

**Czech University of Life Sciences Prague**

**Faculty of Economics and Management**

**Department of Economics**



**Bachelor Thesis**

**Art as an investment object**

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## BACHELOR THESIS ASSIGNMENT

Olga Komarcheva

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Thesis title

**Art as an investment object**

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### Objectives of thesis

The main theme of this diploma thesis is an Art as an investment object. The work will focus on the study of the art as an object of investment and research of the market of contemporary art.

### Methodology

The diploma thesis divided into theoretical and practical parts. The first part defines features of the art market , theory and methods of investment to the art market , which information is needed prepare suitable analysis. The second part describes the analysis of the dynamics and profitability of investment markets in art, analysis of the Russian art market, perspectives and alternative investments in the art market.

## The proposed extent of the thesis

30 – 40

## Keywords

Investment, art market, methods of investment , analysis, finance, efficiency, art, risks

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## Recommended information sources

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## **Declaration**

I declare that I have worked on my bachelor thesis titled "Art as an investment object" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break copyrights of any their person.

In Prague on 12<sup>th</sup> March 2018

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Komarcheva Olga

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# **Art as an investment object**

## **Abstract**

The aim of this bachelor thesis is to identify its general modern efficiency assessments and methods of the art market potential, as well as their application for investment in the art market. This research includes the estimation of market attractiveness and the evaluation of the competitive status of a work of art.

In the practical part, the author identified common for the development of the art market, studied the basic auction turnover, shares of the world art market, also the volume of the auction art market. The author found out that the essence of investment activity on it is associated with a high level of risk.

**Keywords:** Investment, Art, Art market, Risks, Auction

# Umění jako investiční objekt

## Abstrakt

Cílem této bakalářské práce je identifikovat obecné moderní hodnocení efektivity a metody potenciálu uměleckého trhu, jakož i jejich využití pro investice na trhu s uměním. Tento výzkum zahrnuje odhad atraktivity trhu a hodnocení uměleckého díla z pohledu konkurenčního.

V druhé části autor identifikoval společné znaky pro rozvoj uměleckého trhu, prostudoval základní aukční obrat, podíly světového trhu s uměním, a také objem aukčního uměleckého trhu. Dále autor rozpracoval fakt, že investiční činnosti je spojena s vysokou mírou rizika.

**Klíčová slova:** Investice, umění, trh s uměním, rizika, aukce

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## **1. Introduction**

The paper presents art as a special object of investment. Art objects - from the economic point of view, consumer durable goods, delivering aesthetic pleasure, at the same time - a capital asset, the value of which usually increases with time.

Investing in art is the acquisition of works of art with a view to further profitable sale of it. Such investments are also called alternative, this is one of their advantages in comparison with traditional financial instruments. Art-market does not directly depend on the securities market, which means it allows to save and increase the capital even in crisis periods.

This work touches upon the topics of assessing the effectiveness of investments in the art market, the methods of investment and their application

The purpose of this work are methods for evaluating the effectiveness of investments in the art market.

The subject of the study is art as an object of investment.

The object of research is the market of contemporary art.

# **Objectives and Methodology**

## **1.1. Objectives**

The main purpose of this bachelor thesis is to consider the art market as an object of investment with its analysis of dynamics and profitability in the market of art. The basis of the theoretical section is to define features of the art market. Furthermore, it consists of theory and methods of investment to the art market. The second section covers the suitable analysis and analysis of the Russian art market.

## **1.2. Methodology**

Methodology of this thesis is composed by part of quantitative and qualitative researches in interest to find useful data for evaluating dynamics and profitability in the market of art. When writing the paper, the works of scientists were used, as well as works of the scientific groups from Artprice, Christies and Sothebys. Among the used statistical data there is information from open websites of Arsty and Cnbc.

For purpose of evaluating data through analysis will be used tools as Office Excel program and databases. Based on synthesis of knowledge, theoretical research and information, this thesis will be created.

## **Literature Review**

### **3.1. The methodology of evaluating the effectiveness on investments in the art market**

#### **3.1.1. Features of the art market**

In general, the art market is characterized by many features that significantly distinguish it from others. First, it is an extreme case of the market, on which heterogeneous goods are traded. For the clear majority of 10 paintings there are no substitutes. For example, some individuals are interested in buying only one work created by their favorite artist in a single copy or performed in a specific technique. (Campbell, 2008)

From this point of view, the supply curve in the art market can be considered as inelastic. Therefore, some researchers put forward the hypothesis that there is no single art market and defend the theory of the existence of many monopolistic or monopolistic markets. (Kraeussl, 2010)

Nevertheless, substitutes in the art market can exist. For example, the collector of works by Vincent Van Gogh is not interested in buying any particular painting of the artist, so for him the art market is not a monopolistic structure. Another feature of this market is the relatively fixed volume of supply. (Kraeussl, 2010)

According to the ArtPrice report, works of contemporary artists make up only 12% of the turnover on the market, while the share of works of art of the post-war period and even earlier periods is 22% and 66% respectively. (Artprice.com, 2015)

Consequently, the volume of the supply of paintings or sculptures on the market increases only due to a small proportion of the newly created works of contemporary artists. Moreover, the limited supply is further aggravated by the fact that some pictures of old masters do not appear on the open market, because they are the property of museums or they are placed in closed collections. Secondly, transaction costs as a percentage of each transaction are much higher in the art market than in financial markets. So, if the

intermediary in the transaction is the auction house, then both the buyer and the seller pay a commission that can reach 25% of the transaction price. (Sothebys.com, 2015)

The size of the commission is different for works of different value and usually varies from one auction house to another. Thirdly, the objects of the art market radically differ from those in other markets with a low degree of liquidity. For example, a collector who wants to sell a picture needs to wait for the auction to start a few months, and then the picture find its buyer. It is also possible that the canvas simply cannot be sold, in view of the complete lack of demand for it. Demand for paintings of a period is determined not by supply, but rather by fashion trends in the market and historical context. At the same time, transactions with shares and bonds are carried out daily, which makes them liquid financial instruments. (Artprice.com, 2015)

On the contrary, between selling the same picture at least a few decades. Fourthly, the degree of transparency in the art market is very low. The collection of reliable information about the quality of the picture is very difficult and costly. In addition, there is uncertainty about the starting price, which should be set during the sale. Even though in the last decade the degree of market transparency has increased significantly due to the appearance of analytical centers working in the art sphere (artprice.com and artinvestment.ru), the asymmetry of information is still present. This provides a great opportunity for scammers who forge original paintings and sell them in the markets, giving out for originals.

When it comes to selling a work of art, the full information about the quality of the work is known to the seller, but not to the buyer. The art market is a market of goods on trust (credence goods), the value of which cannot be objectively and reliably determined. That is why there is a disinterested party on the market - experts who make a collective verdict about the most likely cost of work (Artinvestment.ru, 2015).

This aspect of the market does not allow considering it as purely financial without the participation of cultural institutions (museums or specialized publications on art). In addition to performing their basic function, they also provide a cultural context for works of art, without which they would not have such value. For example, there are a significant correlation between evaluative judgments of cultural institutions regarding jobs and their value in the eyes of economic agents. (Cnbc.com, 2013).

### **3.1.2. Art as an object of investment**

The art market is a large segment of an even broader market, which includes many subgroups that unite the diverse products of the cultural life of society. There are several motives that guide individuals when buying art objects:

- Emotional motive. People acquire art objects because of their aesthetic appeal to decorate their home or to form a rich collection.

- Finance motive. Buying paintings, sculptures, antiques can be a good investment, a means of preserving value and a hedging tool in the event of inflation.

- Social motive. (Investopedia.com, 2014)

Buying a famous painting allows a person not only to get aesthetic pleasure, but also to become a member of a privileged social group of collectors who regularly participate in auctions. In countries with economies in transition, such as China or India, the purchase of an expensive piece of art shows that it belongs to the class of the intelligentsia.

The purchase and sale of art objects can be carried out in various ways and through various channels, which vary depending on the market segment, the identity of the buyer and the seller, as well as many other factors. In the primary art market, art objects are sold directly by artists in their studios and workshops (Valuestockguide.com, 2015).

Also among modern masters is the practice of selling their work with the involvement of intermediaries - art galleries, each of which, as a rule, represents the work of 20 - 30 artists. In the secondary market, sellers are private collectors or institutional structures (museums, galleries), which attract intermediaries for transactions. Some buyers resort to the services of dealers when acquiring art objects, others - participate in auctions with open (open outcry) or closed (sealed-bid) bidding. (Artprice.com, 2015)

The most famous auction houses are Christie's and Sotheby's, which together occupy 90% of the market for auction sales of works of art and antiques (Christies.com, 2015).

