AiR

ALTERNATIVE INVESTMENT REPORT

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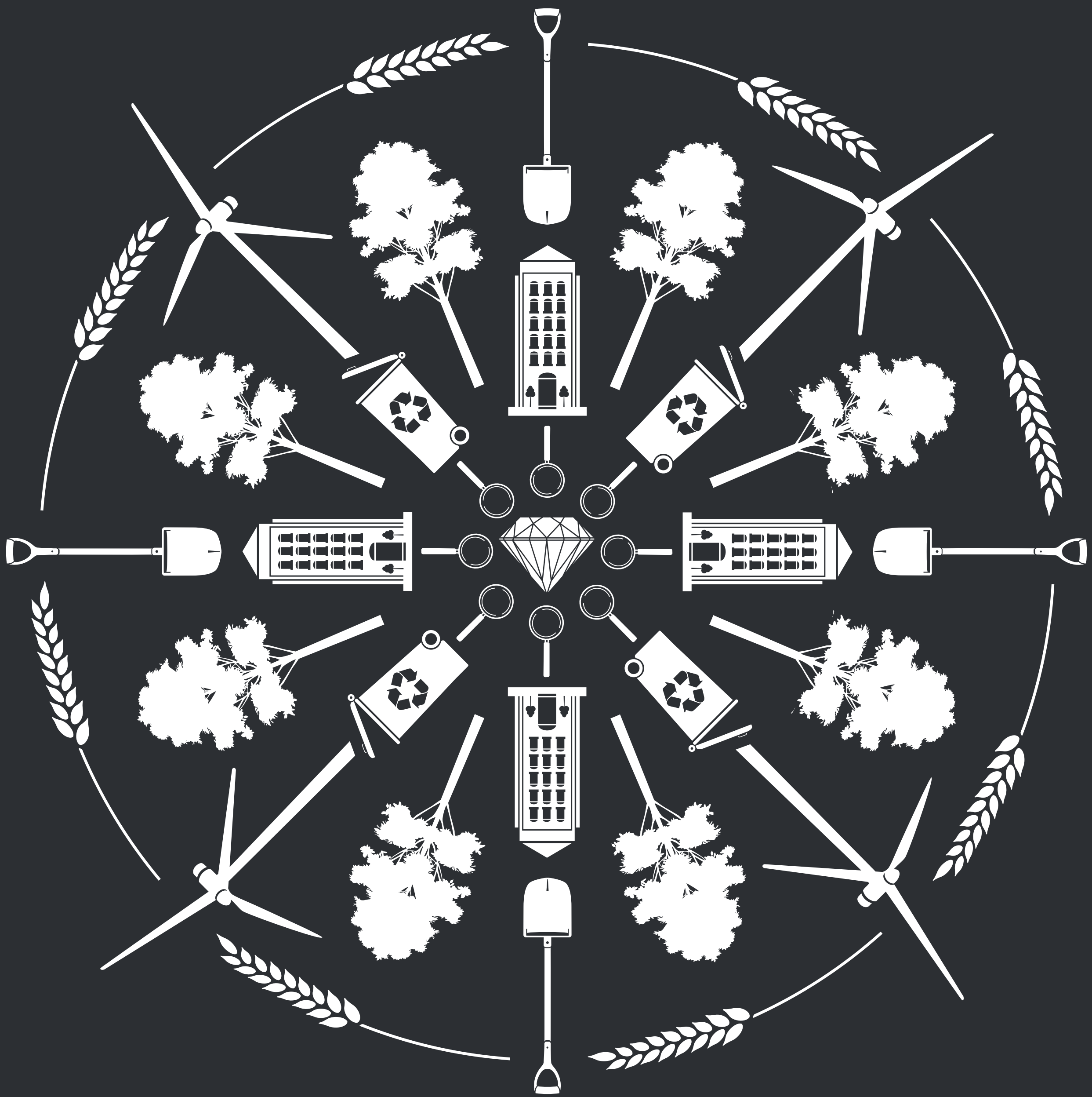

RARE STAMPS AND COINS 2015

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PUBLICATION

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OPENING STATEMENT

Welcome to the first accredited report looking at rare stamps and coins as an asset class.

Stamps and coins are a genuine alternative asset class, that display all the characteristics – both good and bad – that are common across alternative assets.

On the positive side, they are uncorrelated to the mainstream financial markets. The charts and performance data in the report show how they outperformed during the financial crisis in 2008 and subsequent recession. This characteristic gives them great diversification benefits. Unlike some so called diversifiers, they continue to provide diversification when it is most needed – in a crisis.

They also hold out the possibility of very strong returns. Collectibles have a unique, inverse supply and demand curve: no new supply can be created, nobody can go back and mint ancient coins or print rare stamps. And as we see new sources of demand coming from younger collectors and growing interest in emerging economies such as India and China prices for scarce items can only be pushed higher.

In addition, as tangible assets they present investors with one way to beat financial repression: the low interest rates, money printing and silent currency war that our central banks are resorting to in order to stimulate the economy. They can be a hedge against, and protection from, inflation, devalued currencies and punitive taxes.

And there are other intangible, but significant benefits – the joy of making an investment of passion and owning a piece of history.

On the other side of the equation, stamps and coins are a very hard asset class to access without the requisite knowledge and experience. They are not fungible – each item is completely and totally unique – forgeries exist, and as non-financial assets with no revenue streams conventional valuation models such as discounted cash flows are useless – mainstream analysts are at a loss and as a consequence orthodox investors tend to stay away.

For those who buy-in to the investment case, but don't have the confidence to enter the market themselves, there is a solution. Merchants such as Stanley Gibbons have recognised that there is demand for an investment service that allows non-experts to participate in the market and have created a small range of products to meet this need.

This report takes a look at the pros and cons of rare stamps and coins as an asset class: both making the investment case and highlighting the potential pitfalls for the unwary. We think you'll find that, like all collectibles, stamps and coins are an interesting, engaging and intriguing asset class.

Guy Tolhurst
Managing Director
Intelligent Partnership

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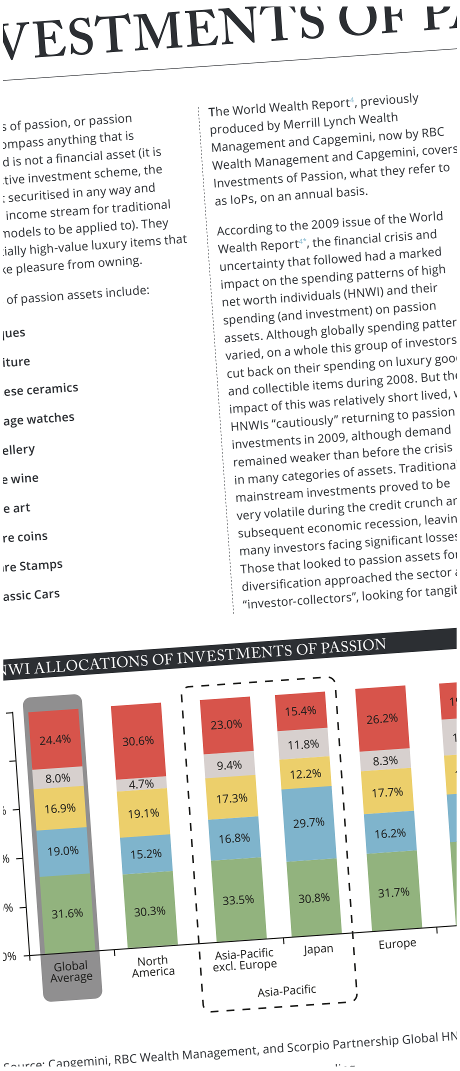

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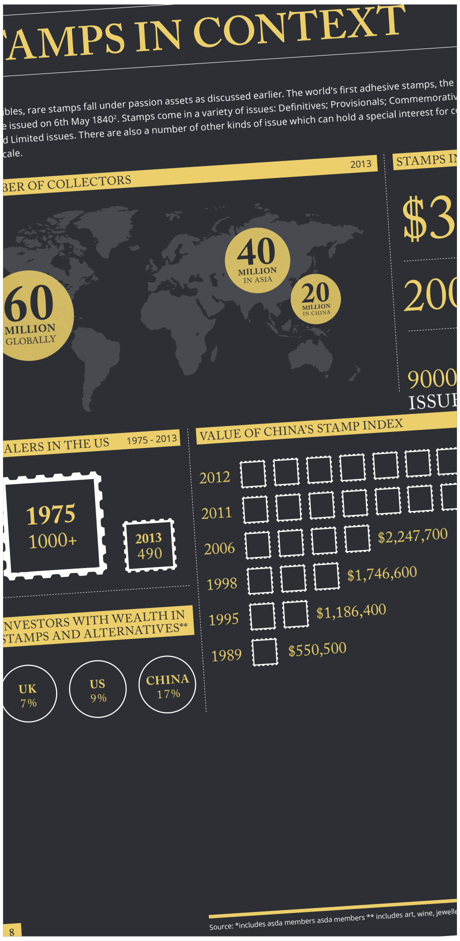

