# THE ART AS AN INVESTMENT

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## Abstract

Today, capital markets are unstable; people lose their confidence in financial investments. Investing in art represents an alternative to the recovery of financial funds and brings also other benefits (e.g. aesthetic experience, the pleasure of art). In recent years, investment in art has become a worldwide trend and also in Slovakia more and more people begin to perceive art as an investment. But it also has specific features, particularly in the sphere of marketing mix. From the whole range of arts, we focused on investments in the visual arts; we have identified the level of investment in this commodity, factors determining this area, and specifics of marketing concerning the art trade.

**Key words:** art as investment, art marketing, market with art

## 1. Art as an investment commodity

At a time when stock prices and prices of real estates are radically falling, stock exchanges are rushing down and loans are becoming more and more inaccessible and expensive, investing in art remains one of the few lights at the end of the tunnel (Ábelovský 2008).

Sharpe (1999) sees the investment as the sacrifice of the current value for the benefit of future uncertain value. This definition is valid for the financial and real investment (house, gold collection). To the group of real investments, as the other commodity, we include artworks. Real assets are especiallly attractive in the period of great economic and political uncertainty (Chovancová 2002: 27). Understanding the content of a word art is quite individual. Today, it prevail an opinion that the art is everything that the artist himself calls an art work (Vovková 2012: 271). This concept of art provokes a discussion. Gero (2012) states that art can be understood in the sense of the fine arts and in the sense of a skill and extraordinary ability.

Although art itself is a market commodity, individually art is represented by brands that are often very valuable.

For the purpose of our research, we examined the part of visual arts from the concept of art (painting, drawing, ceramics, sculpture, crafts, photography, applied arts, design, etc.) image formation.

## 2. Investing in art

Vovková (2012: 271) states that: for a long time, people have dealt with arts and have always been surrounded with arts. In ancient times, the art was predominantly used for expressing emotions and experiences; later on the property of artworks was used for reflecting a certain prestige or wealth of the owner. In the 19$^{th}$ century, it begins to speak more about the trading with arts. During this period, art is also considered as beneficially invested money with the possibility of gaining profit at a later time. By this way, art gained the character of economic investment.

Today, the art has a stable place in the sphere of investment. Art is an investment that brings higher profit and lower risk. But only investment in art brings an investor except of financial also aesthetic benefit. Therefore it is governed by very specific rules. Investment in this area slides into collectibles. To the group of most common collectibles there are included stamps, coins, paintings or antiques. Today, people know that correctly chosen investment into works of art can bring a multiple assessment to an owner in a couple of years. Investment in art is not sensitive to "shocks" that are so common for financial investments due to global economic crisis. Even the market volatility in financial investment leads to the stability or growth of investments into arts.

According to Šulek (2012) investing in fine arts has literally become a trend in recent years. Fluctuations in the world economy have pointed out many disadvantages that are linked to trading on stock markets. Although, from the long term point of view, the development of the value of equity securities is increasing, the short-term loses are not so uncommon. Something similar when purchasing an art work from renowned author is not presented.

Investing in art has its advantages and disadvantages. Among the advantages of investing in art there belongs a possibility of high assessment in the short term, a resistance against a slump in financial markets, an elimination of inflation effect, an expansion of an investment portfolio and so forth. The advantage of an investment in art by natural entity is also a tax neutrality of revenue from the sale of this investment. But there are some disadvantages too, such as for example higher demands on initial investment, the risk of buying counterfeit art, lower liquidity, requirements on investment protection, low transparency of the art market and psychological risk of rejecting the investment by community and so forth.

For each investor who decides to put his financial means into the art, it is important to have an overview of successful artists in order to make an investment to bring highest possible yield in the future. If the investor is not oriented in art, he should consult his investment intention with experts in the field. One of the most significant investors into art is also banks.

## 3. Art marketing

Kotler and Levy wrote more about the possibility of applying marketing in the arts and culture (in the context of the non-profit sector) in 1969. Marketing in the arts and culture is characterized as an activity penetrating into all areas that can be equally well applied in the production sphere as well as in services, people and non-profit organizations. Later Kotler and Scheff (1997: 29) develop this definition and consider closely market-oriented approach as incompatible with the nature of production in art and culture. They emphasize that the purpose of non-profit organizations in culture is to expose the artist and his legacy to the widest possible audience.