In addition to buyers, sellers and intermediaries, there is a class of participants in the art market that do not directly participate in the purchase and sale. The value of each work of art is formed under the influence of social and cultural factors, and all the above-mentioned

market participants have a great influence on this sphere of society's life. Their opinions and critical assessments regarding a work change its long-term value and influence the conjuncture in the art market. (Artprice.com, 2015)

### **3.1.3. Evaluation of investment efficiency**

Art objects can assess their investment attractiveness and make effective decisions regarding investments in the art market. When constructing integral assessments of the effectiveness of investments in the art market, not only indicators of so-called objective material factors, such as profit, sales volume, investment efficiency, etc., but also indicators of subjective factors such as market attractiveness (on demand), influence on market of image factors, market share volatility, management quality assessment. (Cameron, 2009)

The evaluation of the competitive status of a work of art can be conducted according to the following group of criteria:

- the relative share of the seller's market of the work of art;
- the spread of profits relative to the main competitors of the seller of the work of art;
- the ability to compete in the price and perceived value of a work of art;
- the level of information security of potential consumers of works of art;
- the level of development of marketing communications and the seller's knowledge of a potential target audience;
- the potential for the commercial use of works of art;
- the level of risks associated with the work of art. (Investopedia.com, 2015)

The estimation of market attractiveness of a work of art can be carried out according to the following group of criteria:

- the size of the segment of the art market of the work of art and the rate of its growth;
- features of competition in the art market segment of works of art;
- profitability segment of the art market artwork;

- the attractiveness of the commercial use of the work of art of this author or direction;
- fashion for works of art of the author or direction;
- the level of market risks of the work of art of the author or direction, including the risk of depreciation. (Investopedia.com, 2015)

### **3.1.4. Application of investment valuation techniques for art market investment strategies and methods of investment valuation**

The formula for estimating the potential cost of work:

- $P = (FV + IP) \times PF$
- Price - the cost of re-sale (prospective value)
- Fair Value - the cost of the work you purchased
- Irrational Premium - the "premium" of the next buyer (based on 3
- aspects: "paired group", PR and marketing of the artist, provenance
- Provenance Factor - "clean" passport work, the value varies from 0 to 1 (Anderson, 1974)

Many professional participants in the investment community share the view that investing in real assets helps to better diversify the portfolio, there are still surprisingly few studies on how to invest in this market most rationally.

Art, if properly applied to this, can help an investor create the most optimal strategy for solving his specific financial and investment tasks.

#### **3.1.4.1. Portfolio Diversification**

A significant portion of the income received by ultra-wealthy investors in recent years has resulted from the strategic diversification of their portfolios across a wide range of asset classes. (Renneboog, 2009)



Increasingly, experienced investors are trying to protect themselves from losses by more pronounced diversification of their portfolios through investments in art within the framework of various traditional and new strategies. Like gold, art is classified as a "real asset", which has established itself as a natural hedge against inflation. (Renneboog, 2009)

#### **3.1.4.2. Strategic management**

Art is increasingly assigned to a small portion of portfolios of wealthy investors who seek to place part of their funds in alternative assets. In this area, two new strategies are being taken up. The first is designed to copy the actions of the world's leading collectors, who tend to specialize in some sectors of the broader art market. In turn, collectors who adhere to sectoral investment strategies want to achieve medium- and long-term growth in the value of their investments through active portfolio management of art, which is maximally widely diversified in well-formed sectors of the art market, such as old masters, impressionists, modern, modern art. (Renneboog, 2009)

These sectors are preferred due to the extensive and developed base of collectors, independent market behavior (including price dynamics and volatility), as well as the long history of trade transactions, which makes it very predictable. The second strategy is favored by leading art dealers and auction houses, which successfully find financial transactions and opportunities for direct investments in art that can provide good profits in a shorter time. Trading of this kind be riskier, but potentially more profitable, strategies, and often include speculative operations involving the purchase and sale of artwork over a short period of time to generate quick profits. (Zanola, 2007)

#### **3.1.4.3. Sectoral location**

An extremely important factor in the success of any collector is his or her ability to find attractive investment opportunities on acceptable terms. After such an opportunity is found, it can be examined in more detail with the help of various economic and behavioral techniques, as well as based on market analysis. To help increase the value of each individual art asset in the portfolio, investors should adopt the same curatorial and marketing techniques that are commonly used by successful collectors and dealers, including strategic promotion and participation in exhibitions. (Renneboog, 2009)

#### **3.1.4.4. The investment processes**

The investor's approach to managing the portfolio of art should not be static, and it should combine traditional approaches to managing the investment portfolio with "best practices" from the field of portfolio art management, drawing on analysts, expert assessments and market research data. The process of deciding to place funds in certain assets must include a thorough assessment of market conditions, the state of the global economy, the availability of attractive investment opportunities, and the matching of the required investment with the risk / return ratio acceptable to the investor. (Zanola, 2007)

#### **3.1.4.5. Price indices**

A relative innovation in the art markets was the emergence of price indexes, which first allowed investors to assess, based on historical data, the potential risk / return ratio for a class of assets. Well-developed methods and disciplines that are routinely used in the management of any other classes of assets can now be used in the application to art markets, allowing investors to incorporate art into their alternative investment strategies. (Artprice.com, 2015)

Over the past few years, several price indexes have been developed for different sectors of the art market, making it much easier to track the dynamics of art prices in comparison with other assets, such as stocks, bonds or gold. Today, there are many methods for calculating the price index of art, but they all rely on sales data at the leading auction sites, which is not surprising, given the lack of available data from the dealer market and the conditions of private transactions. (Gerlis, 2014)

#### **3.1.4.6. Boutique clubs**

Another new interesting trend in the art investment market was the emergence of small private foundations / clubs of art, founded by owners of large fortunes, who would like to include art in their alternative investment strategies. The desire to create a club of investments in art or a private foundation has recently been especially often shown by friends or family members who would like to co-invest in a certain sector of the artistic or collection market. (Gerlis, 2014)

The creation of an investment art fund is a unique opportunity for a group of like-minded investors to pool their capital. By participating in one club with other investors, private clients can benefit not only from the opportunity to invest their money in a more widely diversified portfolio of art, but also at the expense of lower transaction costs compared to if they invested themselves. Another variation on the same topic is the family office, which employs a professional third-party manager to invest and manage a portfolio of art for various family members in a similar pattern. (Zanola, 2007)

### **3.2. Prospects and Alternative Investment Options**

According to experts, a surge of interest in alternative investments in art objects and antiques occurs during periods of pronounced economic instability. Analysts believe that there is a very simple and logical explanation for this phenomenon. Trying to insure their capital from existing risks in such conditions, people diversify their portfolios and are already looking at non-standard investment segments. That is why antiques and art are in an extremely advantageous position: having guessed the trend or even successfully creating it, you can not only save the invested but multiply the capital. (Artprice.com, 2015)

A vivid example of this approach can be considered paintings by masters of the turn of the XIX - XX centuries, and especially modernists and impressionists. They have already become a kind of "blue chips" of the art world, recognized as such financiers and bring to their owners a stable income of 10-25% per annum. But with the least amount of risks, this type of investment still has its drawbacks. (Throsby, 2001)

First, many people are stopped by a high entry threshold, starting with seven-digit numbers, and in addition, there is a dense competition in this market in the struggle for sign works. There is a great chance to face fakes, and the content of art collections cannot be called a democratic pleasure. If we consider investing in modern art, even with the existing high volatility, this segment has serious prerequisites for growth. For example, the presentation in 1997 of the Venice Golden Lion forced the work of Gerhard Richter, an already expensive author, to rise in price by 400%. This event undoubtedly became a triumph not only of the well-known creator, but also the owners of his works. And to try to

repeat this success, it is necessary to predict the potential of this or that subject of modern art, which is quite difficult. (Throsby, 2001)

According to experts who advise banks investing in contemporary art, the collection can be considered held if at least a tenth of the meeting will be sold at a significantly higher price than the original prices. But such an opinion cannot be considered comprehensive, as bank collections are called upon to play a presentation role, and not be the main earnings. As indicated by the desire of banks to support their representatives of their national art as much as possible. (Artprice.com)

Nevertheless, since 2008, banks have started selling their collections one by one, remaining, at times, with significant profits. So, sold a few years ago, "Commerzbank" sculpture by Alberto Giacometti "The Man Walking" was estimated at sixty million dollars. (Valuestockguide.com , 2015)

## **Practical Part**

### **1.3. Analysis of dynamics and profitability of the investments of the art markets**

The art market, as an object of investment, is currently under development. After the year 1990, when Japanese collectors and investors "overheated" the market with unreasonable prices, until 1998-2000, only collectors were present at it. However, due to the rapid growth in painting prices and high investment opportunities in the market, since the beginning of the 2000s, professional players began to appear, focused on the purchase of objects of painting only as an object of investment. (Zanola, 2007)

Today, the share of investors in the international art market among the total number of participants is about 50%. And it is not surprising - as the results of sales at the world's leading auctions show, the prices on the world art market on the flawless things of artists with a world name grew from 2008 to 2014 by more than 400%. (Christies.com, 2015)

In 2015, at the world art auctions, 865,700 lots were put up for sale, which is 3% more than in the previous year. At the same time, in 2015, revenue declined by 10.31% in the global

auction market. After five years of leadership, China lost first place to the United States, despite stabilization at the end of 2015. On the third place is Great Britain, which has doubled the volume of its art market over the past 10 years. (Artprice.com, 2015)

Among all types of financial investment paintings has become one of the most attractive investment tools in terms of profitability. Compared with the international securities market, gold markets and bank deposits, the art market can bring professional investors a profit of up to 30-50% per annum. (Artindex.com, 2015)

Because of auction sales during the global crisis in 2008-2010, the number of sold works increased. If before the crisis this indicator averaged 60-70% of the number of lots exhibited, during the crisis it grew to 80-90%, although the quality of the works sold was much lower than in the pre-crisis period. Nevertheless, even for the work of medium quality, a serious struggle unfolded, and sales results often exceeded the upper estimate. Secondly, the sales results of the top lots of trades during the crisis convincingly proved that there is always a demand for the highest quality products and they remain in price. In 2010, the world record of the price of the work of art was twice updated: first by Giacometti (\$ 104.3 million Sothebys, 03.02.2010), and then by Picasso (\$ 106.5 million, Christie, 04/05/2010). (Christies.com, 2015)

One of the sources of stability of the art market has become a museum boom: every year in the world open to 700 new museums. "The industry of museums" has become a global economic reality of the XXI century. There are more and more private museums of contemporary art in the world - now there are 317 museums. Museums play an increasingly important role in the art market: everyone strives to acquire "their own Mona Lisa" to justify their own existence. This is what leads to an explosive increase in the value of the most valuable auction lots: in 2015, for the first time in history, the price immediately exceeded \$ 140 million for three lots. (Sothebys, 2015)

Thus, the leading Chinese collector Liu Yitsyan purchased a picture of Amedeo Modigliani "Lying Naked" for \$ 179 million at Christie's auction. The purchase should give a special shine to the private museum of fine art "Lun", which he plans to open in Shanghai. For new museums, buying paintings by Gauguin, Van Gogh or Modigliani is a planned economic strategy that guarantees international attention and growth in attendance.