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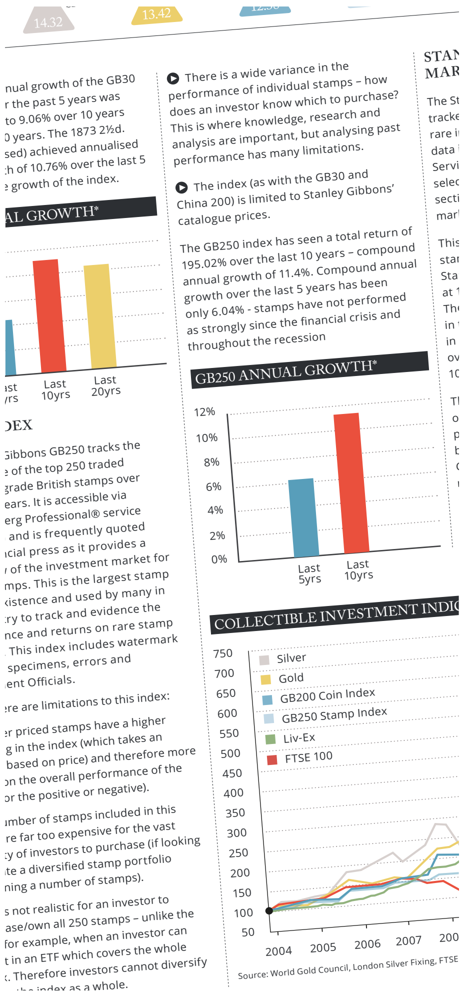

Please note: Unless otherwise stated, all charts and graphs have been provided by Intelligent Partnership

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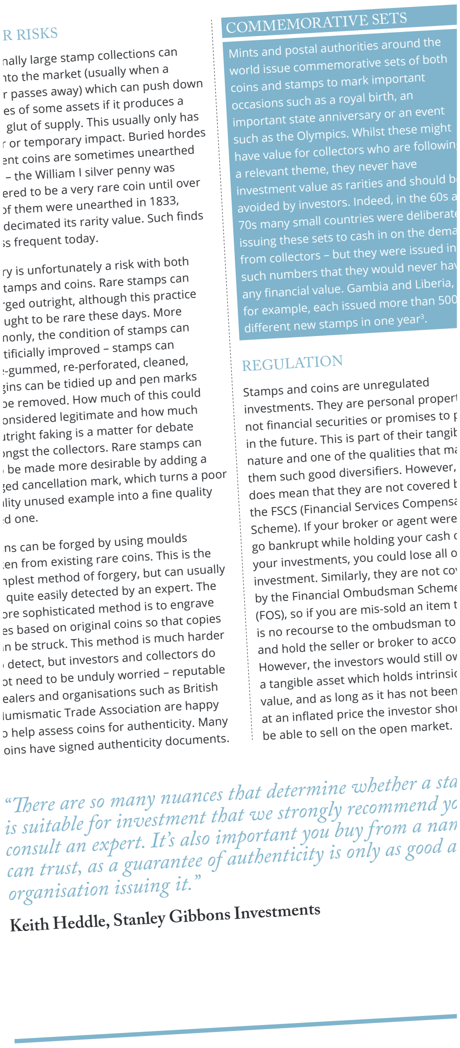

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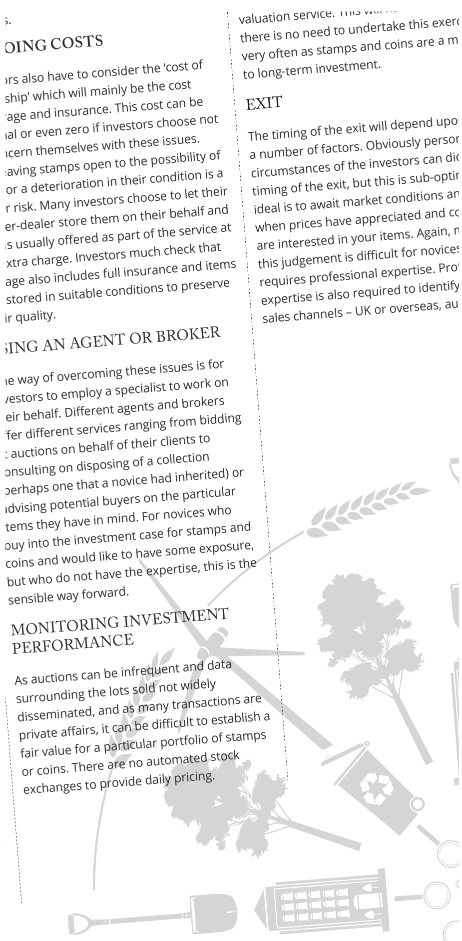

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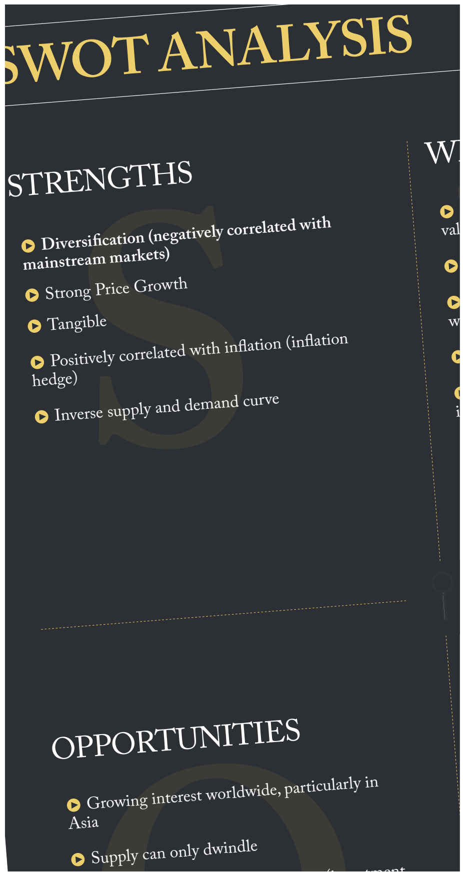