As the art can be divided into several types, the marketing of art include more areas too, among which there is primarily involved the marketing of (Johnová 2008: 28):

- cultural organizations,
- fine arts,
- performing arts – includes serious and popular music, theater in all its forms – drama, ballet, opera, pantomime,
- media art – television and radio work, texts, graphics and photos intended for the periodical press,
- film in all its forms – fiction film, cartoon, documentary; full-length, short; commercial, instructional and so on,
- multimedia art – this includes fairs, commercial exhibitions, events, happenings,
- literature and music – in terms of work that could be further reproduced after keeping the law in the field of copyright rights,
- trade in copyright – writers, composers, artists, directors and so on,
- publishing literature, music and film media,
- architecture,
- sponsorship and patronage culture (fundraising),
- the use of artists and artworks for advertising and marketing purposes.

Every type of art uses various forms of marketing strategies and applies other principles of marketing policy. The most common method is the method of inside-out. The product is firstly produced and then placed on the market. Marketing objectives are subordinated to artistic objectives. Marketing is used for correct timing and managing the offer. Especially artists do not adapt their work directly to the existing market demand. These specifics are directly related to the special features of the individual components of the marketing mix.

Even in art a product is the cornerstone of marketing strategy and has a dominant role in determining the character of other marketing tools. For a art work, as a product in the arts, uniqueness and interchangeability are the most important characteristics. It is an original or a prototype. This uniqueness also follows from the perception of the individual work by each consumer. In addition to the uniqueness, the product in the arts has more specifics (Gero 2012: 191) states following specifics:

- scarce good,
- original – uniqueness,
- reproducibility – the opportunity to create a reproduction that it is possible to multiply but has a lower value,
- possibility of mass consumption – in galleries, at concerts, cinemas, etc.,
- product is not adapted to the market, but the aim of marketing is to attract an audience to the actual offer,
- the art work is not depreciated by consumption but in the contrary often takes a higher value.

Considering the product of the visual arts, the content or form of the work is often not important, but the criterion for consumer decision making is a brand that represents the artist's name.

Factors that affect the formation of prices on the art market are unique. Yet, in 1891 the economist Alfred Marshall (Principles of Economics) pointed out the problems associated with the appreciation of cultural products and states that: "It is impossible to measure objects such as paintings of masters or rare coins because they are unique of its kind and there exist no alternative or competition for them". Price creation, considering the artistic value, is influenced by its uniqueness and quality of the creator, the symbolic value of the product, emotional, social and individual factors. The economic value of the product is largely the result of actual relationship between demand and supply in the market. The real costs of work formation affect the price rarely. Price jumps depend on the presentation of the works of art on the exhibition, the auctioning or the death of author. The price settled by this way people sometimes perceive as irrational.

Marketing communications with market is concentrated in hands of galleries, auction houses/halls and author. The works of art are often communicated by mass media. Effective tool of marketing communication for artwork are catalogs, oral administration of works owners, professional journals or posters. The worldwide communication system includes agents too. Gallerie, for promotion purposes, mostly use internet, where they create their websites providing basic information.

Distribution channel selling works of art to collectors or investors make up art studios, shops with art works and auction rooms. For the general public are there arre included also museums, galleries and other exhibitions. The fastest growing distribution channels are auction houses.

The results of our research confirmed that the area of art marketing in Slovakia is still underdeveloped. In this area, there is a deficit of researches, experts and professional publications for people working in the art trade.

## 4. The art market

The art market can be specified as a place where businesses with art are realised. Similarly, as in other areas, the art market can be divided into the primary and secondary market. The primary market includes primary works that are supplied directly by artists. Artist in the primary market are usually represented by a gallery. These works are more cost-effective because galleries are trying to keep the prices of these works below the level of auction prices. These works are often sold directly from the art studio. In this case it is mostly the works of young and unknown artists, whose value is not high. But if some notable gallery lend or buy this works, their value can rise to more than double. The secondary market includes multiple tradable works. Secondary market involves of the sale, purchase, but also the exchange of works between galleries, collectors, dealers and museums. In the secondary market, there are sold major works of current and older artists that mostly appear in auctions after the death of collector, when heirs sell off his collection, but also in financial difficulties of collector and during the divorce proceedings. Substantial reason for skyrocking growth of their prices may be the fact that they did not appear or were not traded on the market for a long time (Vovková, Chovancová 2011).

Trading with the art is participated by artists, collectors, art dealers – individuals (gallerists, dealers, agents), art dealers – institutions (auction houses, galleries, museums) and specialists in the field of art (specialists, experts, critics). All participants of art trade, with the exception of artists and specialists, act on the supply as well as demand. Collectors and art dealers are interested in buying and subsequent selling of works of art, too.