Capitalization of the 1000 most expensive works sold ever in the auction, in 2014-2015, not only did not fall, but increased by 12.6% and 4.2% respectively, including the "entry barrier". (Christies.com, 2015)

**Table 1 Dynamics of TOP-1000 capitalization**

| Date / Record                    | 2011            | 2012            | 2013            | 2014            | 2015            |
|----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Capitalization of 1000 art works | \$8.62 billion  | \$9.33 billion  | \$11.55 billion | \$13 billion    | \$13.5 billion  |
| Growth                           | 5.3%            | 8.3%            | 23.8%           | 12.6%           | 4.2%            |
| Entry threshold in the top 1000  | \$ 3.63 million | \$ 3.98 million | \$ 4.98 million | \$ 5.61 million | \$ 5.93 million |
| Increase in the input threshold  | 3.3%            | 9.8%            | 24.6%           | 13.0%           | 5.7%            |

*Source: Christies.com, 2015*

This is connected to the extremely small number of works of art at the museum level and invariably high interest from potential buyers. The total increase in the capitalization of the Skate's Top-1000 index for the period from 20011 to 20015. was 60%. The "turnover" of the most expensive works also increased, in 2013 their repeated sales were 8.6%, in 2015 - 14.2%. (Christies.com, 2015)

In the segment of the most expensive lots dominated by auction houses Christie's and Sotheby's - they raised \$ 9.5 billion for the sale of only 34 thousand lots, which is 7% of transactions in the world art market. More than half of the revenue falls on the 1000 most expensive lots, which are exclusively sold at major auctions in London and New York. To satisfy demand in this segment, leading auction houses should offer works of the highest quality that have not appeared on international auctions for a long time and are blue chips in terms of investments. Such requirements lead to the fact that the leading auction houses, especially Christie's, organize separate auctions that are not tied to certain periods in the

history of art and combine a small number of works of the highest quality created in different epochs. (Christies.com, 2015)

**Figure 1 Top 10 Auction houses**



*Source : Reddit.com , 2015*

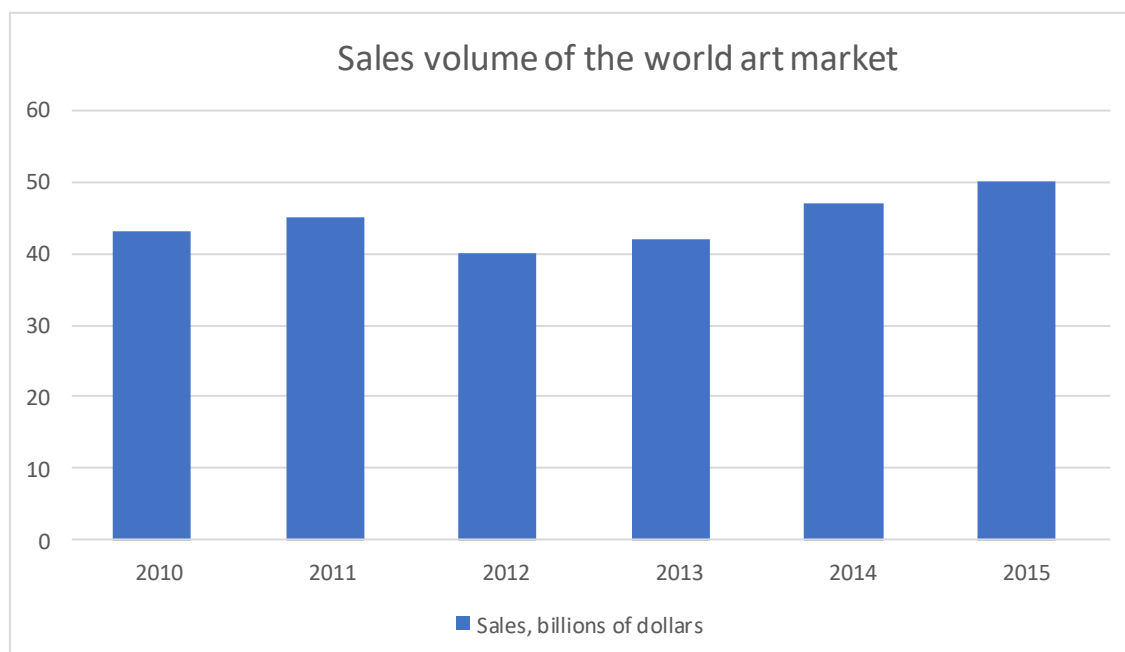
Another important factor was the global penetration into the daily life of the Internet. Out of 4500 existing auction houses in the world, 95% are on the Internet (in 2005, there were 3% of them). Recently, the mobile Internet has become a factor in changing the auction business. The influence of the Internet has become irreversible, after the art market has emerged a generation of "silver surfers" - collectors over 50 years old with a high purchasing power, currently being the main buyers in the art market. This generation chose

the Internet as the main platform for researching the art market using mobile gadgets that perfectly corresponded to their lifestyle. Studies conducted in 2016 showed that the most active users of the mobile Internet are people over 50 years old from the higher socio-professional strata. (Investopedia.com., 2016)

Among the factors contributing to maintaining a high level of art prices, the authors of the survey point to the geographical expansion of the global art market, the constant expansion of the distribution network of major auctioneers, the financialization (the growing role of financial factors) of the art market, the acquisition of art as a symbol of a certain status, historically low interest rates, the growing interest of the media to art, and love of art in itself. In addition, the emergence of information databases on the art market increases the trust of customers who previously had to rely only on the opinion of experts. Using a representative office in the two largest auction centers in New York and London, Phillips could double its turnover in five years and moved to the fifth place in the world auction house ranking, ahead of the historic auction house Bonham's. Phillips also managed to conduct an amazingly successful campaign to attract new collectors to the market. As for the Chinese auction houses, then still four of them are in the world top ten, and Poly International takes the third place. (Investopedia.com., 2016)



**Figure 2 Sales volume of the world art market (2010-2015)**

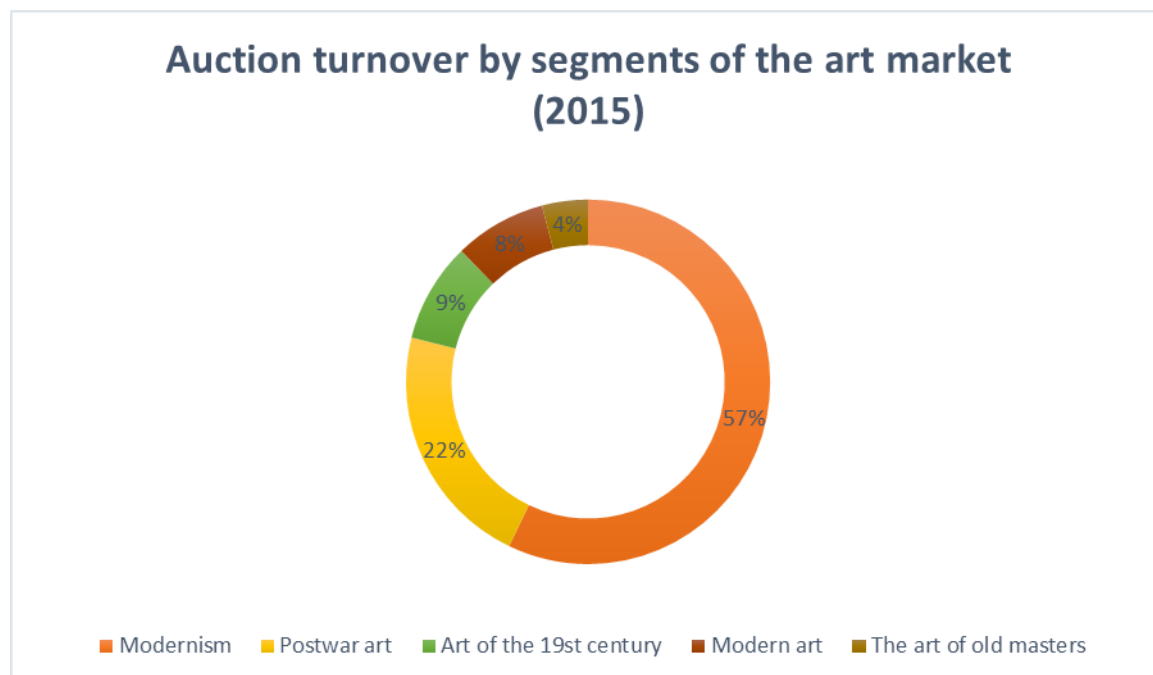


*Source: Christies.com , 2015*

Masterpieces of works of art are ideal, in terms of cost growth, the object of investment. On the one hand, the demand for imperishable values remains always, on the other hand, there is a tendency of "squeezing the market" against the backdrop of natural loss and the objective non-reproducibility of art objects. The rarity of works leads to a situation of monopoly: while there are people wishing to purchase a work, its owner can ask for any price. This phenomenon partially explains the bubbles in the art market. (Sothebys, 2015)