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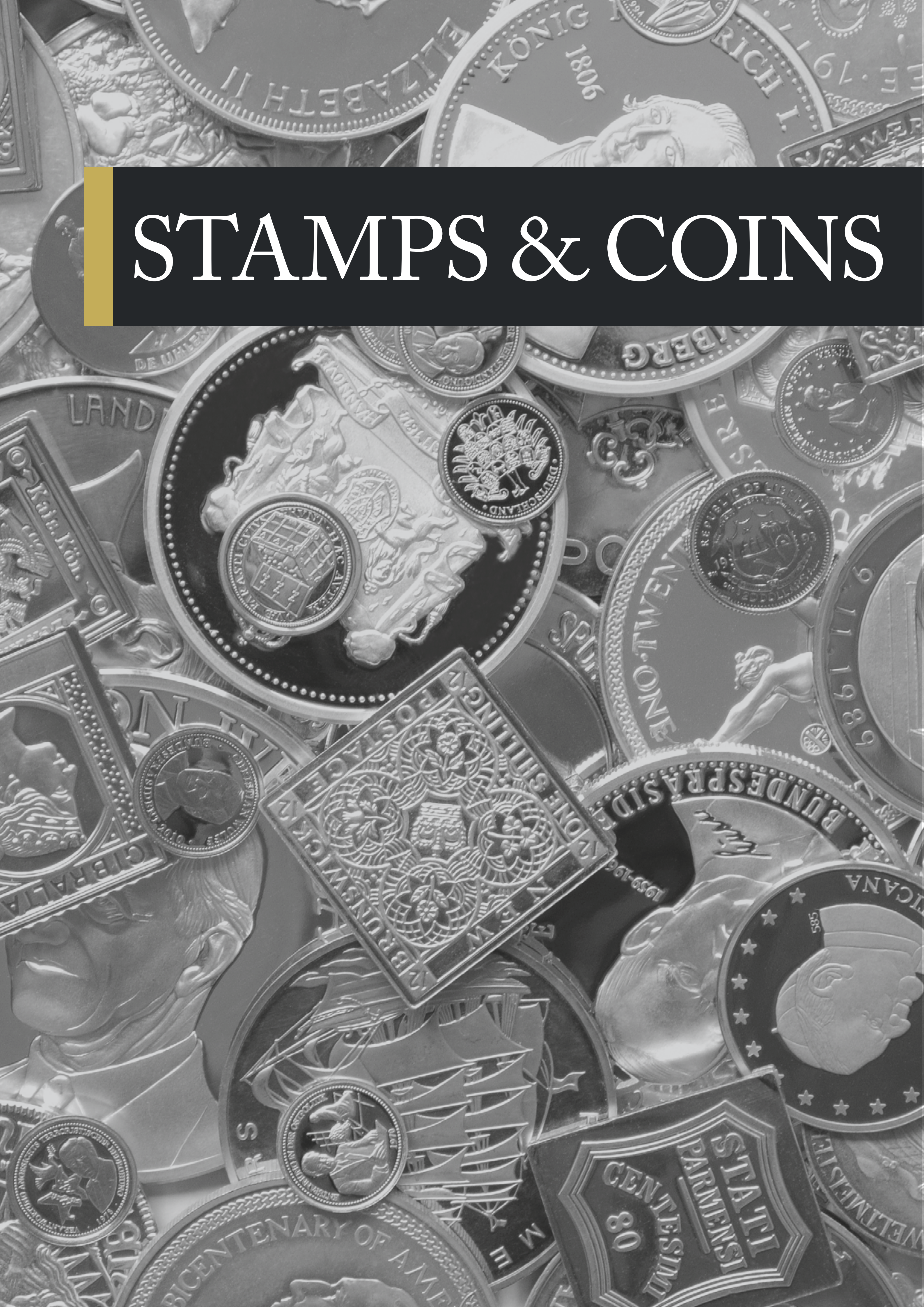


RATIONALE

Stamps and coins are no longer just for collectors and enthusiasts. An investment case can be made for adding them to an investment portfolio.

For many people collecting stamps and coins is seen as a hobby, often the preserve of a few dedicated (and usually ageing) enthusiasts. However, the evidence shows that certain, 'investment-grade' stamps and coins can also be very profitable investments that provide diversification, a hedge against inflation and an additional source of returns.

This report is aimed at professional intermediaries, financial advisers, finance professionals and sophisticated investors. The objective is to provide an impartial and balanced view of the pros and cons of investing in rare stamps and coins.

The report examines the investment case for stamps and coins and looks at both the risks and benefits of them as investment assets, the role they can play within a wider investment portfolio and the unique considerations investors have to bear in mind when they buy and sell collectibles.

We'll provide some history and background to the sector, consider the additional sources of information available and also discuss the best ways to access and get exposure to this distinctive asset class.

This report should provide readers with the background and knowledge to make an informed decision about whether rare stamps and coins are assets that would be suitable and beneficial for them or their clients, understand how to access the market and know where to go for more information.

INVESTMENTS OF PASSION

Investments of passion, or passion assets, encompass anything that is tangible and is not a financial asset (it is not a collective investment scheme, the asset is not securitised in any way and there is no income stream for traditional valuation models to be applied to). They are essentially high-value luxury items that people take pleasure from owning.

Examples of passion assets include:

- Antiques
- Furniture
- Chinese ceramics
- Vintage watches
- Jewellery
- Fine wine
- Fine art
- Rare coins
- Rare Stamps
- Classic Cars

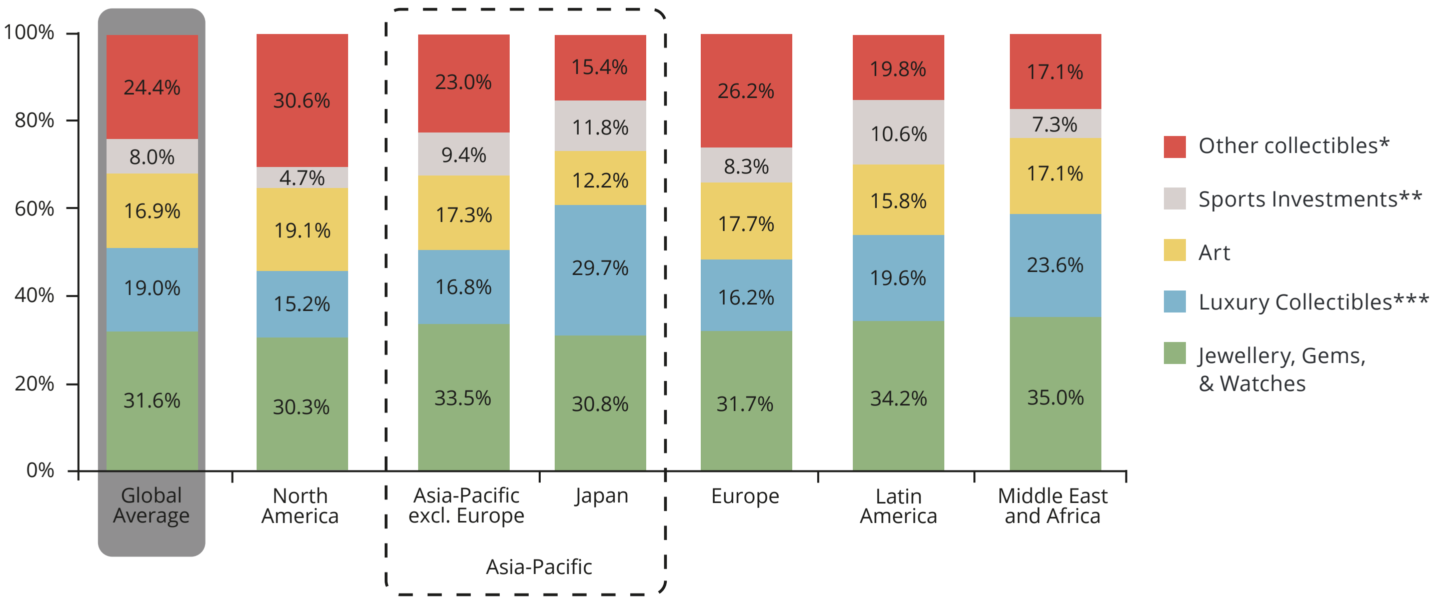
The World Wealth Report[4], previously produced by Merrill Lynch Wealth Management and Capgemini, now by RBC Wealth Management and Capgemini, covers Investments of Passion, what they refer to as IoPs, on an annual basis.

According to the 2009 issue of the World Wealth Report[4], the financial crisis and uncertainty that followed had a marked impact on the spending patterns of high net worth individuals (HNWI) and their spending (and investment) on passion assets. Although globally spending patterns varied, on a whole this group of investors cut back on their spending on luxury goods and collectible items during 2008. But the impact of this was relatively short lived, with HNWIs "cautiously" returning to passion investments in 2009, although demand remained weaker than before the crisis in many categories of assets. Traditional mainstream investments proved to be very volatile during the credit crunch and subsequent economic recession, leaving many investors facing significant losses. Those that looked to passion assets for diversification approached the sector as "investor-collectors", looking for tangible assets as a long-term store of wealth. Even prior to 2008, passion assets were rising in value due to increasing demand from emerging Asian markets – particularly newly wealthy Chinese and Indian investors. As the global economy continues to recover, there are signs that this demand is picking up once more.

The Wealth Report does not include rare stamps in its IoP classification, but coins are included under "Other Collectibles". Globally this category of other collectibles accounted for 24.4% of HNWI's allocation to IoPs in Q1 2013, but there is a large variation across geographic regions. The most popular category across all regions is jewellery, gems and watches – assets which are likely to be considered more mainstream.

There have been attempts to measure the performance of passion assets, most notably from Coutts who compile the "Coutts Index: Objects of Desire", and Knight Frank who compile the "Knight Frank Luxury Investment Index". Both indices show strong performance from passion assets as a whole, with both stamps and coins proving to be some of the most steady and reliable performers.

