

Russian art as an alternative investment

Over the last few years investors have increasingly considered alternative investments, such as hedge funds, property, and private equity. Art, however, has proven to be an excellent long term investment over the years. Chart 1



compares an index of world art prices over the last 50 years. In some years it has performed better, some worse, but over long periods of time it has achieved a similar return. It has produced a real equity

like return with different performance characteristics, and thus is an excellent diversifier.

Emerging markets art has been booming the last few years, not just Russian, but also Chinese, Indian and others. I first observed this phenomenon myself 25 years ago as an economist talking to artists on a country study trip to Taiwan. More recently, Chinese contemporary art prices are up 350% since 1998.

Art prices rise rapidly in strongly growing economies. The first thing a new businessman does is to buy a home; he often has grown up in a hovel, or at least a small flat. Then he stares at the blank walls, and decides to buy art,



and he buys what he knows, so his home country art benefits. Art is a way of gaining diversified participation in economic growth.

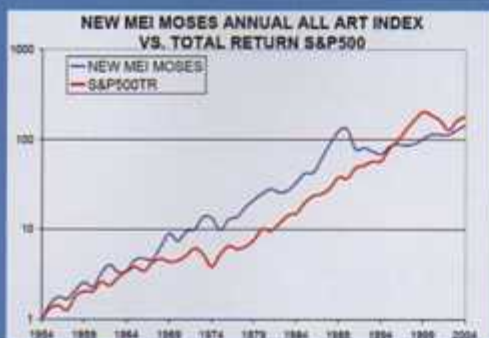
My first Russian art purchase was of a work by Sudeikin, which my wife and I bought at auction in 1993 for £700; we sold it 10 years later for £8,500, a 1,100% increase. More recently, someone bought View of Constantinople by Aivasovskii on auction in November 2003 for £733,250, and sold it three years later on auction for £1,632,000, a 123% increase.

Chart 2 compares Russian art prices with US and Russian Equities. Russian art prices are up 589% since 1997 (in US\$), vs 384% for Russian equities (in US\$), and a modest 47% for the S&P 500. Significantly, art survived the 1998 crash; it was not part of the financial bubble that led to that collapse.

Aside from strong economic growth, relative shortage also supports Russian art prices. There are only about 250 years of secular art history in Russia; there are only so many icons most people want on their walls. In the US where there similarly was little art over 250 years ago, prices for paintings command a premium over those by comparable artists of France or Holland - countries with a much longer history of art.



Art a Good Long Term Investment



Moreover, unlike other assets, there are no obvious upside limits to art prices. Property must bear some relationship to rents and income, and therefore the economy. Equities must be related to earnings, while bond prices are



based on inflation and interest rates. Prices rise with incomes, but there is no fixed ratio; art prices can go as high as buyers will buy.

Chart 3 compares Russian art prices with oil prices and Russian GDP. We noted earlier



er that art prices continued to rise during the 1998 crash; they also rose when oil prices fell 1997-99 and again 2001-2. Russian economic growth is based on much more than oil; art participates in that growth in a much more balanced way

than the petroleum dominated equity market.

Art is also a hedge against political risk; it is transportable, can be held outside Russia, and can even be bought in sterling under English law in London. Nor is it subject to "manager" risk, unlike equities where there have been regular worries over the years that senior managers might steal company assets.

Like all asset classes, Russian art

can be subdivided into sectors with differing price behaviour. Over the last few years 19th and early 20th century art was the asset to hold. Longer term Emigré and Soviet Realist art look excellent value.

The excitement at the moment is over Modern and Contemporary Art. It is still being recognised and prices are low by world standards. For example see the photos of a work by Mikhail Shvartsman (1926-1997) sold in February at Sothebys for £192,000 or the work by Oscar Rabin (born 1928) sold at MacDougall's for £168,000 last November - for several months the world record price for a work by a living Russian artist. Neither price is high by world standards. Compare for example with the £5.7m a Russian buyer paid for Peter Doig's White Canoe at Sothebys in February. Or compare with the £2.8m paid for Pastoral Russe by the classic Russian artist, Somov, at Christies last November.

Art in general, and Russian art in particular, is an excellent

long term investment, a diversified way of participating in economic growth, especially in emerging markets. It is also a hedge against political and other Russia specific risks, and performed well during the 1998 crash and during periods of declining oil prices. Within Russian art, Modern and Contemporary is the sector for those who like to buy assets still cheap but beginning to appreciate.

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