The crisis period in the art market is an excellent opportunity to buy new works of art, and many collectors and investors in 2008-2010 acted on this logic. The beginning of the 2000s convincingly proved that investments in art can bring a solid profit, so when it becomes possible to acquire works of art 10-20% below market value, experienced players try not to lose it. Below are examples of the return on investment of funds in works of art of different artistic directions. (Artprice.com, 2015)

**Figure 3 Auction turnover by segments of the art market (2015)**

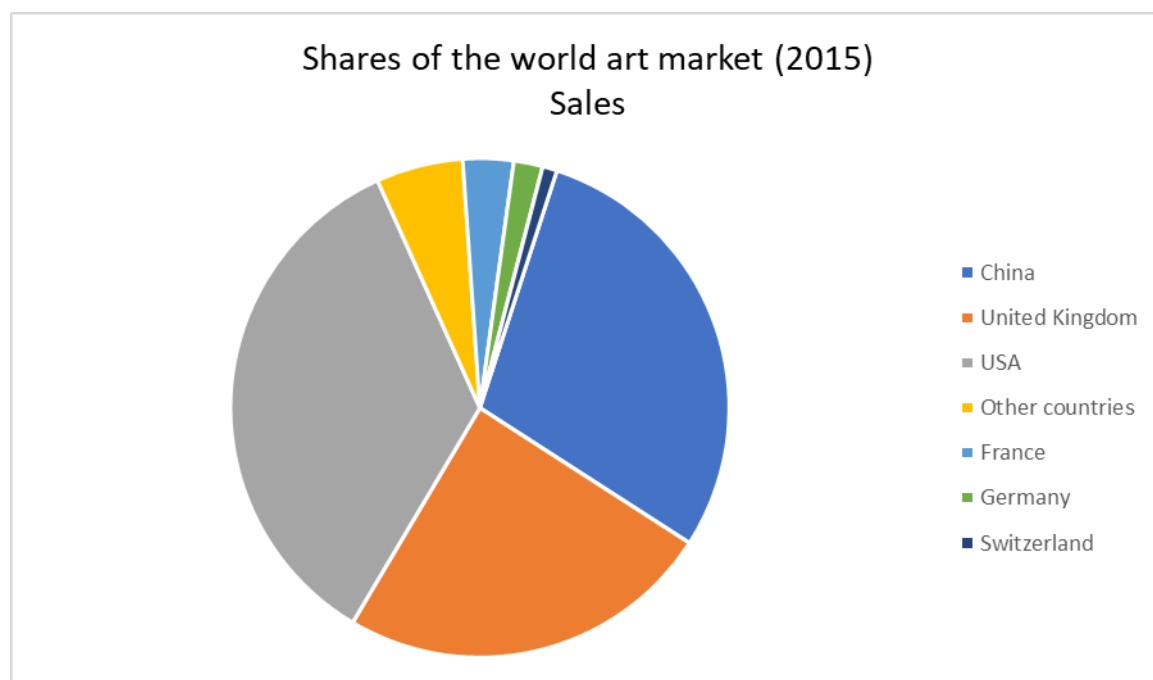


*Source: Christies.com , 2015*

Given the general instability in the global economy and finance, the results of auction trading in the West remain stable, while the Chinese market shows a decline in turnover. In general, the global art market in 2015 showed a turnover of \$ 16 billion compared with \$ 17.9 billion in 2014. A significant decline was due to the adjustment of the Chinese art market, which, nevertheless, by the end of the year began to show signs of stabilization. The share of the western market is steadily \$ 11.2 billion, while the Chinese market (including Hong Kong and Taiwan) fell from \$ 6.6 billion to \$ 4.9 billion. However, if we consider the development of the Chinese art market in recent years, its volume over the past eight years increased by 305%. In addition, Chinese collectors provided several top results at the leading auction of 2015 the record sale of "Lying Nude" Amedeo Modigliani. Especially attractive the western market makes an exceptional quality of the works of contemporary art offered on it, attracting buyers from all over the world. 2015 was a record year in terms of selling lots at more than \$ 1 million in the modern art segment - 622 lots, in the postwar and contemporary art segment, the number of such lots was 483. In the segment of works by old masters, where buyers constantly demand museum-quality works,

total 69, this segment was the most affordable segment of the Western art market: 77% of the lots on it were sold at prices under \$ 5 thousand. (Sothebys, 2015)

**Figure 4 Shares of the world art market (2015)**



*Source: Cnbc.com , 2013*

### **1.3.1. The market of old masters is becoming scarce**

Sales in the segment of old masters (artists born before 1760) are increasingly falling in Western auctions: from \$ 549.5 million in 2005 to \$ 538.3 million in 2015. This is mainly due to a deficit in the market for high-quality work, and also that this market is less prone to fashion and speculative purchases than the later artistic periods. (Sothebys, 2015)

Every year it becomes increasingly difficult to receive museum-quality works for sale, since museums and private collectors are very reluctant to part with them. Experts believe that if the Rubens picture "Beating babies", sold in 2002 for \$ 76.6 million, was auctioned right now, it would easily overcome the \$ 100 million mark. Nevertheless, the masterpieces of the past appearing on the art market, seem to be underestimated: so, exhibited in 2015 at the auction Sotheby's picture of Lucas Cranach's "Mouth of Truth" was sold for \$ 14.4 million, which would be an ordinary price for a lot at the auction of

contemporary art. At the same time, the Chinese market of local art of this period continues to grow rapidly. (Christies.com, 2015)

### **1.3.2. Unmet demand for 19th century art**

Demand for the work of this period is similar to the demand for the work of old masters: most of the masterpieces are in museums or old private collections, the owners of which are very reluctant to part with their treasures. In case the really important work of this period falls on the auction, collectors from all over the world are interested in it. (Artprice.com, 2015)

### **1.3.3. Records of modern art**

The year of 2015 was the historic year for the art segment of modernism (artists born between 1860 and 1920) - auction revenue for the first time amounted to \$ 5.2 billion, new auction records were set for the work of Picasso, Giacometti and Modigliani. There were also significant sales of works by Gustav Klimt and Kazimir Malevich. The art of modernism continues to be the largest segment of the Western art market, yielding 41% of all lots sold and 47% of total revenue, ahead of the modern and postwar art segments taken together (35% of the turnover in the West and 38% of the lots sold). (Sothebys, 2015)

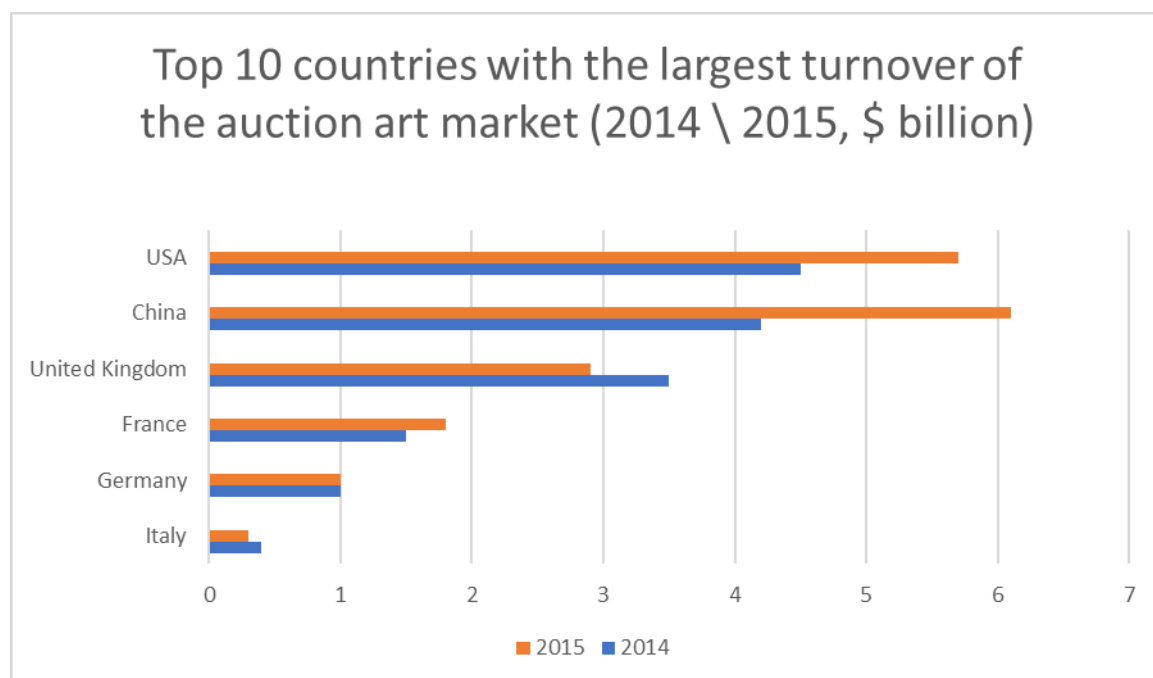
### **1.3.4. Post-war art: an increase of 308% over ten years**