HNWI ALLOCATIONS OF INVESTMENTS OF PASSION — Q1 - 2013



Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey 2013

Note: Chart numbers may not add up to 100% due to rounding

* Represents coins, wine, and antiques, etc. ** Represents sports teams, sailing, race horses, etc.
*** Represents automobiles, boats, jets, etc.

HOLDINGS OF RICH INDIVIDUALS: 36% 25% 17% 10% 6% 6%

The Economist has also released the Economist Valuables Index, which combines the performance of recognised indices covering vintage wine, fine art, rare stamps, precious coins and classic guitars and violins. Each asset on the index has been weighted according to Barclays wealth management holdings of rich individuals: 36% fine art, 25% classic cars, 17% coins, 10% wine, 6% stamps and the remaining 6% guitars and violins. The chart below shows the performance of this index since 2003, tracked against the performance of each individual asset and the MSCI World index to evidence global stock market returns. There has clearly been a large amount of volatility across asset classes, but an investor that diversified across the whole Economist Valuables Index would have achieved 211% nominal growth over a 10 year period since 2003 – compared to 147% (including dividend income) from the MSCI World index.

Passion assets have some defining characteristics: the supply of the asset is relatively fixed and scarce; they tend to have the ability to last and they provide portfolio protection in a way that traditional financial assets do not. Companies can fail, rendering equities worthless and bonds can default, but a bottle of fine wine (although it may degrade if not stored correctly or kept past its prime) will always be a bottle of fine wine, a piece of art will always be a piece of art and rare stamps or coins will remain rare – nobody can go back in time and mint more coins or print more stamps.

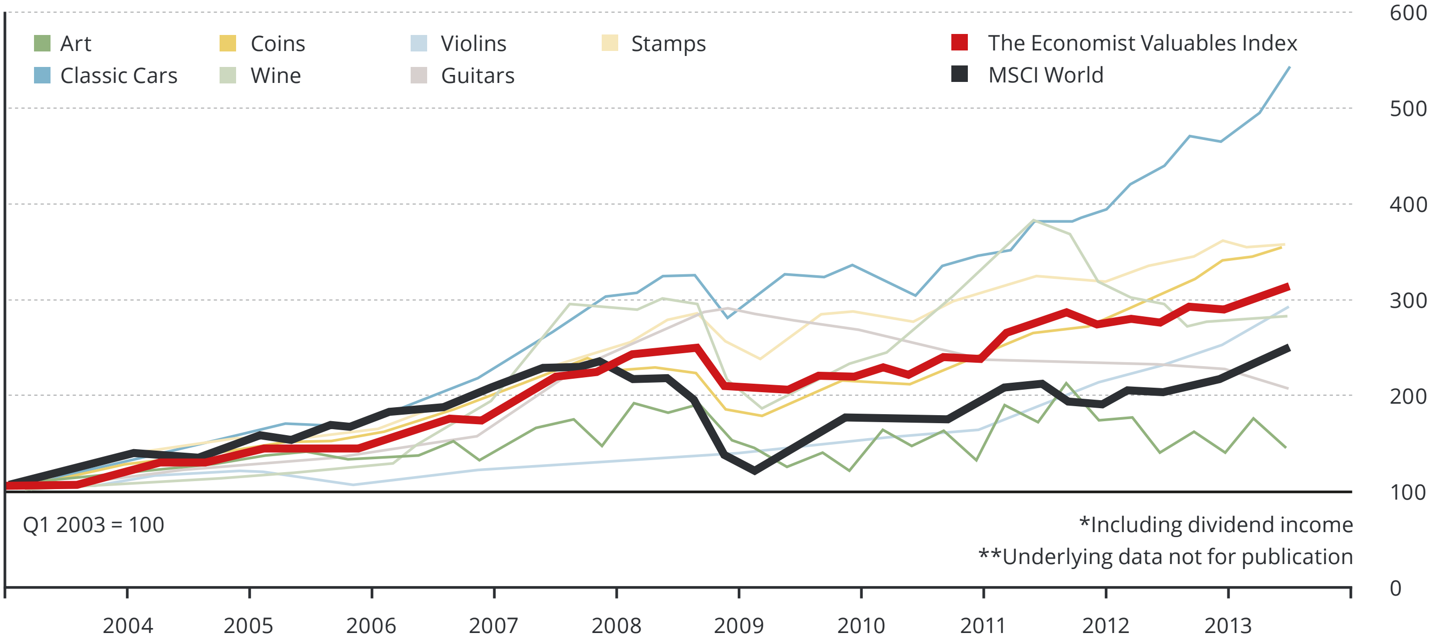
These kinds of assets are all unique and individual. They are not fungible (individual units are not capable of mutual substitution in the way that say a barrel of oil or a gold bar is – each asset has to be assessed and valued individually) and as mentioned earlier, there is no income stream on which to base valuations. For these reasons they do not fit into mainstream investment models and are often overlooked by mainstream finance professional and investors. This helps to give them their unique diversification properties and keep them removed from the volatility seen with mainstream markets, which are becoming increasingly correlated.

"The clear advantage of Investments of passion over traditional investors is the enjoyment – physical or emotional – and social cache that they can bring the collector. Even if the value of a classic car, watch or work of art does fall in value, it will have undoubtedly provided its owner with a huge amount of pleasure."

Andrew Shirley, Knight Frank

PRICE INDICES, $ TERMS

2003 - 2013

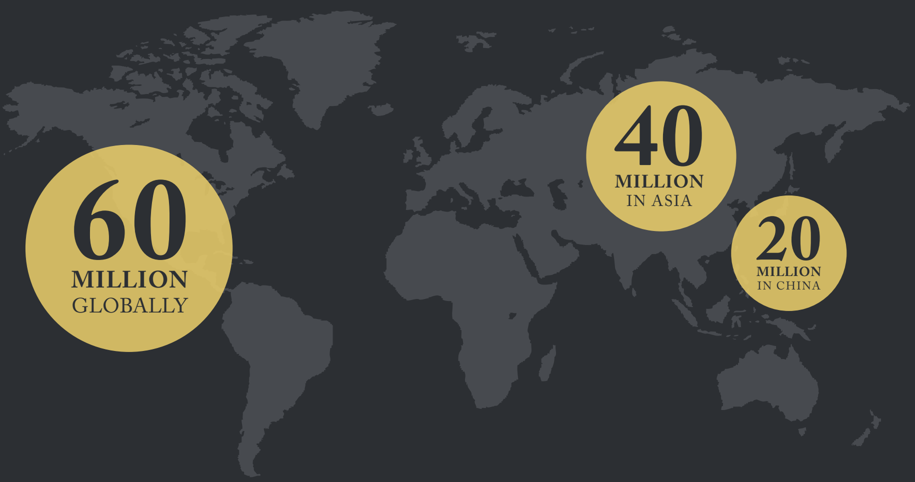


Sources: Art Price: Vintage Guitar magazine; Florien Leonhard Fine Violins; Hagi; Liv-ex; Stanley Gibbons; Thomson Reuters; The Economist

STAMPS IN CONTEXT

As collectibles, rare stamps fall under passion assets as discussed earlier. The world's first adhesive stamps, the penny black and twopenny blue, were issued on 6th May 1840[2]. Stamps come in a variety of issues: Definitives; Provisionals; Commemoratives; Miniature sheets; Charity issues and Limited issues. There are also a number of other kinds of issue which can hold a special interest for collectors, but usually on a smaller scale.

NUMBER OF COLLECTORS 2013



STAMPS IN NUMBERS

$3 BILLION GLOBAL VALUE

200 COUNTRIES ISSUING STAMPS

9000 NEW STAMPS ISSUED EVERY YEAR

DEALERS IN THE US 1975 - 2013

1975 1000+

2013 490

INVESTORS WITH WEALTH IN STAMPS AND ALTERNATIVES**

UK 7%

US 9%

CHINA 17%

VALUE OF CHINA'S STAMP INDEX 1989 - 2012

2012	$6,911,100
2011	$5,097,100
2006	$2,247,700
1998	$1,746,600
1995	$1,186,400
1989	$550,500

Source: *includes asda members ** includes art, wine, jewellery, antiques and other collectables.

INVESTING

It is important to be clear from the outset what exactly is meant by rare stamps and coins, and what the differences are between collecting and investing.

