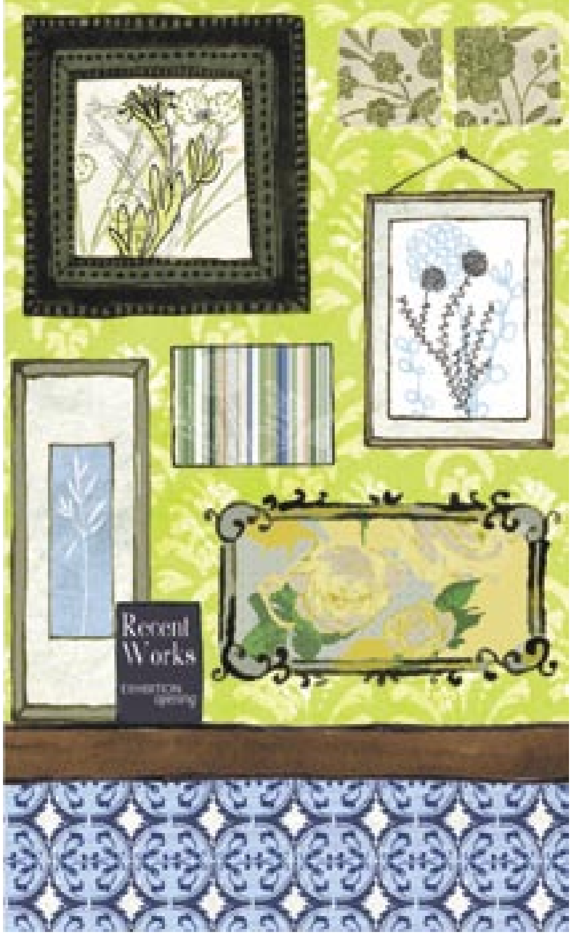

MONEYTALKS

A picture could paint you thousands of dollars says Susanna Stuart – or it may leave you broke

SOLID GOLD CANVAS

Many Kiwis wonder about buying art as an investment vehicle. The auction programmes on TV feature modest canvases purchased just a decade ago that have now turned into goldmines. At one extreme, a Colin McCahon bought for $20,000 in 1986 was sold in 2004 for $1.78 million.

Even the work of great living artists can bring good returns. Ralph Hotere's paintings fetched $4000 in 1980 (about half the average salary even then), but today those works fetch around 12 times the average Kiwi wage. Of course it isn't Ralph who collects this windfall – the owner takes home all the profit.

So is art ownership a valid form of investment? Yes, but the rules are a little different from a sharemarket portfolio where a trickle of funds invested here and there will still accumulate a tidy sum.

With art investment there's a higher entry level. Art incurs costs of ownership including framing, insurance (can you afford to insure a $400,000 painting?) and commission on selling through an auction house.

There's a second difference between these investment types. Shares (or unit trusts which are a form of share ownership) give the investor an annual dividend. Your prize painting, on the other hand, will hang there on the wall and not return one cent until you choose to sell it. In a depressed economy, art is usually the first thing to drop in value (as demand dries up), and the slowest to recover. The market heats up after a sustained boom in the property market.

But try hanging your share certificates on the wall. Unless you're Donald Trump they don't deliver the same sense of contemplation, mystery and sheer beauty that a great painting can give you. And in 1987, when shares were plummeting in value, the owner of the new Ralph Hotere painting may have lost everything on the sharemarket, but still had an incredible painting on the wall.

This is where art investment can get tricky. In the end, how do you decide to sell a wonderful artwork that you've fallen in love with?

In 1974 the UK British Rail Pension Fund decided to make some long-term investments in artworks purely for profit. This is a fund with plenty of cash, and some important purchases were made. In 1989, 25 impressionist and modern works were sold, delivering a 20 per cent return, per annum.

The chief executive said that artworks were the single best investment in the fund's portfolio. Whether he actually liked the art itself wasn't discussed. N

MAKINGCENTS

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Q A group of us are thinking about starting up an art group, where we each contribute money every month to buy artworks. It is partly a social and an art-appreciation thing – but we do want to be wise investors. Have you any advice?
Judith, Wellington

A Art groups are an excellent idea – but make sure your group has clear written rules in place and sticks to them. For example, if one member decides to leave the group what action will be required? Then there is the toughest question: at what point should your group put its purchases up for sale? Be flexible. You will have to wait until the next art boom, and there's no telling when the market will be so buoyant again. In other words: be prepared to wait.

getting the hang of what to buy

Some advice for would-be art investors.

- Seek guidance from trusted art advisers, gallery owners, artists and art-savvy friends.
- Apply common sense. Take care with artists who flood the market. Don't rely solely on the name of the artist. Is the artwork a good example of their work?
- Take time. Get to know the market. Visit the galleries. Invest in your knowledge.
- Make sure you love the artwork. You must be prepared to live with your purchase for a long time.

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