The segment of post-war art (born between 1920 and 1945) is the second only to the segment of modern art, giving a quarter of the auction in the West (\$ 2.8 billion). The greatest number of sold works falls on painting (about 80% of the total turnover). In 2015, at the western art market, no less than 318 lots of post-war art were sold for more than \$ 1 million each. This is just 0.35% of all lots exhibited, but they gave 60% of all proceeds. Four works (Roy Lichtenstein, Cy Twombly, Andy Warhol and Lucien Freud) were sold at more than \$ 50 million. Over the last ten years, this segment of the art market grew by 308%, the only woman artist who entered the top 50 best-selling post-war artists, was Yayoi Kusama. (Christies.com, 2015)

### 1.3.5. Modern art: transactions grew by 1200% over 15 years

Although the results in this segment fell compared to the record year of 2014, nevertheless over the past ten years it grew by \$ 1 billion. In the West, last year 45,600 modern works of art were sold, which is four times more than in 2005, total revenue was \$ 1.2 billion compared to \$ 93 million in 2000. However, almost half of the turnover in 2015 was obtained from the sale of works by only ten artists with exceptionally high market potential. This is mainly European and American artists: Jean-Michel Basquiat (\$ 132.3 million in annual turnover), Christopher Wool (\$ 113.9 million), Jeff Koons (\$ 56.7 million), Peter Doig (\$ 47.6 million), Martin Kippenberger (\$ 40 million), Rudolf Stingel (\$ 30 million), Richard Prince (\$ 29.2 million), Yoshimoto Nara (\$ 29 million), Damian Hurst (\$ 24.6 million) and the only Chinese in this list Zeng Fanzhi (\$ 23.4 million) . The youngest contemporary artists who managed to cross the \$ 1 million line were Chris Ofili and Mark Grothian, born in 1968, behind which are the galleries of Charles Saatchi and Larry Gagosian, respectively. (Sothebys, 2015)

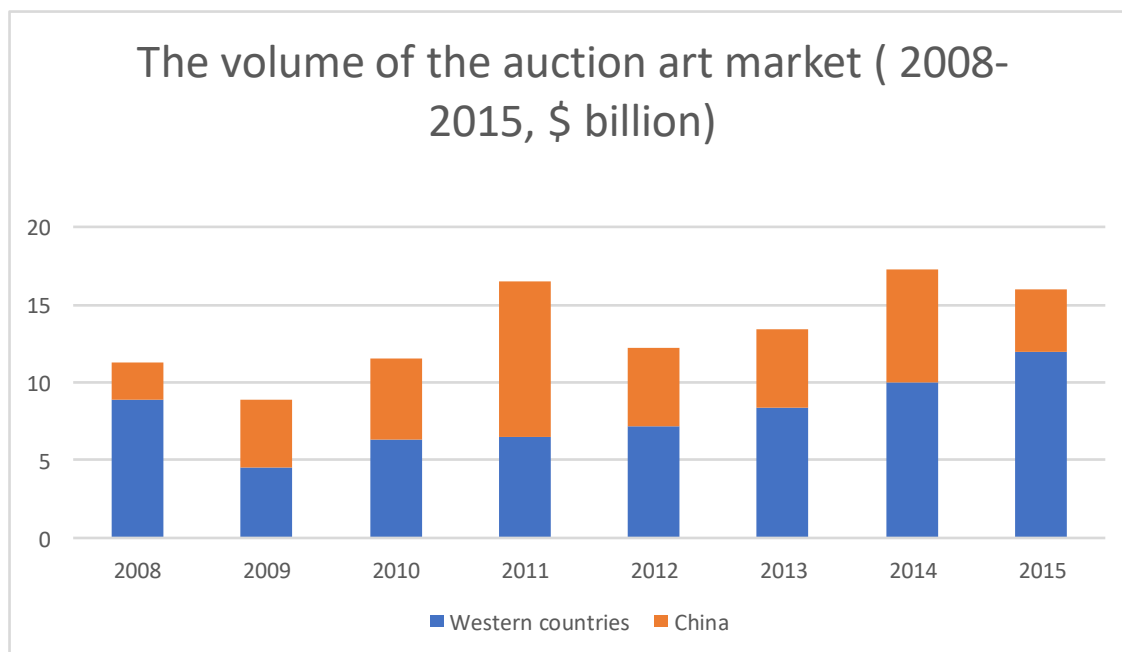
**Figure 5 Top 10 countries with the largest turnover of the auction market**



*Source: Valuestockguide.com , 2015*

Many masterpieces were auctioned at the world auction art market, including 564,000 for the western art market, of which, for various reasons, it did not find its customers about a third. The remaining 351,000 lots were sold at prices ranging from \$ 5 to \$ 179 million. In other words, the world art market covers absolutely all price categories. Three quarters of the market of photographs, drawings and lithographs are bought at prices below \$ 5 thousand, while 75% of paintings and sculptures leave the auction for less than \$ 7,2 thousand. Thus, the art market has a complex structure: the largest number of lots is sold at relatively affordable prices, but they are of low economic importance, while the segment of works with prices above \$ 20 thousand is a new category of financial assets known as "art as an investment." Painting continues to dominate the art market, accounting for 42% of purchases in the lower and middle price segments and two-thirds of the most expensive price segment. In the most expensive price segment, it is followed by sculpture (16%) and drawings (8%). Graphics and prints represent the most accessible segment of the art market: 95% of these lots are auctioned off at prices below \$ 10 thousand. Photography takes an intermediate place between "original" and "run" works, which is reflected in its price structure. (Sothebys, 2015)

**Figure 6 The volume of the auction art market**



*Source: Sothebys, 2015*

When buying works more than \$ 20 thousand, first of all long-term investment considerations are taken into account. One of the examples of the most successful investments is the drawing by Salvador Dalí "Gradiva" (1933). Bought in 1995 by the former CEO of Sotheby's Alfred Taubman for \$ 55 thousand, in 2015 he was sold at Sotheby's auction for \$ 1.21 million, which gave a profit of 2100% over 20 years.

Thus, investing in the art market requires a special strategy and specialized financial management, people or teams involved in such transactions are called art flippers. Of course, this can be lost, especially if you do not have access to information about prices and quality of work. For example, the work of Andres Serrano "Black Jesus" (2010), purchased in 2010 at Christie's for \$ 110 thousand and sold in 2015 for \$ 32 thousand. However, in general, work from the price segment from \$ 20 thousand to \$ 100 thousands give an average annual income of 9.6% with an average ten-year tenure. The most attention continues to be drawn to the most expensive segment of the art market, in 2015 only 160 works were sold at prices exceeding \$ 10 million, which accounted for only 0.04% of the lots sold. (Sothebys, 2015)

### **1.3.6. Geography of the art market**

In terms of geography, the US-China-UK triumvirate continues to lead the art market, which gives 87.5% of the secondary art market (\$ 14 billion out of \$ 16 billion). In 2015, the United States returned the leadership, accounting for 38% of revenue and 12% of the lots sold. It is interesting that buyers from China contributed 9% growth to the growth of the American art market. At the same time, the Chinese art market, which has experienced a 27% decline, now accounts for 30% of global revenue. The third place is the UK with 19%, followed by France, Germany, Italy, Switzerland, Austria, Australia and South Korea, which entered the top ten and outran the Netherlands, Japan and Belgium. New York and London also continue to dominate the global art market: they account for 57% of global auction revenue (\$ 9.2 billion) and 20% of lots sold worldwide, while Paris accounts for only 3% of global revenue. (Artindex.com, 2015)

the top 10 artists with the greatest market potential collected in 2015 at auction more than \$ 3 billion, or 18% of the world turnover of the art market, which is \$ 500 million more than in 2014. 2015 brought new auction records for the works of Picasso, Modigliani,

Giacometti, Tuombli, Fontana and Liechtenstein. Another feature of 2015 was the complete absence in the top 10 artists from China and women. Three works were sold for more than \$ 100 million: Algerian women Pablo Picasso (\$ 179.4 million, Christie's), Giacometti's "Pointing Man" (\$ 141.2 million) and Modigliani's Reclining Nude (\$ 170.4) (Christies.com, 2015)

**Table 2 Top 10 artists by auction results (2015, \$)**

| <b>Place</b> | <b>Artist</b>                 | <b>Total Sales</b> | <b>Items sold</b> | <b>The most expensive lot sold</b> |
|--------------|-------------------------------|--------------------|-------------------|------------------------------------|
| <b>1</b>     | <b>Picasso Pablo</b>          | 650 837 410        | 2875              | 179 365 000                        |
| <b>2</b>     | <b>Warhol Andy</b>            | 523 568 378        | 1453              | 56 165 000                         |
| <b>3</b>     | <b>Monet Claude</b>           | 338 744 605        | 36                | 54 010 000                         |
| <b>4</b>     | <b>Modigliani<br/>Amedeo</b>  | 251 331 200        | 46                | 170 405 000                        |
| <b>5</b>     | <b>Giacometti<br/>Alberto</b> | 247 887 204        | 103               | 141 285 000                        |
| <b>6</b>     | <b>Bacon Francis</b>          | 232 914 456        | 109               | 47 765 000                         |
| <b>7</b>     | <b>Twombly Sai</b>            | 223 136 848        | 75                | 70 530 000                         |
| <b>8</b>     | <b>Rothko Mark</b>            | 219 168 719        | 12                | 81 925 000                         |
| <b>9</b>     | <b>Fontana Lucho</b>          | 214 898 176        | 256               | 29 173 000                         |
| <b>10</b>    | <b>Liechtenstein<br/>Roy</b>  | 212 485 347        | 475               | 95 365 000                         |