There are many, many different stamps around the world, but only a tiny fraction would be considered investment grade. Purchasing stamps that have a strong possibility of increasing in value, with the objective of selling at a later date to realise a return, is investment.

IMPORTANT FACTORS AFFECTING THE VALUE OF A STAMP*

Factor	Description
Country of Origin	Some countries issued endless sets of stamps on different themes. Some issues became too frequent and large, and would therefore never have sufficient demand to be of collectible value.
Condition	This is the hardest factor to assess and will be looked at in more detail later.
Method of Production	Line-engraving, used for the earliest stamps, gave a much finer result than any method used since. Later methods (used to meet demand) resulted in lower printing quality.
Rarity	Judged by the number of stamps in issue, but more important is the number of stamps available relative to the number of collectors of that specific stamp. Absolute rarity does not guarantee value, the stamp must have special significance and catch the eye of collectors and be in demand.

CATEGORISING INVESTMENT GRADE STAMPS**

Factor	Description
Rarity	There is a small number of surviving examples - or they are unique, perhaps because of a mistake made in the manufacture of the stamp. Stamps issued during war time occupations and stamps with a short-lived monarch on them can all become rare collectible items[3].
Condition	They are the best quality examples. Factors that influence the condition of a stamp include the margins around it (early stamps were cut by postmasters and had no perforations), the gum on the back, the freshness of the colour – all these qualities need an expert appraisal.
Authenticiy	Authenticity must be proven – a certificate is only as good as the person or body issuing it. Items should have documented history and provenance.
Liquidity	There needs to be a healthy number of collectors to ensure a secondary market to sell into, demand from buyers dictates value.
Price	The classic value-investment principle – seek to buy at below fair value. But, buy stamps that can be easily sold, not ones that are easily bought.

In short, investment grade stamps should combine all the key elements from the above list. If investors can find stamps that fit these criteria, they can be among the most valuable items in the world by size and weight – although only the smallest percentage of stamps can reward themselves with this accolade!

"Collectible stamps are collected by people who are interested in philately; they collect for the joy of it. Investment grade stamps, on the other hand, are stamps identified as having the potential to grow in value based on rarity and certain other characteristics."

Keith Heddle, Stanley Gibbons Investments

* according to Robin Duthy[2] **according to Stanley Gibbons

COLLECTING

Purchasing stamps **only** because they are rare, to fill a gap in a collection or simply for enjoyment and the pleasure of owning them, would be considered collecting. Stamp collectors rarely earn high returns on their collections – their collections are a labour of love and financial gain is not a consideration.

Many collectors build their collections based upon a theme, perhaps focusing on one country or region, one particular period of history or a particular image, such as birds. Identifying rare items within popular themes is one strategy for earning returns as these will be highly sought after by collectors. However, it is important to note that a collection will rarely sell for more than the sum of its parts, simply because there are usually many virtually identical stamps available of similar quality[3].

The implication of this is that amateur investors who buy rare or special issue stamps can struggle. Making a return on investment requires specific technical skills, knowledge and experience to ensure that the right stamps are purchased, for the right price, at the right time. Expert broker dealers such as Stanley Gibbons can provide these kinds of skills, enabling amateurs to invest safely.

CONDITION

The overall condition of a stamp is vital and can have a huge impact on value. There are a number of features on the stamp that need to be considered: the state of the gum on the back; conditions of the margins; whether the edges have been perforated; whether it has faded or sustained any other type of damage. Prices included in dealer's catalogues will be for examples in "fine" conditions, without any creases or tears. Earlier stamp collectors used hinges or mounts to keep stamps in albums, which could reduce the quality of the stamp when moved. The smallest imperfection could result in a huge variance in value, rendering the stamp worth much less than the catalogue example.

STAMP CONDITIONS

- Un-mounted mint: perfect, as it left the printer, gum is impeccable, no stains or creases, perforations intact
- Mounted mint: as above, but with minute traces of earlier hinging or stamp mount
- Fine, used: intact stamp with the lightest possible postmark
- Unused, part original gum: has been previously mounted, still retains some of the original gum
- Unused, without gum: un-postmarked copy, none of original gum left

According to Robin Duthy[2] collectors are only really interested in the first three categories. But in reality different collectors will target different collections and may specialise in a specific stamp condition. The condition has a massive influence on price.

RECORD STAMP SALES

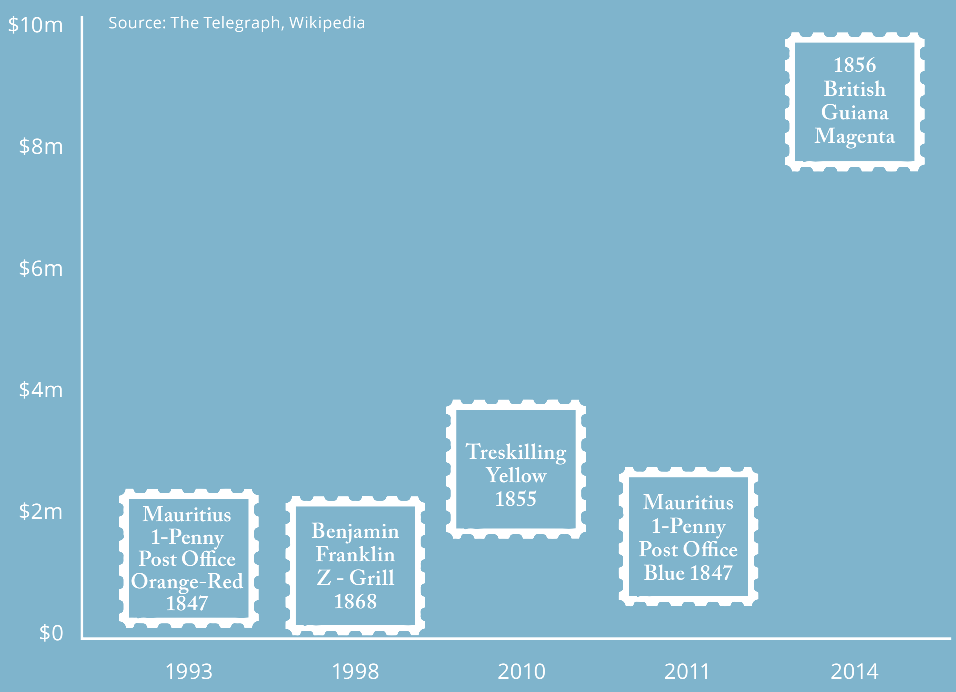
On June the 17th 2014, a new record was set for a public stamp sale - £5.6m at auction for an 1856 British Guiana 1-cent Magenta, described as the Mona Lisa of the stamp world. At one-inch by one-and-a-quarter-inch (2.5cm by 3.2cm) it is also currently the most valuable object in the world by weight and size. It is the only one known to be in existence and was printed on the orders of the British Guiana postmaster after a shipment of his stamps from London was delayed – hence there were only a few ever produced. The same stamp has set the record for stamp sales three times before as it has changed hands between dedicated collectors. It was first sold at auction in 1922 for £7,900; in 1970 it was sold again setting the record price for the second time of £116,667. Then in 1980 it set the record auction price for a stamp for the third time, selling or £551,000.

FIVE MOST VALUABLE STAMPS

1) 1856 British Guiana Magenta ($9.5m – 2014)
2) Treskilling Yellow 1855 ($2.66m – 2010)
3) Mauritius 2-penny Post Office blue 1847 ($1.6m – 2011)
4) Mauritius 1-penny Post Office orange-red 1847 ($1.07m – 1993)
5) Benjamin Franklin Z-grill-1868 ($935,000 – 1998)

TOP FIVE MOST VALUABLE STAMPS

AUGUST 2014



RECORD COIN SALES*:

10m	1794 Flowing Hair Silver/ Copper Dollar (2013)
7.6m	1933 Double Eagle (2002)
7.4m	1787 Brasher Doubloon (2011)
3.9m	1804 Silver Bust Dollar, Class1 (2013)
3.7m	1913 Liberty Nickel (2010)

COINS IN CONTEXT

Similar considerations apply to coins. Coins can be very broadly divided into three categories:

#1 FIAT CURRENCY

The coins have a value as a currency. For example, British pound coins are not intrinsically worth £1 – but because the British government and the Bank of England stand behind them, they are universally accepted as a unit of exchange worth £1.

