuations updated on a regular basis (every few years).
- Maintaining a detailed inventory of the collection in a safe location away from the home.
- Instituting an emergency plan in the event of unforeseen circumstances, including ways to evacuate the collection from harm's way, and a list of pre-vetted professionals to assist with the move and transfer.

Finally, private collectors should work with experts who can ensure proper risk management through effective programs for valuable collections and provide flexible

and specialized coverages to protect all categories of investments of passion. For more information, or to discuss these or other related matters in greater detail, contact your Anchin Relationship Partner or [Gilad Rand](#), a Director in Anchin's Private Client Group.

How to Find An Artist & Invest with Emerging Art

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An art collector or an investor may already have trusted resources for finding new and emerging artists – perhaps some favorite galleries and gallerists whose expertise they trust, in addition to their own. Still, half the fun of finding new talent is the search itself. Here are some additional sources for consideration for those who

are interested in emerging artists.

[Discover Our Art Services](#)

Instagram

Many artists regularly post their work on this visually oriented social media platform. Refining hashtag usage by searching for topics like #CollectibleArt can help in identifying work that matches particular interests. Once you identify some candidates, consider researching each artist further. Their resume may reveal their training and where they've exhibited. Exhibitions will reveal the degree to which others in the art world are beginning to recognize their talent.

MFA exhibitions

If you're willing to consider artists early in their career, exhibitions put on by recent graduates of Masters of Fine Art programs may help you uncover exceptional talents before their pieces gain the attention of wider audiences. The Yale School of Art, the Rhode Island School of Design, the School of the Art Institute of Chicago, and the Maryland Institute College of Art are reputable MFA programs for painters, for example, but there are many incredible programs for artists in all media across the country.

Artist-in-residence programs

Museums, universities and nonprofit organizations provide opportunities for artists to focus on their work. Viewing the exhibitions offered during these residencies can be a great way to discover artists who are often in the earlier stages of their careers, before they become the darlings of major gallerists and collectors. The Studio Museum in Harlem and the outdoor sculpture park, Art Omi in Ghent, New York, are just two examples of organizations whose residency programs have nurtured emerging artists.

Reviews of exhibitions for upcoming artists & painters

Reviews of non-major shows, like the roundups offered in publications like [Art & Object](#), may help you uncover artists before their work begins to demand higher prices.

Art fairs

While you may already attend some major fairs, like Art Basel, expanding your horizons may help you discover more emerging talents. To search online for fairs that align with your interests, you can start by investigating the likes of the Armory Show in New York, the Frieze Art Fairs in New York and London, or fairs and events held during Miami Art Week in early December.

Once you begin to identify some artists you like, many artists may welcome the opportunity for you to observe them at work in their studios. Seeing how they create pieces in the medium they prefer may increase the connection you feel to their work.

Enjoy the search

In addition to the financial rewards that can be realized by discovering artists before the value of their work increases, there is also a personal satisfaction to be gained from being in that select group that recognizes someone's talents early. The search can be exhilarating, and while Anchin's Art Group does not make investment recommendations, the team is available to help collectors in a variety of ways.

[Contact Our Team](#)

For more information or to discuss planning related to your art collection, contact your Anchin Relationship Partner or [Tara Burek](#) and [Michael Belfer](#), Leaders of Anchin's Art Specialty Group.

Recent Chagall Authenticity Determination Spotlights Common Challenge in Art Investing

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As is the case with many investment types, art can be a volatile asset. Even beyond the natural twists and turns that the valuation of a piece of work may take,

dependent upon factors such as the reputation of the artist and the age, condition and scarcity of the work, authenticity adds tremendous uncertainty to the equation. A recent example of this has come to light ([explained in this New York Times article](#)) whereby art owner Stephanie Clegg stands to lose her piece entirely, as a panel of experts wants to destroy it. The Chagall expert panel has deemed it as a fake, citing that it lacked presence, as a result of what was presented to Clegg as a routine review and a necessary formality in order to sell her work with the art auction house Sotheby's, who also sold the artwork to Clegg originally. In this case, Clegg purchased the work more than 20 years ago, and the period of time in which Sotheby's warranted her work (in which she might have sued for misrepresentation or inaccuracy on Sotheby's part) was just five years.