*Source: Christies.com, 2015*

#### **1.4. Analysis of the Russian art market**

Some prototype of what we would now call the art business, was formed only in the late 19th century in Russia. This was due to the emergence of patronage in merchant circles and the formation of a class of industrialists who had considerable financial resources. The emergence of the art market in pre-revolutionary Russia is evidenced by the appearance of people who acted as intermediaries between the artist and the public. Such personalities as Tretyakov, Mamontov, Morozov, Diaghilev acted as subjects of this market: they created



galleries, published magazines about art, organized exhibitions, including abroad, promoting Russian art and Russian artists. (Artprice.com, 2015)

Differentiation of creative methods contributed to the development of free competition, which is one of the main signs of the market. In the 2000s. artistic life awakens after a long stagnation. A class of collectors is being formed, new galleries are emerging, similar to European ones, creative clusters are being created: The Winery, Red October, Garage, Art Play, and Flacon, the market for profile and non-core media is growing. The public begins to be more willing to be included in the context of contemporary art. Federations and unions of professional actors of the art market are being created. Thus, we can conclude that for all of its existence, the Russian art market has been characterized by instability and spasmodic development. This institute and is still developing quite difficult, because in our country there are specific, historically developed problems:

- Artists in modern Russia are a socially unprotected group: they do not receive the necessary support from the state and, for the most part, are not ready to orient themselves in the art business.
- The infrastructure of the domestic art market is imperfect because there are not enough salons, galleries, auctions, analytical, consulting, financial, investment and other organizations specializing in the art business.
- The Russian art market is characterized by a high percentage of counterfeits of works of art, as more than any other, subject to various kinds of fraud, implies low transparency and difficulty with a legitimate conclusion of the transaction.
- Despite the large number of specialists formed in the field of art history, professional experts and appraisers of art objects in our country is not enough. At the same time, most of the available specialists are mainly located in Moscow and St. Petersburg, and their involvement for examination in other regions is impossible or extremely difficult and costly.
- The middle class is unstable. The existence of a civilized art market directly depends on it. From the experience of the functioning of the world art business, it can be concluded that it is the people of the middle class who are the main buyers

of art objects, after they have been satisfied with their primary needs for real estate, durable goods, securities.

- Mistrust of Russian consumers to art as alternative investment assets due to low awareness of the profitability of the art market and the main aspects of investment in art.
- The mentality of the Russian consumer suggests that in today's volatile conditions, buyers are not ready to invest in promising sites of creativity with a long period of turnover, and are focused primarily on quick earnings.
- The lack of a legal instrument regulating the relationship of art market participants is an important deterrent to its development.
- The Russian art market does not pay enough attention to marketing.

(Artinvestment.ru, 2015)

Almost at all stages of marketing, marketing tools are used very little. Qualified positioning of the artists themselves is very rare. The impact of these factors significantly inhibits the development of the Russian art market, which has potential. In this regard, the formation of an adequate legal, economic, organizational regulatory mechanism, as well as the development of an effective marketing policy in the art market, should be carried out.

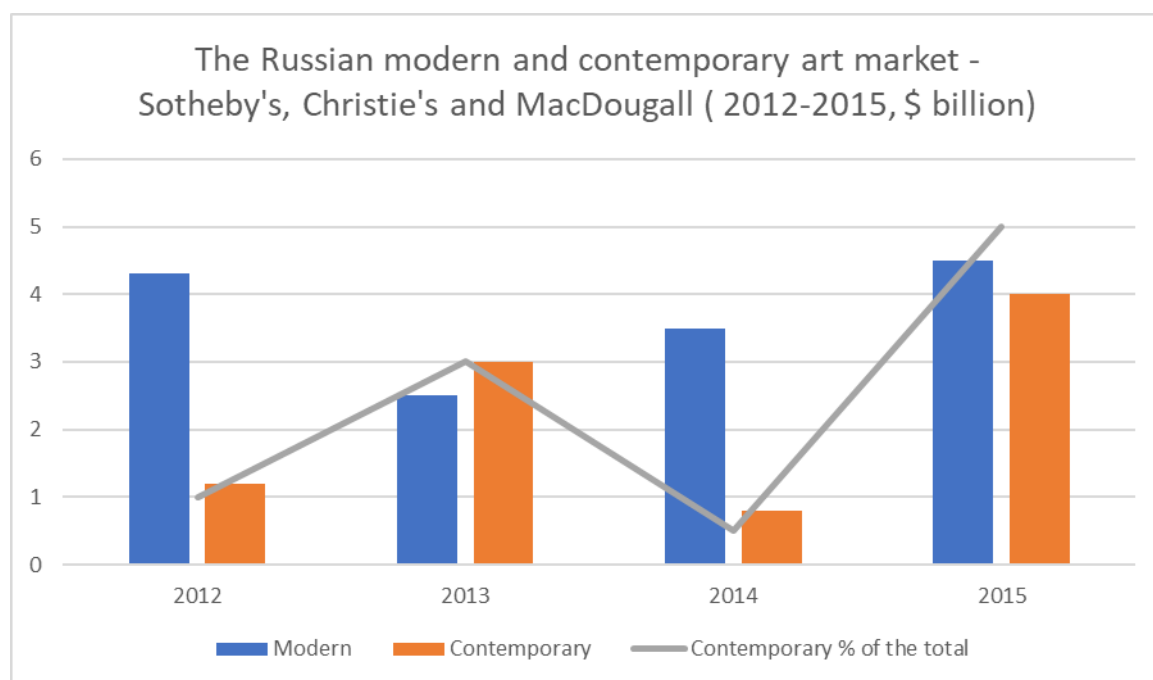
The art market undoubtedly exists, as there are its subjects and there are occasional sales transactions of works of art, but art-marketing and, accordingly, commercial promotion of art objects are practically absent. As proof of this statement, we can cite several facts: in Russia the mass of talented professional artists has neither their own exhibitions, nor the polygraphed representation of their creativity, nor their own Internet sites. Successful art-marketing projects in our country are rather an exception to the rules than a regular phenomenon. Theoretically, the prospects for the development and improvement of art business in our country, of course, exist, as gradually the business community begins to understand that investments in art can bring significant profits. It is high time for our country to develop the national art market, because this will affect not only the economic sphere. The close cooperation of business and contemporary art will help Russia to occupy a worthy place in the context of a unified world cultural process. (Sothebys, 2015)

The total size of the market for contemporary Russian artists for the period from June 2016 to May 2017 was € 20.3 million. When comparing the first five months of this year and the first five months of 2016, we can note a slight increase, which is primarily due to stronger results on the auction market. In this, the Russian market is like the global auction market of contemporary art, which, after correction, returned to growth (+ 14%) in the first half of 2017. (Nyctimes.com, 2015)

The amount of auction sales of works by Russian contemporary artists from June 2016 to May 2017 was € 12.5 million (considering the buyer's premium). (Artinvestment.ru, 2015)

When comparing the first half of 2015 and the first half of 2017, experts noted an increase in sales of 62.5%, which is primarily due to strong auction results. (Artinvestment.ru, 2015)

**Figure 7 The Russian modern and contemporary art market**



*Source: Nyctimes.com, 2015*

The main sales in the Russian gallery market fall into two price categories: from 1 to 5 thousand euros and from 5 to 10 thousand euros. In total, these two categories accounted for approximately 84% of total sales for the first 5 months of 2017. (Sothebys, 2015)

Distribution of galleries based on the results of total sales for January - May 2017.

Over 150 000 euros - 17%

100-150 000 euros - 13%

50-1000 euros - 33%

Up to 50 000 euros - 47% (Sothebys, 2015)

Also, experts called painting the most popular art form on the market, these sales accounted for 80%. (Sothebys, 2015)

However, the outflow of foreign investment from Russia began in 2014, after the introduction of sanctions and the departure of large foreign companies from the domestic market. In 2015, this trend only increased, in the conditions of falling oil prices and the low ruble rate, as well as further deterioration in international relations, the number of people wishing to invest in the Russian economy noticeably diminished. And the world meanwhile did not stand still. As the latest UNCTAD study on the global investment trends of the past year has shown, Russia has turned out to be an outsider, and more than one year must pass to regain lost ground. (Policygenius.com, 2015)

The global volume of investments in 2015 increased by 36% to \$ 1.7 trillion, the highest level since 2007. In UNCTAD's view, the surge in investment activity, however, was due more to cross-border mergers and acquisitions, implied the movement of financial resources, rather than production assets. (Artinvestment.ru, 2015)

**Table 3 Top 10 Russian artists in 2015**

| Place | Top 10 by profitability | Top 10 by growth rates |
|-------|-------------------------|------------------------|
| 1     | Malevich K.S.           | Mashkov I.I.           |
| 2     | Rothko M                | Grabar I.E.            |
| 3     | Kandinsky V.V.          | Razumov K              |
| 4     | Somov K.A.              | Voronova L             |
| 5     | Serov V.A.              | Myasoedov G.G.         |
| 6     | Yavlensky A.G.          | Serov V.A.             |
| 7     | Mashkov I.I.            | Deineka A.A.           |
| 8     | Shagal M.Z.             | Pimonenko N.K          |
| 9     | Pohitonov I.P.          | Gerasimov A.M.         |
| 10    | Soutine H.S.            | Krachkovsky I.E.       |