#2 GOLD, SILVER AND PLATINUM COINS (BULLION COINS)

Coins that have a precious metals content that largely determines their value. These coins do have an intrinsic value – for example, a UK gold Britannia contains one ounce of pure gold (as well as some other metals to ensure the coin is not too soft) and therefore the price of a Britannia coin depends upon the prevailing price of gold.

#3 RARE OR COLLECTIBLE COINS

Rare or collectible coins may have some precious metal content, but their value is largely determined by their collectible value – and demand from collectors who want to own these objects for their own personal enjoyment.

This means that, very much like stamps, investing in rare, collectible coins (as opposed to buying gold and silver coins as a way of getting expose to the gold or silver price) requires specific knowledge of the market: what coins are favoured by collectors; where to source them; what price to pay and where and when to sell them. And again, like stamps, rarity and condition determine the value. (Interestingly silver coins, even when they are closely comparable in terms of age, rarity, workmanship, design etc. will usually be worth less than their gold counterparts – even though the value of the coin based on the precious metals content has little bearing on its worth.)

KEY CONSIDERATIONS

- Ask for the coin's melt value – the basic intrinsic bullion value of a coin if it were melted and sold. The melt value for virtually all bullion coins and collectible coins is widely available.
- Keep in mind that collectible coins generally sell for a premium or mark-up over the wholesale price so the dealer can make a profit. Be clear on the commission or fees that the metals dealer or broker is charging.
- Examine coins in person. It's difficult, if not impossible, to make a practical decision about buying a particular coin based on a photo or a conversation with the seller.
- Has the coin been professionally graded and by whom.

Like stamps, the coinage of the world is so vast that most collectors pick a particular field or theme that they can specialise in – this gives them some chance of completing a collection and means that they can develop a deep, in-depth knowledge of their area of expertise.

COIN CONDITIONS

- Fleur-de-coin (FDC): perfect, mint condition with absolutely no imperfections
- Uncirculated (UNC): newly minted, but may have tiny imperfections
- Extremely Fine (EF): design and inscription are still sharp, but traces of wear are visible under close examination
- Very Fine (VF): design and inscription still clear, but some rubbing or minor damage
- Fine (F): obvious signs of wear, but inscription and date easily distinguishable
- Fair: inscription and date still distinguishable, but serious wear or damage
- Poor: so worn that little detail can be made out, inscription and date not distinguishable

Source: Robin Duthy, Alternative Investment

Collectors may buy a single coin in each category to educate themselves on the different coin conditions and to enable detailed comparisons on quality to be made when purchasing new coins.

RARITY

In a similar vein to rare stamps, coins are considered rare for a number of reasons:

- Small issue to coins in the first place
- Ruler appearing on the coin may have died or been killed during the time of minting
- May have been struck as a sample of a proposed coin but not circulated
- Be in extremely fine (EF) condition compared to other coins of the same issue available
- Be very highly in demand compared to the number of coins available

N	Normal
S	Scarce
R	Rare
R2	Very Rare
R3	Extremely Rare
R4	11 - 20 in existence
R5	5 - 10 in existence
R6	3 - 4 in existence
R7	1 - 2 in existence

CONCLUSION

In short, both stamps and coins are specialist investments. However, people who are prepared to develop their knowledge, perhaps by specialising in a theme, can become very canny investors. For those who do not have the time or motivation, but who are interested in the asset class, expertise must be brought in, in the form of broker-advisers. In reality, this situation is not unlike the stock market, where many people are prepared to DIY invest, but many others choose to pay a premium for advice or the services of a fund manager to select the most appropriate assets.

* Source: Whitman, CNN, Sotheby's, Heritage

THE INVESTMENT CASE

The investment case for stamps and rare coins is based upon three key considerations: supply and demand, returns and diversification.

SUPPLY & DEMAND

Rare collectibles are not commodities. As noted above, they are not fungible and they are no longer in production. Nobody can go back in time and mint collectible coins or print rare stamps. This means that supply is limited and declining as stamps or coins disappear from the market or their condition fades over time – so an inverse supply and demand curve naturally pushes prices higher.

Very few assets have this property – in fact it is only other passion assets such as fine wine or classic cars that do.

COMPARISON TO PRECIOUS METALS

Even investment grade gold and silver, which people buy in bars or coins with similar investment objectives to collectibles, is subject to supply side shocks that can force prices down. This was what caused a low in the gold price in the late 1990s, as many European central banks sold their gold reserves and flooded the market with supply.

Although the total amount of gold and silver is somewhat limited, new supply does reach the market – especially when prices rise, making new or deeper mines more economical. This in turn puts the brakes on any future price rises.

Finally, gold and silver does not degrade, one of the properties that makes them ideally suited as a tradable store of wealth, but it means that supply rarely diminishes. Supply may be taken off the market when gold is stored, or used in jewellery or for industrial applications, but it can be re-cycled and brought back the market. So even precious metals, which are often marketed as the ultimate store of wealth and great diversifiers, do not contain the same qualities as stamps and rare coins when considering the supply side of the supply and demand equation.

On the demand side, although stamp and coin collecting is seen as something of an old fashioned hobby and there are concerns that collectors are a dying breed, this isn't necessarily the case.

Firstly, although it is true to say that the average age of collectors is over 50, in-fact many of these collectors are taking up the hobby for the first time, perhaps as a retirement pastime or to continue the work on a collection that they have inherited. Therefore although the average age is old, this does not by any means mean that collectors are dying out – new collectors are taking up the hobby all the time. Added to this, the "baby boom" population is generally wealthier than the previous generation, the buying power of these new collectors should be higher.

Secondly, new sources of demand are springing up across Asia as newly wealthy middle-classes begin to spend their money on hobbies that appeal to their interest in history. Investing in tangible stores of wealth is part of Asia's saving culture and owning rare collectibles also appeals to some buyers as an indication of status. With these new sources of demand – new collectors all across the globe – the demand side is also secure. In fact it is estimated that there are 60m collectors of stamps around the globe.

Collectors are continuously looking at the market from a history perspective, as a means of owning assets that have formed part of history and that will continue to have aesthetic appeal. The appeal of owning part of the heritage of a country, either through rare stamps, coins or other physical assets such as atlases or works of art is increasing as the global middle class increases in size and wealth. This increased buying power and demand should make already desirable objects even more highly in demand, ultimately pushing up values.

Rare stamps and coins are becoming harder to find and source, particularly as the number of investors increases. With most investors looking over the medium-term (5-10 years+) it can be a while before certain assets resurface onto the market and become available again. As investors look further forward these assets become legacy items, as a way of protecting wealth and passing it on to future generations. As well as being rare and collectible, rare stamps and coins have the characteristics to become "antiques of the future".

This doesn't mean that these items currently need to be old, but they should have the physical attributes to allow them to last for a long period of time and become old. Pottery, porcelain, ceramics, art and new toys (boxed) can all also fall into this category. This is most likely to include rare stamps and coins which are part of limited editions and which have not been mass produced. Unique designs or trends can help add to the aesthetic value, rarity and appeal of these items. These items must be stored properly to remain in perfect condition, and investors must realise they are taking a bit of a gamble. Be patient, it could be a very long-term investment.

RETURNS

Driven by the favourable supply and demand relationship, price growth has been very strong for rare stamps and coins.

Stanley Gibbons produce two key rare stamp indices and a rare coin index which are useful for tracking historical growth and performance of these items.

GB30 RARITIES INDEX

Stanley Gibbons launched the Great Britain 30 Rarities Index (GB30) in 2004. This Bloomberg Professional® service quoted index (STGIGB30) is based on the catalogue prices for the 30 rarest British stamps and aims to provide a snapshot of the performance of scarce items. This index contains data running as far back as 1954, although not all years are covered, and is the longest running stamp index in existence. This index tracks the price of extremely rare stamps, which may be held for very long periods of time and rarely traded. There may only be a very limited number of these prestige items available and this index is therefore limited when analysing the performance of the stamp investment market.

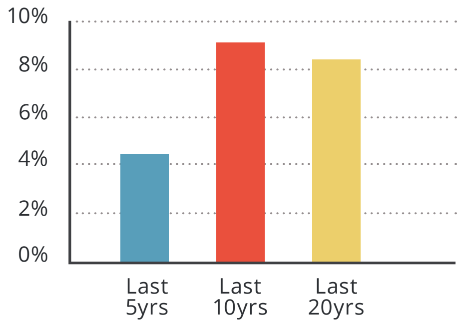
Note that there are two main issues with this index:

- Prices are backtracked, and therefore may not represent the price trend for British stamps
- The index contains some very rare stamps which are rarely traded

10 YEAR ANNUAL GROWTH (%):

The compound annual growth of the GB30 Rarities Index over the past 5 years was 4.51%, compared to 9.06% over 10 years and 8.37% over 20 years. The 1873 2½d. rosy mauve (Unused) achieved annualised compound growth of 10.76% over the last 5 years, double the growth of the index.