Artists create the main supply of works of art in the market. Art specialists do not directly create the supply or demand for works of art, but indirectly, by their opinions or criticism, can influence the demand for a certain work or its cost (Vovková 2012: 275).

It is important to distinguish between art collectors and investors in art. The basic difference between art collector and investor in art is presented in the philosophy of their thinking. Collector has a passion for surrounding himself with beauty, investor thinks about the future appreciation of a picture. The investor should visit the exhibitions, art studios, auction and should keep in contacts with artists. Collector has these features. Investor considers spending money on art purchase as saving capital. Collector has rather "a good nose for the arts. For gaining a new piece of art work a collector is ready to sacrifice personal savings or other work for exchanging other work for a new one.

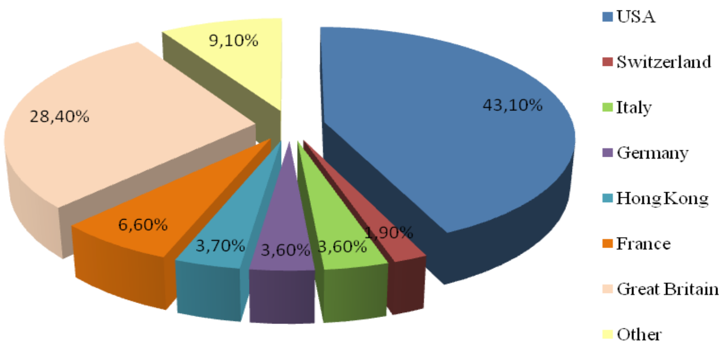
Even a potential investor in art should have a sense for aestetics, basic theoretical knowledge about fine arts and be well up in this area. He should watch the exhibition catalogs, obtain information from auction houses, visit exhibitions, meet with artists and gallery owners, etc. He must also have a sence of risk associated with investing. Risk imposed on collectors and investors is eliminated by experts, art historians, certificates and a direct purchases from artists or galleries and auction houses.

Even the art market has some degree of irrationality, because sometimes common sense is prevailed by feelings. Analytical tool for rationalizing art work purchase decision is the ART+ index. This presents an objective way of describing the market. In addition to the volume of sold works of art the intex reflects the percentage of unsold items, the sale volume for the starting price and price increases. The ART+ index is primarily determined by prospects of art market.

Investing in art offers not only aesthetic experience but appreciation of savings too. Although in the art it is always very difficult to predict future return, time value of works of art is growing significantly. According to the auction house SOGA images from Benka, Fulla, Laluha, Krivoš, Kompánek or Galanda, that were sold for about ten thousand euros in the nineties, today they are sold for thousands of euros. There exist only a few commodities with such appreciation. Betting on young and unknown author may in the future bring high or no gains. On average, investments in art are highly profitable and by applying conservatie investment strategy into verified authors also safe too (Podstupka 2013).

First auctions took place in Venice in the 16th century and then they were spread to the Netherlands, England and France. A painting sold in Paris could be first purchased in Brussels and a month later sold in London. Global art market was opened after the Second World War. Dominant player in art market became the United States of America. Currently, in the art market there are appearing new strong players such as Hong Kong, China and the European art market is growing too. In Europe, the most important locality is London. In the art market the trade on auctions is dominated. Eighty percent of art works is sold by Christie's and Sotheby's auction houses. World turnover of the art market by countries presents data introduced in the Figure 1.

Figure 1. The structure of sale turnover by individual countries




Source: Skřivánek 2010: 29

Greater proportion of turnover belongs to the United Kingdom and the United States of America. In recent years, the average price of art work has risen in the United States of America and has declined in Europe.

Demonstration of how significantly the price of art work may increase is introduced in Table 1 in which there are compared the prices of selected paintings of the last sale (PP) and the prices of selected paintings of the presale (RPP) up to the year 2008.

Table 1. Price increases of paintings

| Author | Work | Created | RPP | Price in $ | PP | Price in $ |
|---|---|---|---|---|---|---|
| C. Monet | The Railway Bridge at Argenteuil | 1874 | 1988 | 12.600 000 | 2008 | 41.400 000 |
| M. Rothko | Orange, Red and Yellow | | | 11.000 000 | 2008 | 45.000 000 |
| M. Rothko | White Center | 1950 | 1960 | 8500 | 2007 | 72.800 000 |
| A. Warhol | Warhol's 32 Campbell's Soup Cans | 1962 | 1962 | 1000 | 1995 | 14.500 000 |

| | | | | | | |
|---|---|---|---|---|---|---|
| A.Modigliani | The Son of the Concierge | 1918 | 1997 | 5.500 000. | 2006 | 31.000 000 |
| | Still Life with Watermelon and Pemegranates | 1906 | 1989 | 4.080 000 | 2007 | 25.600 000 |
| P. Gauguin | Riders on the Beach | 1902 | 1992 | 1.600 000. | 2007 | 4.900 000 |

Source: Thomson, 2008: 272.