*Source: Artprice.com, 2015*

### **1.5. Risks of investment**

Over the past ten years, interest in this market has increased especially, and because of this and to objects of investment in the market - works of art, the most popular of which are fine arts. In addition, the art market is more stable than the securities market due to the independence of prices for art objects from political and socio-economic changes, as well as the high yield of these investment assets. At the same time, the art market is characterized by many specific features that predetermine obstacles to its further development:

- imperfection of competition, due to: o uniqueness of goods;
- the thesis of art objects;
- low liquidity;
- confidentiality of transactions and non-transparency of the market as a whole,
- high volatility of prices for art objects;
- high transaction costs in the market; (Atukeren, 2007)

Lack of developed methods for assessing art objects based on economic approaches

relating to the listed features of the market, investment activity on it is associated with a high level of risk. Since the implementation of investment and financial activities in modern conditions is impossible without special methods of analysis and risk management, to identify and systemize the risks associated with investing in art, it is necessary to develop their classification. The nature of individual risks can be classified according to the following characteristics. ( Grygoryeva, 2017)

**Table 4 Risk and risks factors associated with the art market**

| <b>Risk</b>   | <b>Risk-forming factor</b>  | <b>Manifestation of risk</b>   | <b>Power influences</b> |
|---------------|---|--|-------------------------|
| 1             | 2   | 3  | 4                       |
| Market        | opacity of the market<br><br>and lack of reliable information;<br><br>imperfection<br><br>legislation | previous obligations and encumbrances;<br><br>claims to the legality of imports, export and execution of transactions<br><br>On the market | strong<br><br>(A)       |
| Macroeconomic | the change macroeconomic situation;<br><br>political and  | the economy negative impact on purchasing power;<br><br>change in demand for individual subject categories of                              | medium<br><br>(B)       |

|           |  |  |                   |
|-----------|--|--|-------------------|
|           | social<br>changes;<br>crisis   | arts   |                   |
| Insurance | irrevocable loss<br>and spoilage   | spoilage, theft,<br>complete<br>destruction (this risk<br>is higher<br>for the art market,<br>than for the<br>securities market in<br>portability of objects<br>art) | medium<br><br>(B) |
| Estimated | error with<br>expertise;<br>evaluation error<br>base cost<br>object of art;<br>a lack of<br>professional<br>expert appraisers<br>on the market | incorrect attribution;<br>non-detection of<br>forgery;<br>improper follow-up<br>determination of<br>value,<br>entailing financial<br>losses                          | strong<br><br>(A) |

|              |  |   |            |
|--------------|--|---|------------|
| Financial    | change in the currency   | subject to payment of transactions for sale of goods art in foreign currency  | weak (C)   |
| Deflation    | level decline prices, deterioration economic conditions; decline in yield in conditions increasing deflation | decrease in economic benefits when selling items art; reduce liquidity art objects; reduction in the number of transactions on the market | medium (B) |
| Investment   | wrong choice of the investment decisions   | loss of economic benefits from investing in arts  | strong (A) |
| Inflationary | Depreciation of the real value capital as a result of  | lack of economic gains from the sale of items   | medium (B) |



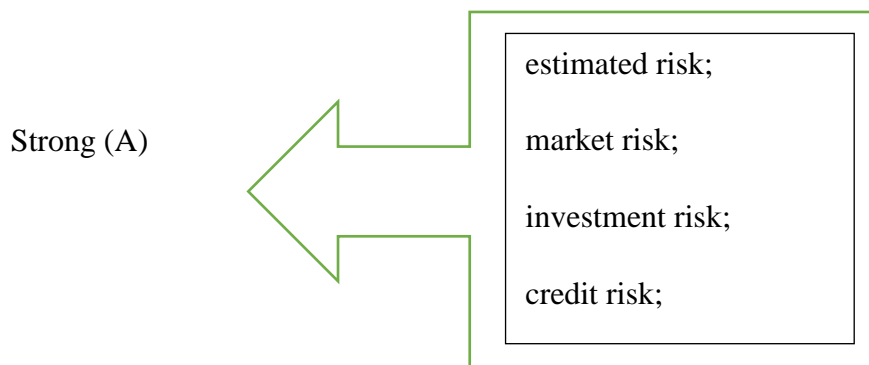
|         |   |  |               |
|---------|---|--|---------------|
|         | the<br>inflationary<br>processes  | art at the moment<br>increased inflation   |               |
| Credit  | obtaining a loan<br>for purchase<br>art objects;<br>getting a loan<br>on the security of an<br>object<br>arts | impossibility to pay<br>the loan and<br>interest on it on time<br>and in<br>full extent;<br>wrong choice of<br>bank;<br>insufficient supply<br>of<br>loans to<br>pledge of art objects | strong<br>(A) |
| Percent | change in conditions<br>of providing a<br>credit<br>from the commercial<br>bank                               | change in the<br>interest rate of<br>credit  | medium<br>(B) |
| Tax     | change in taxation<br>legislation   | cancellation or<br>introduction of new<br>types of taxes, fees   | strong<br>(A) |

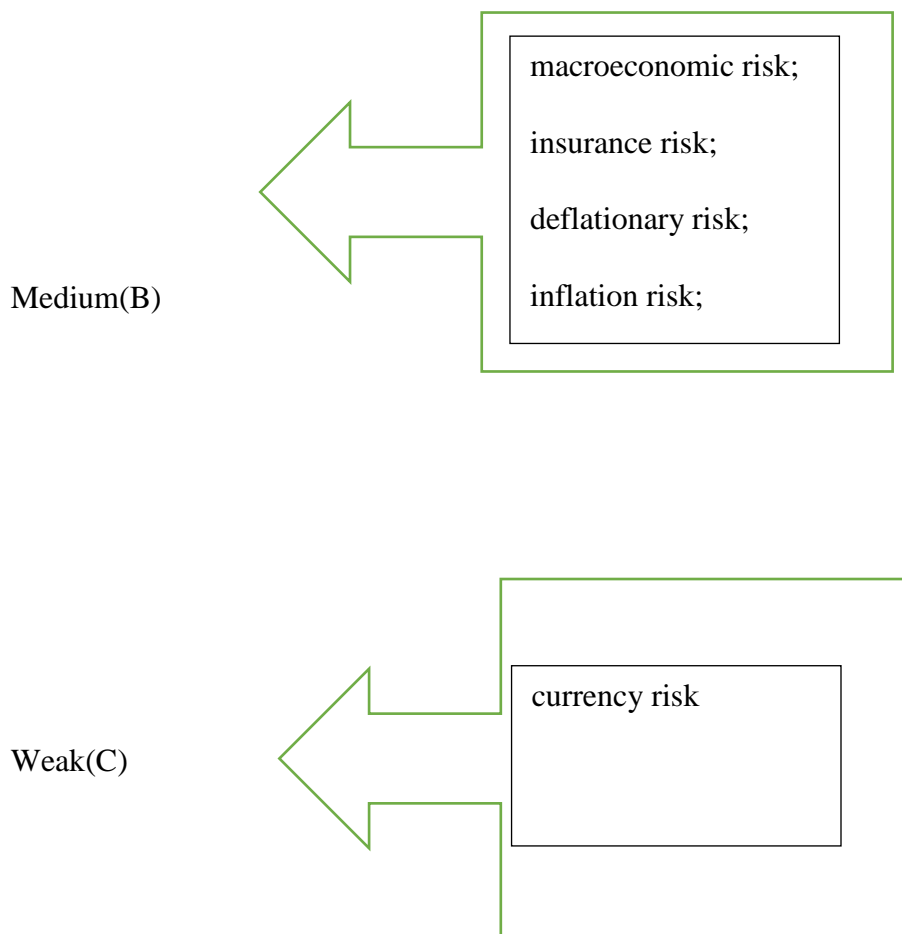
|  |  |   |  |
|--|--|---|--|
|  |  | and<br>customs duties;<br>change in the level<br>of rates;<br>change in terms and<br>conditions<br>taxation;<br>cancellation of tax<br>benefits |  |
|--|--|---|--|

*Source: Grygoryeva, 2017*

Investments in art involve a high risk, because the lack of reliable data makes the art market opaque, preventing future income forecasting by using techniques common in the financial world. In addition, the market is low-liquid and inflexible, ill-suited to respond quickly to fluctuations in demand and supply, which would prevent a sharp fall in prices for certain categories of works of art. Based on the consideration of different risk classifications, the private risks inherent in the investment process in the art market are identified, the risk-determining factors, the nature of the manifestation of risks are identified, and the degree of influence (strong, weak, average) on the efficiency of investment is shown. (Atukeren, 2007)

**Figure 8 Risk classification**





**Source: Own processing**

Separation of risks by the degree of influence allows them to analyze them, take into account the consequences, and conduct timely measures for risk management.

The abundance of risks and factors that form them determines their very complex identification, accounting and management. Nevertheless, identifying risks and identifying methods to neutralize them is necessary to improve the management of investments in the art market, as well as financial flows arising in the investment process. Risk management when investing in the art market At the same time, the evaluation of art objects should be carried out in accordance with generally accepted principles, highlighted in the writings of scientists on the theory and practice of pricing.

Evaluation of the results and adjustment of selected methods of risk management assessment based on the characteristics of the art market is presented in the table.