GB30 ANNUAL GROWTH*



GB250 INDEX

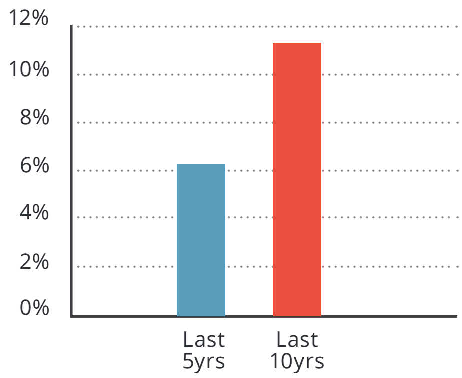
The Stanley Gibbons GB250 tracks the performance of the top 250 traded investment grade British stamps over the last 12 years. It is accessible via the Bloomberg Professional® service (STGIGB25) and is frequently quoted in the financial press as it provides a broad view of the investment market for British stamps. This is the largest stamp index in existence and used by many in the industry to track and evidence the performance and returns on rare stamp investing. This index includes watermark varieties, specimens, errors and Government Officials.

Again there are limitations to this index:

- Higher priced stamps have a higher weighting in the index (which takes an average based on price) and therefore more impact on the overall performance of the index (for the positive or negative).
- A number of stamps included in this index are far too expensive for the vast majority of investors to purchase (if looking to create a diversified stamp portfolio containing a number of stamps)
- It is not realistic for an investor to purchase/own all 250 stamps – unlike the FTSE for example, when an investor can invest in an ETF which covers the whole index. Therefore investors cannot diversify across the index as a whole
- There is a wide variance in the performance of individual stamps – how does an investor know which to purchase? This is where knowledge, research and analysis are important, but analysing past performance has many limitations
- The index (as with the GB30 and China 200) is limited to Stanley Gibbons' catalogue prices

The GB250 index has seen a total return of 195.02% over the last 10 years – compound annual growth of 11.4%. Compound annual growth over the last 5 years has been only 6.04% - stamps have not performed as strongly since the financial crisis and throughout the recession.

GB250 ANNUAL GROWTH*



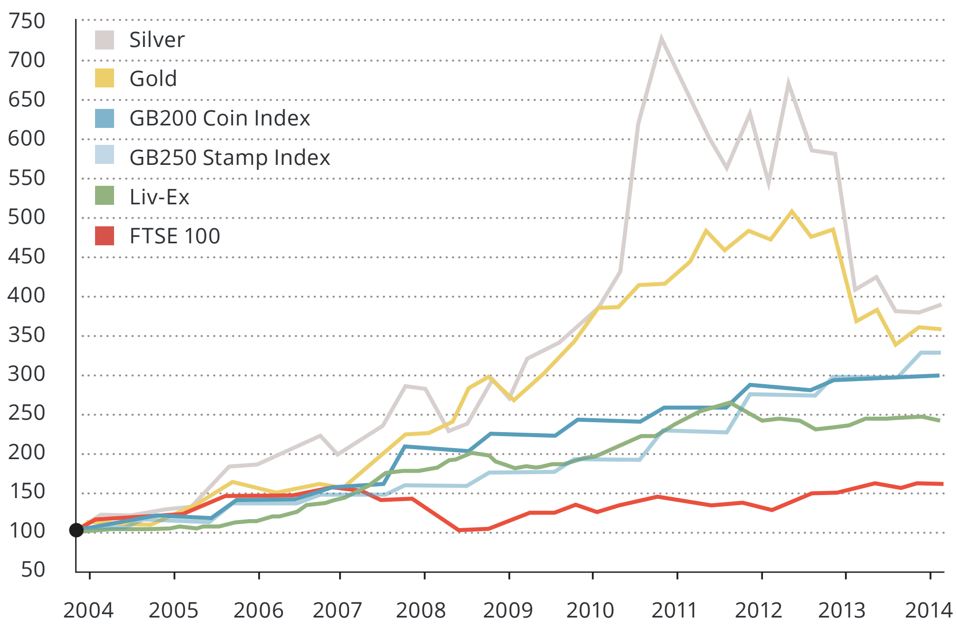
STANLEY GIBBONS CHINA 200 MARKET STUDY

The Stanley Gibbons China market study tracked the prices and performance of 200 rare investment grade Chinese stamps. This data is not on the Bloomberg Professional Service® but stamps have been selected by experts to provide a cross section of the Chinese stamp investment market as a whole.

This data tracks the prices of Chinese stamps from 1989 to present (2014). Stamps range in value from £70 to £12,000 at 1989 prices - £1,200 to £325,000 today. The total value of the 200 stamps included in this study has increased from £356,165 in 1989 to £4,522,300 today, an increase of over £4.1m – compound annual growth of 10.7% over 25 years.

The China 200 index returned 280.65% over the previous 8 years (2006-2014). The performance of stamps on this index has been far more volatile than the GB30 or GB250. Returns from individual stamps range from a loss of 37.5% to total returns of 2,809.09% over the period.

COLLECTIBLE INVESTMENT INDICES 2004 - 2014



Source: World Gold Council, London Silver Fixing, FTSE, Stanley Gibbons, Liv-Ex

*Compound annual growth

STAMP GROWTH RATES (%):

10 YEAR	20 YEAR	50 YEAR	100 YEAR	AVERAGE
12.73	7.08	10.84	7.05	7.66

Academic research includes Ex Post: The Investment Performance of Collectible Stamps, Professor Elroy Dimson of the London Business School and Christophe Spaenjers, PhD student at Tilburg University, they include a price index from 1899 to 2008.

This index has been produced from their database of catalogue prices (in GBP) of British stamps. This includes data from each edition of the Stanley Gibbons' price catalogue from 1899 (edition 13) to 2008 (edition 111). Note that this data does not include "special varieties" (the rarest and most desirable stamps), whereas Stanley Gibbons' indices consist of more than half of these class of stamps. The index has been rebased to 100 beginning in 1899. Over the 109 year period that the index covers the average compound growth was 6.98%. This index has tracked annual compound growth of 6.98% over 109 years, 7.03% over 20 years and 12.73% over 10 years. When we compare this to the performance of the three Stanley Gibbons' indices analysed earlier: the GB30 saw annual compound growth of 8.37% over 20 years; the GB250 achieved 11.4% over 10 years and the China 200 saw growth of 10.7% per year over 25 years. There are some clear trends that jump out, including that longer-term 20 year performance is closely representative of the performance over the last century, and in the shorter-term the best performance has been seen over the last 10 years.

However it should be noted that there was a long period of flat to negative returns during most of the 1980s and well into the 1990s. This period can perhaps be explained as a reaction to a bubble that formed in the 1970s in response to a collapse in conventional asset prices –showing the performance of stamps as a diversifier. Coins experienced a similar rise in prices in the 1970s.

FURTHER INFORMATION

For insight into detailed stamp performance, Stanley Gibbons' data is at: www.investment.stanleygibbons.com/news-and-research

GB200 COIN INDEX

Stanley Gibbons launched the GB200 Coin Index in May 2012 to provide transparency for investors (and collectors) to the British coin investment sector. The index charts the performance of 200 rare British coins with prices based on independent coin catalogues published by respected experts.

As with other Stanley Gibbons' indices this is quoted on the Bloomberg Professional® service (STGIRCIX).

Of course there are some limitations with this index: data has been backdated; the weighting of the index and performance is influenced more heavily by expensive coins; and there is a lack of other data streams and indices to compare performance against.

Coins included on the index range from early 1st Century Celtic coinage to mid-20th Century coins from the reign of George V – they range in value from £1,250 to £55,000 at 2002 prices, £5,000 to £275,000 at today's prices (2014).

GB200 Coin Index saw compound annual growth of 12.75% over 10 years, higher than the 11.4% from the GB250 and 9.06% GB30 rare stamp indices over the same period.