Increase in the prices of art works can be very significant. In the case of a painting by A. Warhol the price during the period of 33 years has increased from the original 1,000 dollars to 14.5 million dollars. The painting of White Center by M. Rothko brought even many times higher profits to its investor. During the period of 47 years, the price of painting rose from the level of 8,500 dollars to 72.8 million dollars.

Vincent van Gogh, Amedeo Modigliani and many other world-recognized artists lived their lives in absolute poverty, died forgotten, exhausted and penniless. Only after death their works began to be sold for the big money. On the contrary, today, world-recognized artists enjoy admiration, fame and live on a big scale. Their works are bought for millions of dollars. Contemporary art was never sold for such a high prices as today. Table 2 shows major works of contemporary artists.

Table 2. Contemporary famous artists and their major art works

| Author | Art Work and Year of their Creation |
|---|---|
| Lucian Freud | Girl With White Dog, 1951-1952 |
| Andy Warhol | Shot Red Marilyn, 1964 |
| Jasper Johns | The Three Flags, 1958 |
| Damien Hirst | For The Love of God, 2007 |
| Jeff Koons | Pink Panther, 1988 |
| Cy Twombly | Camino Real II., 2010 |
| Takashi Murakami | Flower Ball, 2002 |
| David Hockney | A Bigger Grand Canyon, 1998 |
| Jean-Michel Basquiat | No name, 1981 |
| Francis Bacon | Three Studies for Figures, 1980 |

Source: Thomson 2008.

Table 3 shows an overview of the most expensive auctioned art works in the history.

Table 3. The most expensive paintings of the world

| Author | Name of Art Work | Sale Year | Price |
|---|---|---|---|
| Francis Bacon | Three Studies of Lucian Freud | 2013 | 142.4 mil. $ |
| Edvard Munch | The Scream | 2012 | 119.9 mil. $ |
| Pablo Picasso | Naked Woman | 2010 | 106.5 mil. $ |
| Andy Warhol | Death and Disaster | 2013 | 105.0 mil. $ |
| Pablo Picasso | Boy with a Pipe | 2004 | 104.0 mil. $ |
| Pablo Picasso | Dora Maar with Cat | 2006 | 95.2 mil. $ |
| Gustav-Klimt | Portret of Adéla Bloch-Bauer II. | 2006 | 87.9 mil. $ |
| Francis Bacon | Triptych 1976 | 2008 | 86.3 mil. $ |
| Vincent van Gogh | Portret of Doctor Gachet | 1990 | 82.5 mil. $ |
| Claude Monet | Waterlily Lake | 2008 | 80.5 mil. $ |
| Auguste Renoir | Moulin de la Galette | 1990 | 78.1 mil. $ |
| Peter Paul Rubens | Massacre of the Innocents | 2002 | 76.7 mil. $ |

Source: www.investicne.sk.

The data in the table show that all auctioned art works come from world-known and respected authors. Regarding such investments, on one hand, the initial deposit for an investor is very high but, on the other hand, the investor has confidence that the price of art work will rise in years. Knowing the state of the world or global art market became the starting point for making an analysis of Slovak art market.

Currently, in Slovakia there are several auction companies. The largest and best known company is the SOGA. Table 4 provides an overview of the most expensive auctioned works in the auction house SOGA since its foundation in 1997 up to the present. Representation of the Slovak art works in foreign auction houses is minimal.

Table 4. The most expensive auctioned art works at the auctions of SOGA

| Author | Name of Art Work | Price |
|---|---|---|
| Domenico Zampieri | Boy with Dalmatian | 531 102 € |
| Benka Martin | After Crop | 180 000 € |
| Benka Martin | Slovak Family | 176 000 € |
| Majerník Cyprián | Escapees | 170 000 € |
| Warhol Andy | Margareta II., Danish Queen | 170 000 € |
| Foltýn František | Countryside near Mukačevo | 162 000 € |
| Fulla Ľudovít | Blumentl Church in Winter | 160 000 € |
| Filla Emil | Still life with azalea | 140 000 € |
| Rubens Peter Paul | Young Bakchus | 122 000 € |
| Warhol Andy | Hans Christian Andersen | 120 000 € |

| | | |
|---|---|---|
| Galanda Mikuláš | Artist | 120 000 € |
| Martin Benka | Autumn – Turiec | 120 000 € |
| Dominicus van Wijnen | Allurement of st. Anton | 116 179 € |
| Foltýn František | Countryside near Mukačevo II. | 116 000 € |
| Szinyei-Merse Pál | On the Bank of River | 110 000 € |

Source: www.soga.sk.

