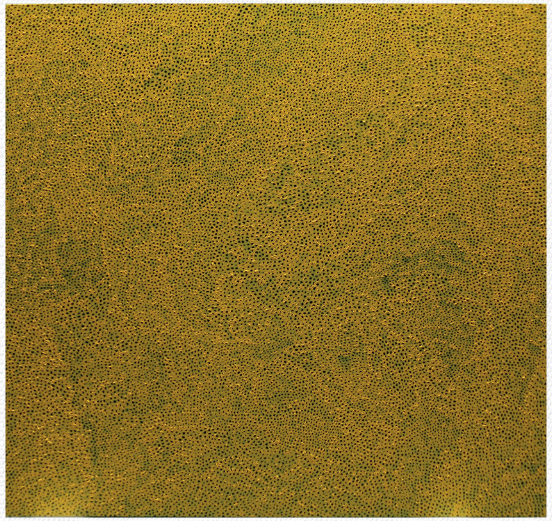
THE ART OF INVESTING

HOW DOES ART STACK UP AS AN ALTERNATIVE ASSET CLASS? AVID COLLECTOR **JOHNNY HON**, FOUNDER AND CHAIRMAN OF THE **GLOBAL GROUP**, OFFERS SOME RULES OF THUMB WHEN WEIGHING A PURCHASE



PERSONAL COLLECTION
Johnny Hon's portfolio include Bloodline: The Big Family *(1997) by Zhang Xiaogang (left) and* Infinity-Nets (FREA) *(2015) by Yayoi Kusama (above)*

For as long as art has existed, it has been funded by rich patrons. From pharaohs to Athenian statesmen to Renaissance financiers, art and money have enjoyed a symbiotic relationship. But it is only in recent years that art has come to be seen as an investment asset in its own right—a potential store of wealth rather than simply an expression of it.

One of the attractions for investors is that art prices are not directly linked to traditional investments such as stocks and bonds, which means that art can help to add some diversity to a conventional financial portfolio, says Johnny Hon, the founder and chairman of the Global Group, and an artful art investor himself.

While news headlines tend to focus on spectacular sales of old masters, such as the record auction of a long-lost Leonardo da Vinci painting of Jesus for US$450m in November 2017, the reality is that more than 95 per cent of art sales are for less than US$50,000 and most serious buyers focus on contemporary works by living artists.

"I prefer to collect contemporary art because I can directly communicate with the artists to identify hidden pearls," says Hon. "Besides, the potential for value appreciation in the future is also more promising."

Buying the work of deceased artists introduces the problem of counterfeits and therefore the added cost of authentication, not to mention the fees associated with buying from auction houses. Dealing directly with a living artist is a more straightforward way to buy art—and the ability to develop a long-term relationship can make it much more enjoyable than paying a huge sum for a masterpiece.

Interest from Chinese buyers has helped to fuel the growth of the contemporary art market in recent years. Since the turn of the millennium this sector has posted an astounding 1,490 per cent increase in annual turnover and a 36 per cent increase in the average value of an artwork. These figures are not just based on the market's high end—using a minimum price threshold of US$20,000, there are still significant annual returns of about 5.9 per cent.

Chinese artists are also drawing more attention. "The art market used to be dominated by US and UK investors with a preference for Western art," says Hon.

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"However, the trend is changing. More and more Chinese and Asian artists, such as Wang Guangle and Liu Weijian, are attracting market attention from both Chinese and Western investors."

The US leads with a 40 per cent share of global art sales, but China is already the world's third-biggest market, only slightly behind the UK.

However, when a market starts to attract more attention, it often means that buyers need to exercise more caution—and this is especially the case when it comes to art. Investing in collectibles can certainly produce good returns, but investors should be aware of the following important points:

Lack of information

In financial markets, prices reflect the vast amount of public information about a given asset and there are countless sources of research for buyers to rely on. In comparison, the amount of information on collectibles can be very limited.

Illiquidity

It can be difficult to sell a work of art profitably. Finding the right buyer can be tricky and the most common channels for re-selling are auction houses and galleries, which charge hefty fees.

ON DISPLAY
Hon photographed with the painting The Advent of Spring by artist Bo Yun

Other fees and costs

Buying a valuable work of art can involve a lot of additional expenses that are not an issue when trading stocks or bonds electronically. Handling, storage, marketing, insurance and maintenance costs are all expensive.

Destruction

Another issue that doesn't arise with traditional assets is physical destruction. Fires and floods are the enemy of artworks, along with many other circumstances that can cause the value of your precious collectible to fall to zero.

No income

Bonds pay regular coupons and stocks typically pay dividends, but owning an artwork yields no income until it is sold—and often not even then.

Given all of these cautionary words about investing in art, Hon's advice is to follow your passion. The greatest dividend from owning art comes from the pleasure of enjoying the works themselves, and from cultivating a relationship with the artists you admire. In sum, the value of an artwork that you love will never be zero, regardless of what the market says.