

Investing in Antiques

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Investing in antiques can't be covered in any single article because it requires the same serious research, systematic discipline and due diligence required for consistent success in other types of investing, such as stocks, bonds, currencies and real estate. However, the antiques market has some unusual characteristics that can make investing in them a unique adventure. There are no formal, publicly-available benchmarks in the antiques market such as the Dow-Jones Averages in the US stock market and relevant market data for specific antiques can be difficult to find, even with the internet as a search tool. The general cycles in the antiques market tend to be very long, and antiques are very illiquid relative to most stocks, bonds or currencies. Furthermore, an antique may require restoration, preservation, transaction or insurance costs well beyond the costs for "paper" investments with comparable values.

Note that the word "collectibles" has not been used in conjunction with "antiques." The collectibles marketplace is very different from the antiques marketplace. What distinguishes an antique from a collectible? Age

is the clear, simple factor. By common usage and acceptance, an antique is over 100 years old. If an item isn't 100 years old, it isn't an antique, period.

Some people may think about antiques as having a higher profit potential than other types of investments because they have seen headlines and heard about others who have turned purchases of antiques for modest sums into grand sums. A few years ago a card table that was originally purchased at a yard sale for \$25 found its way to the popular television program the "Antiques Roadshow." The card table was made around 1795 by Boston cabinetmakers John & Thomas Seymour. It was suggested that the table would bring between \$200,000-\$300,000 if sold at auction. A few months later, the table sold at a Sotheby's auction for \$490,000. Last October, a copper folk-art life-size Indian weathervane made in 1900, sold at Sotheby's for \$5.84 Million. The day before at Sotheby's, a Tsimshian polychrome wooden Indian portrait mask sold for \$1.8 Million and set a record for an American Indian object at auction. Of course, the antiques market extends well beyond Sotheby's. In early 2006, Christie's auctioned a



Photo by: Mark Scheyer Photography
Courtesy Photo Location: Antique Pavilion, Houston

paint-decorated, pine chest-of-drawers for a record \$2,928,000, and a train weathervane at Northwest Auctions set a short-lived record at \$1.2 Million last August.

Stories of high-dollar auction sales of antiques get widespread media attention, but can be misleading. For example, Sotheby's recently announced an upcoming auction of a signed and fully-provenanced manuscript from Elizabethan days, circa 1600. The manuscript is expected to bring about \$100,000 at auction. It last sold in 1987 for \$38,000. This looks like quite a potential profit for the seller. However, a look at compound interest tables shows that the expected selling price represents only about five percent compound growth of the original investment. In retrospect, many investors would probably see a CD or Money Market Fund as a better choice.

Aside from freak windfalls and record auction sales, can a potential investor find opportunities in antiques that exceed the return from keeping money safely in a bank account? That may well depend on the temperament and goals of the investor. Many short-term, speculative or momentum investors may see antiques as too slow moving and illiquid for comfort (although as implied above this type of investor may be interested in "hot" collectibles). It is not uncommon for an antique to wait years for the right buyer or auction venue after a seller has decided to offer the item for sale. For longer-term investors, antiques can have tangible and intangible characteristics that allow knowledgeable assessment of value and a basis for well-rationalized expectations and actions. The intellectual challenge of sorting out and assessing the tangibles and intangibles of a particular antique and the sense of history that the process can evoke may,

in and of itself, represent another powerful intangible value for some people.

Finding good investments in the antiques market involves the same general due diligence principle that applies to sound investing in other types of investments. Learn all that is possible about a specific investment opportunity within the context of the size of the investment and the overall market and competing markets so thoughtful decisions can be made about whether to buy, how much to pay and when and at what price to sell. Deciding when and at what price to sell are important for any investment because no money is made on an investment until it is sold (except perhaps in options markets which do not apply to antiques in any organized way). They are critical for antique investors because the means and opportunities to sell are more constrained than for many other types of investments such as stocks or real estate.

Learning everything possible about a potential antique investment can be intimidating because there is so much to know and the information sources are widespread and sometimes hard to access. Here are some aspects of due diligence for antique investments:

Develop General Knowledge – Consult museums, dealers, experts, other collectors, books, trade journals, magazines and related associations. Take classes, go to lectures and seminars, attend auctions to learn about the type of antiques you wish to buy. Museums, trade associations, colleges and universities offer many educational programs on antiques. General knowledge will help develop an investor's ability to assess inherent value characteristics of antiques such as

design, workmanship, condition, size, color, materials of construction and methods of construction.

Identify Related Markets, Trends and Risks – A change in a related market can cause rapid price changes in some antiques. For example, silver prices soared during the late 1970's and early 1980's because of an attempt by several individuals to corner the silver bullion market. The prices of silver-based antiques such as jewelry and dinnerware soared right along with the bullion prices, and subsequently crashed with them. Likewise, global economic trends can provide clues about local antique pricing trends. For example, the US Dollar has weakened significantly with respect to the Euro or the British Pound over the past several years. As a result, an American investor with a piece of English antique furniture bought years ago when the US Dollar was strong against the Pound can now expect a sale to bring a substantial profit in US Dollars, just based on the shifts in currency exchange rates.

Watch Societal Trends – Silver, fine crystal and porcelain dining ware were highly-prized for centuries in most developed countries. However, they require hand washing and careful handling and storage. This takes a lot of time or constant domestic help. With highly mobile, two-income households emerging as the norm today, moves are inevitable and time is at a premium for many potential buyers. Constant domestic help has disappeared as an option for all but the very rich. These societal trends have reduced demand for antique dining ware and prices for these types of items have stagnated or dropped. Many former potential buyers now would rather have dining ware that can be put in a dishwasher and handled and stored less carefully.