In Slovakia there are no officially available statistics of turnovers in the art market. By using an expert estimation, we calculated the expected total annual turnover of 7.2 million € at the level of authors of art works (paintings) in Slovakia and the total annual turnover of 8 million € at the level of art market in Slovakia. Paintings in the value of about 5 million € "passes" through the auction rooms. About 20% of turnover represents the potential for investment activity. Resulting from this, it is clear that the art market has considerable financial potential and therefore it is reasonable to deal with it.

## 5. Evaluation of research results

The goal of our research was to determine relationship of respondents to the art and to invest in art. By questionnaires we asked 296 respondents, as a representative sample. The results indicated that:

- People are interested in the arts (88% respondents), but the music is dominated (30% respondents);
- 45% of respondents have ever bought the art work as a home accessory, 37% as a gift and 8% with the intention to invest;
- The most frequent point of purchase of an art work was the art shop (35%) and directly sale from artist (38%); Only 1% of purchases was provided through the auction hall;
- 19% of respondents have ever invested in art and 36% of respondents planned to invest in art; 30% of respondents said they have no experience in this area;
- In portfolio of investments dominates securities (40%), real estate (25%), then the commodity with 16% and arts with 13%.

Attitude toward individual investment commodities is introduced in % in the Table 5.

Table. 5 Attitude to investment commodity in %

| | Real Estate | Securities | Art | Gold | Commodity | Diamonds |
|---|---|---|---|---|---|---|
| Interest | 27 | 21 | 18 | 16 | 8 | 7 |
| Risk | 19 | 22 | 17 | 16 | 12 | 10 |
| Profitability | 31 | 22 | 13 | 12 | 11 | 8 |

Attitude toward different types of art as investment in % is shown in the Table 6.

Table 6. Attitude to art commodity as investment in %

| | Paintings | Antiques | Jewellery | Veteran cars | Coins | Stamps |
|---|---|---|---|---|---|---|
| Interest | 23 | 18 | 21 | 19 | 7 | 2 |
| Risk | 8 | 9 | 8 | 11 | 9 | 16 |
| Profitability | 26 | 19 | 18 | 16 | 10 | 3 |

From interviews with vendors of artworks resulted that over the past five years the turnover decreases, although presented interest increases. Prices of works are rising. Gift and home accessory were introduced as the most prevailing reasons for a purchase. Younger customers dominate as a buyer of art works. Not every buyer with the intention to invest also declares his intention. Trader's estimation is that to this category there belongs from 20% to 30% of customers. For sellers, the main criterion for customer decision about a purchase of art work is to satisfy the aesthetic needs and to assess their investment in future. There are two groups of investors: those who have a clear purchase aim and those who are looking for what would they buy.

From a marketing point of view, the price of a painting is mainly affected by the author's name. The price of a painting may by also affected by external factors that are not directly related to the author or the artistic value of the work. If a painting, that become the object of a sale, was owned by well-know or respected collector, people are willing to pay for it a premium price. For an investor or a collector it is a big prestige to own a painting that was owned by such collector.

Among art dealers and gallery owners dominate an opinion, that who is interested in art, he knows where to find it and therefore the specific marketing communication is not needed. We found that people acting in the sphere of art trade have practically no knowledge or experiences with marketing. Even this area is not included in the study content of any academy of fine arts.

Asked authors evaluated the current state of Slovak art market as monopolized. This means that a small group of people decides about what is good in art and where the art market will be directed. The art market provides small artificial possibilities to young authors on how to make their art works visible but there also exist possibilities on how to "artificially" increase prices of art works from unknown authors.

In the past, the art market was largely influenced by the DIELO Fund of Fine Arts. The commission decided about what is good enough for the art market. Today, such decisions are made by the market. In the hierarchy of public and corporate investment, the art declined to a lower position, compared to other commodities.

## Conclusions

Slovak art market is quite concentrated, significantly region-oriented and, in the comparison with advanced countries, underdeveloped. Foreign artists, even those emerging, have their agents who do the marketing for them. Investments in the arts are considered to be as a kind of investment certainty, because unlike securities, art retains its value even during the economic crisis and the fluctuations in the capital markets. Financial volume of this investment commodity is also interesting for marketers who know this area and are able to create an appropriate application of general marketing tools for its promotion.

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