

## Art as a Monet-maker? Not likely, experts say

By Liz Skinner | September 8, 2013 - 12:01 am EST

Many wealthy clients are tempted to try their hand at the art appreciation game after hearing news of big sales such as the Jackson Pollock drip painting that went for \$58 million in May, 20 years after it was purchased for \$2.4 million.

But advisers and art experts caution clients that getting into art collecting solely for its return on investment is foolish and warn that the market is rife with scam artists.

“Choose a painting because you want to hang it on the wall,” not with the expectation that its appreciation will fund college for the kids or retirement, said financial adviser Rick Kahler, president and founder of Kahler Financial Group.

Betting that purchases will fetch great sums like Pollock's “No. 19, 1948” did at the recent Christie's auction in New York isn't a good way to make money, Mr. Kahler said.

The market for art and collectibles is extremely speculative because values are so subjective.

Essentially, the value depends on what someone is willing to pay at a given time, Mr. Kahler said.

In addition to being valued subjectively, most art won't appreciate, because there are also high transaction costs such as dealer markups, auction house commissions, insurance, crating, storage, shipping, customs and capital gains tax when a work is sold, said Todd

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Levin, director of the Levin Art Group.

“Art is neither an efficient nor reliable investment vehicle,” he said. “Most who attempt to operate without a deep, inside understanding of the art market on their own get burned.”

Mr. Levin recommends using professionals to validate authenticity and value.

“If one is looking at art as a speculative vehicle, work with an expert who has the experience of going through multiple market cycles over a period of many decades,” Mr. Levin said.

But even professional art brokers can be duped. The art community, in fact, is reeling from an \$80 million forgery scandal in which a New York art dealer pretended to represent the son of an anonymous collector and sold “masterpieces” to respected galleries.

Federal investigators allege that the dealer actually paid a 73-year-old painter in Queens to create the fakes.

The risk of phony masterpieces is nothing new, but some art industry professionals said that interest in art collecting has surged along with the nation's quest for alternative investments and because interest rates have been low for so long.

Mickey Segal, managing partner at Nigro Karlin Segal & Feldstein LLP, recommends that clients buy from a reputable dealer who has sold other pieces at a similar price point.

He also suggests making sure that the professional has been around for a while.

Buying a piece at a known auction house is a safer method than a private sale because the auction company is liable for authenticating the pieces, said Mr. Segal, whose business management firm handles art transactions, among many other matters, for wealthy clients.

He warns that in some cases, the value of a painting or other piece of art is nearly impossible to verify.

For instance, while traveling in France 20 years ago, a friend of Mr. Segal's purchased a \$1 million painting that he thought was by Spanish painter Pablo Picasso. He spent eight years and more than \$1 million to try to authenticate it and couldn't.

“It was either worth \$150 million or \$0,” Mr. Segal said.

Because its value couldn't be substantiated, his friend couldn't use the painting as an estate-planning tool as he wished.

The friend has since died and the painting "is hanging on the wall of one of his kids," Mr. Segal said.

Even the value of pieces from the most famous artists changes with buyers' appetites.

Claude Monet's painting "Le Grand Canal" (1908), for instance, bought at Sotheby's in November 1989 for \$12 million, was re-auctioned by the same house 16 years later in 2005 for \$10.8 million, according to Mr. Levin.

"The best returns tend to come from buying undervalued artists, or buying artists earlier in their career," he said.

Although it is a long shot that artwork from an unfamiliar artist will eventually be worth millions, at least the initial investment will be low, Mr. Levin said.

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