Study What is Best in Class – A higher-quality object from a lower-price type will usually be a better investment than a damaged or poorer quality object from a higher-priced type. Of course, just being old doesn't mean an antique is valuable. If it was junk 100 years ago, it is probably still junk today.

Think About Authenticity – A full, verified provenance (lineage of ownership) will almost always increase the value and desirability of an antique because it authenticates the piece automatically. Good provenance also can provide important, interesting historic information about an item and give the item a "personality."

Seek Signed Items – Any antique commands and maintains a price premium if it has an identifiable, known signature, stamp or other mark or label. Like full provenance, signatures and marks can automatically authenticate the item.

Consider Scale – Over-sized massive furniture that was housed in a castle may sell to a museum, but may not be attractive to many individuals wanting an antique for a house built in the last fifty years. A six-foot tall, life-size bronze by a famous sculptor may sell for less than a two-foot tall bronze by the same sculptor. The logistics of owning large, heavy pieces can be a barrier for an investor. Just moving them can be very costly, and the structure supporting them may require reinforcement.

Be Aware of Laws and Regulations – For an investor considering antiques of foreign origin, it is important to recognize that many countries have laws protecting their cultural heritages and including restrictions or bans on exporting some specific types of art, antiquities and artifacts. Even proper export permits and receipts from the country of origin do not guarantee legal entry or ownership in the US. US law independently restricts the import of many types of objects, and items in the US illegally, regardless of how they got here, can be confiscated by government agencies with no compensation to the owner.

Consider Personal Interest – It can be wise for an investor to seek out types of antiques of personal interest. This can make the detailed research seem like less work, and an item that fulfills a personal aesthetic may lessen the anxiety of it being in the investor's home or office for 10-20 years or more before an opportunity for significant profit arises and may lessen the disappointment if it does not increase in price. To quote William Morris: "Have nothing in your house that you do not know to be useful or believe to be beautiful."

Keep Selling in Mind – Antiques selected for investment should balance the personal taste of the investor with the potential for sale in the future. For example, there has always been an active market in the US for Arts & Crafts furniture. If an investor could buy an antique Arts and Crafts table at a great price, that investor could constantly gage the market while waiting for the right time to sell at a good profit. On the other hand, it might take a decade or more to find a buyer for a 30' x 40' antique Persian palace rug.

Beware of Fakes and Forgeries – General knowledge, research and trusted help are keys to avoiding big investing mistakes in antiques. There is a lot of monetary incentive for unscrupulous companies and individuals to take advantage of investors and consumers by representing fakes and forgeries as real antiques. Also, some of the fakes and forgeries are so good that they may genuinely fool an honest, but less-skilled member of the industry. A serious investor needs to spend time finding out which companies and individuals are both honest and extremely knowledgeable. Enlist the help of published experts, check out unfamiliar dealers with industry organizations such as

antiques dealers associations and local Better Business Bureaus and get to know local antique dealers and restoration experts. Many are very helpful and are glad to provide insights about the authenticity of a particular antique and point out areas where restoration or repair work has been done.

Once a particular antique has been purchased as an investment, there are things an investor needs to do to protect the investment. Each type of antique may have its own special requirements, but actions needed for all types include:

Keep Good Records – Maintain the paper trail. It is the core of an item's provenance. The date and source of purchase, date and source of any subsequent repairs, restorations or cleanings, all receipts and all prior provenance documents that came with the purchase are an integral part of the investment.

Take Good Care of the Investment – There can be huge price differences between "good, better and best." Don't let harsh sunlight fade the remaining color. Don't let extremes of temperature and humidity loosen wood veneers. Don't remove patinas from

metal objects to make them shine. Before doing anything to a valuable antique, including storage, it is wise to consult a local museum, antique dealer, antique appraiser or restoration expert to make sure the potential effect of a proposed action on the antique's condition and value is understood.

Understand Insurance Coverage – Most homeowner policies do not fully cover items of high value for any cause of loss unless the items are individually specified and covered by a separate rider. It is prudent to insure your antiques on a separate, all-risks floater policy for full replacement coverage in the event of loss or damage. This may bring a professional appraiser into the picture because many insurance companies require a fully-documented appraisal before writing rider coverage for antiques or any other type of item of extraordinary value.

Pay Attention to Taxes – Like any other investment, investing in antiques can have tax consequences. When you sell and make a profit, you may owe taxes at one or more levels of government. Antiques also can represent significant opportunities for tax-saving via charitable contributions. However, if a charitable contribution is large enough, it may require a formal valuation by a certified professional appraiser before it will be allowed as a deduction by the IRS. It can be very useful to consult a CPA or other tax professional at various stages of investing in antiques to make sure tax and valuation considerations are fully understood. **N**

The idea of professional appraisals has surfaced in several places in this article. Antiques appraisers can be valuable resources for antiques investors and may well be antiques investors themselves. The author is a professional appraiser and modest antiques investor and is Certified as an Appraiser of Personal Property (CAPP) by the International Society of Appraisers (ISA). ISA is one of the three major national appraisal organizations. The other two organizations are the Appraisers Association of America, Inc. (AAA) and the American Society of Appraisers (ASA). These organizations will help anyone find a qualified appraiser within their memberships to meet a specific need. Certified and accredited members of these organizations have completed comprehensive courses of study in their specialty disciplines, including laws and regulations applying to their disciplines. Certified appraisers are generally accepted as "experts" for purposes of making and defending valuations for tax and legal purposes.



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