Art authenticity has always been a nebulous part of the art investment world. In the cited instance, the Comité Marc Chagall, which was created to authenticate works attributed to the artist, issued a verdict that Clegg's painting was an amalgam of Chagall's other works, but "lacked presence" – an identifying factor undoubtedly hard to discern, even for a Chagall scholar or curator. Clegg has found herself on an unfortunate side of an authenticity determination, but historically, many decisions have been reversed years or even decades later. A contrasting example is that of "Salvador Mundi" which was once thought to be painted by an obscure artist until 2017, when experts decided that it was the work of Leonardo da Vinci. As a result, the price soared from \$1,175 to \$450 million. Conversely, in 1973, the Metropolitan Museum of Art conducted an overhaul of its collection after believing that roughly 300 paintings by Rembrandt, Goya, and Vermeer had been misattributed.

In instances when art is destroyed or confiscated, the investor's portfolio suffers a loss. In this case, Clegg purchased the piece attributed to Marc Chagall for \$90,000 at a Sotheby's auction, and had it appraised for \$100,000 in 2008. In these unfortunate circumstances, it is best to consult your tax advisor in order to understand the tax implications of the loss.

Since a piece's "presence" can be viewed as a key identifying factor, it begs the question of whether art authentication, like art appreciation, is a bit subjective. Investing in works that bring one joy and inspire curiosity may be the only guaranteed satisfactory outcome. Additionally, if a collector purchases a piece of

work with the intention of selling, it may be worth factoring in the period for which the art house guarantees the work (in Chegg's instance, five years), capitalizing on the likelihood that the art house would accept responsibility for any missteps in authentication.

For more information or to discuss matters related to art and other unique assets, contact Michael Belfer and Tara Burek, Co-Leaders of Anchin's Art Specialty Group, at michael.belfer@anchin.com and tara.burek@anchin.com.

Preservation of Your Art Collection

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Art has become an increasingly popular investment vehicle in recent years and as with any investment, it must be protected.

While that may seem obvious to most art collectors – as many already insure their pieces – taking extra measures to conserve artwork is oftentimes overlooked.

The art world is rapidly changing. As such, conservation of artwork – while always a delicate process – is also changing due to the ever-expanding criteria of how we define art. While most people may limit “art” to paintings and sculptures, other collectibles such as textiles, musical instruments, rare artifacts and so forth also require due care.

With all art, regardless of the medium used, it is important to protect them from the elements such as excessive heat or rapidly changing humidity levels.

Protecting a collection also requires consideration of its location and physical security. Just five years ago, in the wake of Hurricane Sandy, art conservationists found themselves inundated with work as several collections were nearly destroyed due to being stored in especially vulnerable areas.

Tragedies cannot always be avoided but they can be mitigated. Making sure that the surrounding structures around a piece of art are also secure is critical.

Proper protection during storage and travel is also an important consideration. Expert art handlers and shippers are best equipped to assess how to manage the safety of transporting artworks, taking into account age, materials, type of work and framing. It is not unusual for a valuable artwork to require custom built packaging to minimize the risk of vulnerability during transport.

Many modern and contemporary pieces of art have an ephemeral quality to them – whether it is intentional or not. For some pieces, the art may be meant to be enjoyed for a limited time or under limited circumstances. Other pieces may be made from materials that were untested and collectors who are not careful may unfortunately find that investment – quite literally – is unstable.

While there may be reasons to hold a piece of art while knowing that it has a shelf life, collectors should nonetheless make sure they still understand exactly what they

are investing in.

Serious collectors will want to make sure they examine the works thoroughly with an expert before acquisition, as a best practice.

During this examination, any current defects should be noted and a plan should be set for conserving the work. When the current state of the artwork is known, this is also a time to set up a preliminary plan for installation or storage and future treatments.

With early planning, art collectors can feel more confident that their collections will last and maintain - or even grow - in value over the course of generations. To discuss your unique art collection and strategies to protect these assets, contact your Anchin relationship partner or email us at info@anchin.com.