**Table 5 Characteristics and classification of risks and principle of its evaluation**

| Characteristics of classification   | Principle of evaluation    | Explanation  |
|-------------------------------------|----------------------------|--|
| 1                                   | 2                          | 3  |
| according to the views of the owner | marginal utility principle | the key criterion for the value of an object is its utility, as well as a number of properties of the object that determine the investor's interest in acquiring           |
|                                     | principle of substitution  | the price of an object that can be offered<br><br>Possible buyer, will not exceed<br><br>market prices for similar<br><br>by purpose and consumer properties<br><br>object |
|                                     | principle of expectation   | the willingness of the buyer (investor) to invest their money for the acquisition of the facility at the present time, expecting the receipt of income (benefits) from     |

|                   |   |  |
|-------------------|---|--|
|                   |   | owning this object in the future   |
| by market factors | principle of demand and proposal                      | The same object is evaluated differently by different categories of buyers (investors) in different ways. By virtue of this principle, an obligatory element of the evaluation procedure should be the analysis of the market. |
|                   | principle of accounting for the nature of competition | The nature of competition in the market is reflected in the pricing process  |
|                   | change in cost principle                              | general economic inflation in the country, as well as shifts in the structure of individual commodity markets cause price changes and accordingly the cost   |

**Source: Isfb.rs.cz, 2013**

These evaluation principles are divided into two groups, based on factors that affect the price. The first group of principles is combined based on the owner's views on the valuation object. (Grygoryeva, 2017)

Thus, when calculating the cost of a work of art, it is necessary to consider their utility for the investor and the reasons underlying the acquisition motivation, the average price level of similar objects (in this case, the price level of the same author's work is taken), as well as the expectations of obtaining income from possession object of art, that is, the investment attractiveness of the object or its absence. The second group of principles is united by the influence of the market environment on the valuation object. According to

the theory of pricing, in a normally functioning market, prices are stable and tend to an equilibrium level at which a coincidence of supply and demand occurs. Equilibrium prices can also be called fair prices, equally profitable for both sellers and buyers. The value calculated in the valuation at these prices also becomes a fair value. Along with this, the nature and state of competition and, accordingly, the degree of their monopolization of the market, has an impact on prices. Thanks to competition, the economic structure of prices becomes more transparent. In the aspect of the fine arts market, the importance of this principle is manifested in the control of price collusion between appraisal experts, as well as auction houses and other market participants pursuing their own interests, by which they can significantly distort the real market value of valuation objects. In addition, it is necessary to consider the factor of volatility of the value of the same object in time. The general economic inflation in the country, the change in the socioeconomic and political spheres, as well as the shifts in the structure of individual commodity markets, cause a change in prices and, accordingly, in value. As part of the valuation of fine arts, these changes in market conditions do not affect the value of works, but more on the purchasing power of investors. The proven low correlation of the art market with the securities market, as well as independence from socio-economic changes, make it possible to judge that market demand and the investment attractiveness of the valuation object now have an impact on the price level. Hence follows the requirement that each valuation of the value should contain an indication of the valuation date, that is, about the moment of the calendar time for which the value is determined. In addition to the above criteria, evaluation principles should be based on independence, universality, interconnection and applicability to all evaluation objects. Thus, the assessment of art objects on the basis of the proposed valuation principles with the aim of forming a fair market price of the art object allowed for trading on the market will allow minimizing the impact of risks inherent in this area of investment, as well as the formation of free market relations for transactions with objects of art, developing the infrastructure and transparency of transactions in the market and attracting new participants, which will entail a gradual raising of the market subject in the art to the level of other financial markets.

## **1.6. Prospects and alternative investment options**

According to experts, a surge of interest in alternative investments in art objects and antiques occurs during periods of pronounced economic instability. Analysts believe that there is a very simple and logical explanation for this phenomenon. (Christies.com, 2015)

Trying to insure their capital from existing risks in such conditions, people diversify their portfolios and are already looking at non-standard investment segments. That is why antiques and art are in an extremely advantageous position: having guessed the trend or even successfully creating it, you can not only save the invested but multiply the capital. (Valuestockguide.com, 2015)

A vivid example of this approach can be considered paintings by masters of the turn of the XIX - XX centuries, and especially modernists and impressionists. They have already become a kind of "blue chips" of the art world, recognized as such financiers and bring to their owners a stable income of 10-25% per annum. But with the least amount of risks, this type of investment still has its drawbacks. (Artprice.com, 2015)

First, many people are stopped by a high entry threshold, starting with seven-digit numbers, and in addition, there is a dense competition in this market in the struggle for sign works. There is a great chance to face fakes, and the content of art collections cannot be called a democratic pleasure. If we consider investing in modern art, even with the existing high volatility, this segment has serious prerequisites for growth. For example, the delivery in 1997 of the Venice Golden Lion forced the work of Gerhard Richter, an already expensive author, to rise in price by 400%. This event undoubtedly became a triumph not only of the well-known creator, but also the owners of his works. And in order to try to repeat this success, it is necessary to predict the potential of this or that subject of contemporary art, which is not easy at all. (Artprice.com, 2015)

According to experts who advise banks investing in contemporary art, the collection can be considered held if at least a tenth of the meeting will be sold at a significantly higher price than the original prices. But such an opinion cannot be considered comprehensive, as bank collections are called upon to play a presentation role, and not be the main earnings. As

indicated by the desire of banks to support their representatives of their national art as much as possible. (Campbell, 2008)

Most recently, collectors bought works of art that they liked, while trying not to overpay. When prices soared, the motive for buying was the investment of free funds and profit. If the collection is an appreciable part of the cost of a person, it is perceived with some degree of admiration. After all, he receives dividends in the form of pleasure and enters a rare social category.

Investments in art have recognized and are actively mastering the world of art and the world of finance. A new asset class is almost indispensable for a diversified investment portfolio. He is very reliable. But it is difficult to answer unequivocally whether investments in art are a guarantee of good returns for a short period of time. (Agnello, 2002)

Firstly, because it is a market of risky, venture capital. If we compare it with the market of start-ups, stock or investing in real estate, the liquidity of the art market is much lower.

This is the services of art historians and financial consultants, art brokers and lawyers: it is sometimes impossible to do without them. This commission fees of auction houses - the buyer pays from 12.5% to 25%, depending on the sale price. Reduce the cost of purchasing paintings not in open auction, but by conducting a private transaction through the auction house. (Agnello, 2002)

In addition, bidding at the auction can present any surprise. Two buyers can significantly raise the cost. If you liked the thing, and the decision to buy is taken at an emotional level, then the overpayment of 20-30% of the estimate - the pre-sale market valuation - is a common occurrence. (Sothebys.com, 2015)

But the opportunity to get a good profit in the short term in this market makes people who have free money look at art. Serious investments can bring serious money.

One hundred return is not such a rarity on this free, in the literal sense of the word, market. But to feel that it can have the greatest investment potential, can only smart and tasteful collectors.



The most attractive niche of investment in art is the category of old masters. Masterpieces have a reliable history of origin and possession - provenance. All of them are considered, the emergence of new ones that have passed all the necessary examinations is a world-class sensation. Perhaps they are, perhaps, only in one niche - contemporary or contemporary art - contemporary art.

They set price records that are impossible in more than one sphere of human activity.

Andy Warhol's painting "Lemon Marilyn" was purchased in 1962 for \$ 250. After 45 years, it was sold for \$ 28 million. 250 000% per annum.

Painting Paul Cézanne "Players in Cards" - the most expensive ever sold paintings. For 250 million dollars it was bought by the royal family of Qatar.

In a dozen of the most expensive paintings, four belong to the brush of Pablo Picasso. Their total cost is 460 million dollars. (Arsty.com, 2017)

If we consider that 1-10% of free money is invested in art, then the financial state of buyers can be estimated at tens of billions of dollars. The annual turnover of this market can serve as an illustration: 380 billion dollars. (Sothebys.com, 2015)

But an aesthetic resource is available to all investors with prosperity. To enter the auctions of international auction houses, including Sotheby's and Christie's allow the institutions of joint investment. The combination of professionals in the form of a fund or an investment partnership will make it possible to become a full-fledged participant in art markets to choose the win-win way - to invest in the masterpieces discussed above.

These are the original counterparts of the blue chips of the stock market. The constantly growing number of collectors and investors, the drying out stream of the influx of museum quality paintings continue to push prices up. On the other hand, this process contributes to the emergence of new works in the market from private collections.

The cost range of masterpieces is wide enough. A few years ago, at Sotheby's painting Picasso Fruits et Vere was sold for a small for the masterpiece \$ 275,000. Cheaper this painting will never be, but the double-price growth in the coming years should not be expected. (Sothebys.com, 2015)

## **Conclusion**

This thesis determined art as a special object of investment. Investments in art do not directly depend on the economic situation and political upheavals. In addition, the possession of art objects brings the owner dividends in the form of aesthetic pleasure and increase its prestige and solidity.

Investing in art is a super-profitable business, however it is very complex, it involves significant risks and financial investments, requiring a high level of expertise in a particular field, knowledge of global trends.

The more expensive the picture or other art object, the more perfect its provenance, the faster such a thing gains in price, but the initial costs will be much higher.

However, while investing in antiquities or perspective creative works of modern authors, investments are made not in the art itself, but in a specific work (or their series). It is impossible to accurately predict the demand for this product considering all its features. However, with proper handling and storage of an exclusive gizmo, the risk of loss is minimal - in the worst case, if it is realized, it will be possible to cover the costs of its acquisition and maintenance, at the best - having repaid many times.

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