EXPERTISE IS KEY TO ART INVESTMENT

Opening Ceremony of the Asia Institute of Art and Finance

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by

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Ladies and Gentlemen,

I am very happy and honored to be here today among eminent personalities to mark the opening of the Asia Institute of Art and Finance in Shanghai. Congratulations for successfully launching this Institute!

Whenever physical assets such as commodities, real estate and art meet the world of finance, it becomes complex. Investors know how to turn a commodity into a financial asset: the key is standardization of the asset class. For instance, there are grades for commodities like oil and wheat. Investors have learned how to deal with real estate assets. One of the keys is securitization which is the process of turning private buildings into public securities. When it comes to art, investors do not have the answer, at least not yet.

So, how can we deal with art as an alternative investment? Art as an asset class is essentially heterogeneous, i.e. its value derives from unique characteristics which are specific to each artwork. There might be a temptation to assimilate artworks and luxury goods. But contrary to luxury goods, art is not mass-produced nor mass-consumed. Art carries strong emotional and cultural values. Its uniqueness dominates all other investment characteristics.

Besides, art is traded on illiquid markets where all the relevant information is not always public, i.e. one investor might know something another doesn’t, and by using this piece of information, this investor will make money while the other won’t. Hence, artworks can be a puzzle for investors, especially those who are not well versed into the idiosyncrasies of the global art market.

When art becomes an asset, it enters into a totally new realm dominated by concepts such as market efficiency and risk/return optimization. Good investment decisions are not only based on sound understanding of what art as an alternative asset can bring to a portfolio of financial assets, but also on connoisseurship and in-depth knowledge of the art market’s workings and trends.
Combining all these dimensions is a challenge. This is precisely the challenge that by proposing a comprehensive curriculum and a wide range of courses, the Asia Institute of Art and Finance will address in one of the most active art markets in the world: China.

We all know that China has been at the center of the global art market in recent years. According to the latest Art Economics report released at TEFAF art fair earlier this month, China accounted for 19% of the global art market in 2015. Likewise, auction prices of Chinese classical artworks as well as contemporary Chinese art have made headlines the world over, while Chinese auction houses have moved to top spots globally.

In this context, good investments are about timing and asset selection. It is easy to make good decisions in a constantly increasing market. Likewise, it is comparatively easy to make good decisions in a highly standardized asset class. This means that more than for any other asset classes, art requires specific expertise in order to make the right investment decisions, both in terms of market timing and choice of artworks. Illiquidity, lack of transparency and the extreme heterogeneity of artworks are sources of inefficiency, but also potential sources of profit for those in the know.

Investors are well aware that markets cannot grow indefinitely. The reassuring point here is that money can also be made, may be even more so, in volatile markets provided the investment savviness that comes with expertise.

As a scholar originally from France, a country very close to China when it comes to a common ancestral tradition of connoisseurship and art collecting, I welcome the opportunities that the Asia Institute of Art and Finance will give to industry experts, business people, and scholars to share knowledge and develop a new understanding of the global art market with a uniquely Chinese perspective.

To conclude, I would like to share with you the story of a necklace. Not just any necklace, but a necklace of 27 imperial jade beads made by Cartier Paris in the 1930s. This necklace (which you can see on the screen) broke two world records when auctioned at Sotheby’s Hong Kong for HK$214 million in April 2014: It is the most expensive jadeite jewellery and the most expensive Cartier jewelery ever sold at public auction.

The jadeite bead necklace made its debut in the auction market in 1988, when it fetched an impressive USD 2 million, which was the highest price ever paid for a piece of jadeite jewellery, causing a great sensation both in the East and the West.

Six years later in 1994, the necklace took centre stage at an auction room in Hong Kong and was sold for double its previous hammer price, achieving US$4.2 million, again a world record for any jadeite jewellery.

Would you have bought it in 1988, in 1994 or in 2014? If you did in 1988 and kept it until 2014, your return would have been equal to 1280%. If you bought it in recent years, you would have
had the choice with another great jade necklace designed by Hong Kong-based jeweler Wallace Chan. His *Great Wall of China* necklace reportedly sold for Euros 56 million while exhibited in Paris in 2012. Which necklace should you have bought and when? What are the investment characteristics of these two jade jewelleries? How would their ownership fit into a portfolio of financial assets?

As you can see, investing in art comes with great rewards, but also perplexing million-dollar questions. To answer these questions and many others, I welcome the launch of the Asia Institute of Art and Finance at this exciting time for China’s art market.

Thank you very much for your attention, and best wishes of success to the Institute!