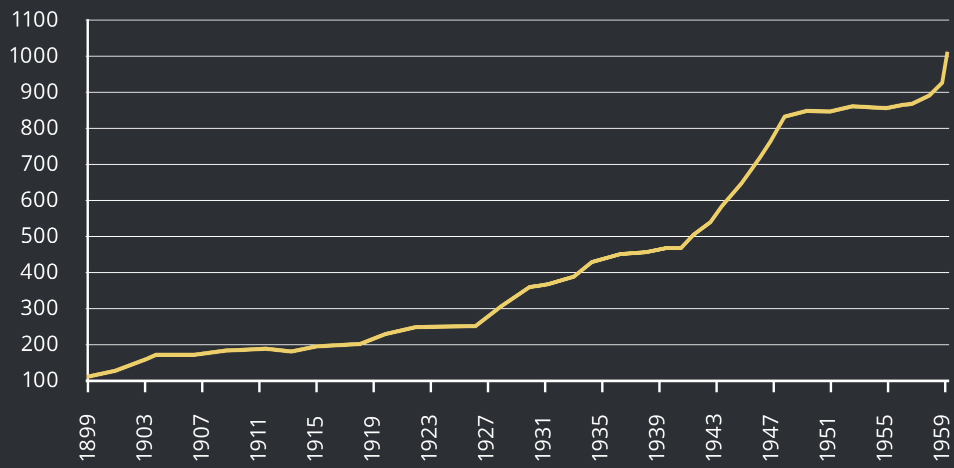
Performance has been stronger over the last 5 years, with compound annual growth of 13.91% - rare stamps saw lower performance over 5 years than the longer 10 year period.

CONCLUSIONS

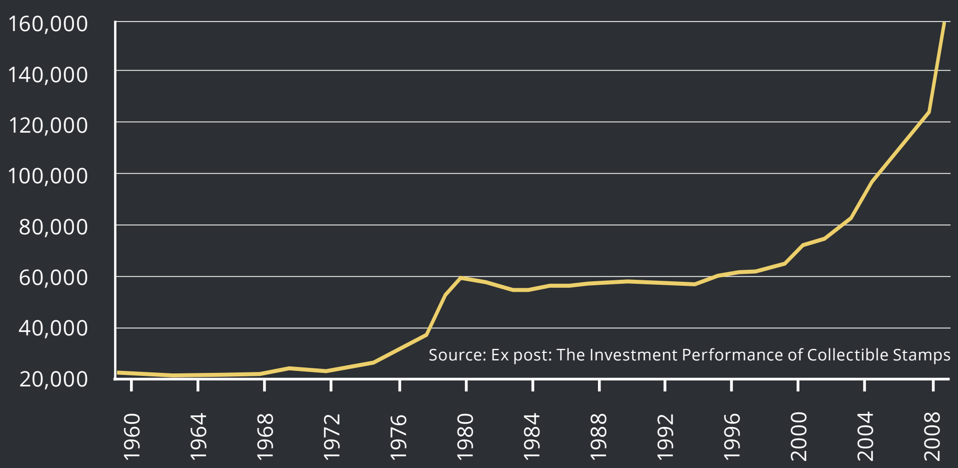
What is noticeable is that although there are periods where stamps and coins underperform other markets, over the long-term they have out-performed, but without the volatility and downturns that characterise other markets.

- The strongest performance across all indices has been seen over the last 10 years (2004–2014)
- Although growth has continued to be positive, it has slowed since the financial crisis – possibly due to investors cutting back on luxury investments such as rare stamps

DIMSON & SPAENJERS INDEX 1899-1960



DIMSON & SPAENJERS INDEX 1960-2008



"Wealthy individuals can always commission another superyacht, but they can't buy another Treskilling Yellow, one of the world's rarest stamps" *Mohammad Kamal Syed, Coutts*

DIVERSIFICATION

This leads us nicely onto the third key plank of the investment case, diversification - the cornerstone of modern portfolio theory. As many investors found out to their cost in the 2008 crash, mainstream assets that had appeared to provide diversification in the good times were actually highly correlated when markets turned down. Developed and emerging equities, bonds and property all turned negative at the same time and prices across these assets all fell sharply.

What the 2008 crash made apparent was that additional, genuine sources of diversification are required to provide portfolio insurance. This means identifying assets that are not correlated with the mainstream public markets in any conditions. Rare stamps and coins seem to fit the bill. As noted above, prices are driven by collectors and the inverse supply and demand curve. They are not connected to the global economy or public markets in any meaningful sense. In fact there is something of a negative correlation – with stamps in particular seeing an uptick in their performance in 2008 as investors scrambled to find tangible safe havens for their wealth. This was supported by the research by Dimson and Spaenjers[1] (2011), Fischer and Firer[6] (1985) and Veld[7] (2007) who each found that stamps had a low correlation to equities and other mainstream asset classes.

There is no doubt that both stamps and coins have diversification benefits, but these benefits are tempered by a kind of wealth effect – prices are broadly linked to the spending power of the collector base, which may decline in a recession. This was seen through reduced spending on investments of passion as was highlighted in the 2009 issue of the World Wealth Report[4].

TANGIBLE ASSETS

That links to the final diversification benefit: stamps and coins are tangible. One fear that struck many investors (and not just investors but plain vanilla savers as well) in 2008 was that cash itself was under threat.

For the first time in a long time savers had to face up to the fact that bank deposits are not necessarily safe, as Northern Rock, RBS and other high street banks wobbled.

Secondly, in the aftermath of the crisis it became apparent that governments and central banks were going to inflate their way out of debt and print money to stimulate the economy; hence we have witnessed an unprecedented period of low interest rates and monetary stimulation through Quantitative Easing – devaluing cash and penalising savers.

The threats to cash meant that it was no longer a safe haven where investors can store wealth until the crisis blows over. This resulted in demand for more tangible stores of wealth such as gold, coins and stamps.

Perhaps the best indication of the diversification benefits of stamps and coins can be seen from the chart on page 13, with both markets ticking up at the same time as other mainstream

BASIC RULES FOR STAMP INVESTING

- Specialise and become an expert in a certain field/topic
- Invest in classic and investment grade stamps only
- Purchase very fine or extra fine copies and be prepared to pay a premium for them
- Patronise auction houses

Source: Fischer 1985

CONSIDERATIONS

#1 INFLATION

Hinted at earlier, high inflation can erode people's wealth if it is stored in cash. Tangible assets tend to rise with inflation. Stamps and coins generally have a positive correlation with inflation – i.e. when prices rise, so does the value of stamps and coins. Once again, Dimson and Spaenjers' research supports this[1].

#2 HOW MUCH TO ALLOCATE

Stamps and coins should not form the core of a portfolio. The investment case is based around an argument for including uncorrelated assets to build a diversified portfolio. A small allocation as part of a satellite portfolio of alternative investments makes sense. This satellite portfolio might form 5-10% of an investors' total wealth depending upon their appetite for risk and capacity for loss.

#2 INVESTMENT HORIZON

Stamps and coins are a medium to long-term investment. Transaction costs can be high and certain items can sit on price plateaus for considerable periods of time until a new burst of interest pushes prices higher again. Most investors have a 5-10 year investment horizon as a minimum. Some of the best known successful investment portfolios of stamps and coins were held for nearly half a century[3]. Although interestingly Dimson and Spaenjers[1] found that there were only small differences in the growth achieved between a 25 and 40 year holding period.

Stamp collecting is growing hugely popular in Asia – roughly two thirds of the world's 60m collectors are in the Far East, with collectors keen to own high status heritage assets and investors keen to diversify their portfolios. As with most 'Emerging Asia' stories, the two big drivers are China and India. In China, stamp collecting was bizarrely banned under Chairman Mao until 1976. Now newly wealthy Chinese are keen to buy back their heritage and it is estimated that there are nearly 20m serious collectors in China. According to The Hurun Wealth Report 2012, 64% of Chinese millionaires invest in luxury goods, with rare stamps particularly popular. India has a strong philatelic heritage.

Examples of Record Breaking Sales in Asia:

- 1886 Horse and Dragons (sheet of 25) ($1.3m – 2010)
- 1968 Mao's Inscription to Japanese Worker Friends (block of four) ($1.15m – 2011)
- 1968 large-size Whole Country is Red ($1.15m – 2012)
- 1904 Edward the VII 6 stamp overprinted with "IR Official" (£375,000 – 2010) in Singapore
- Hong Kong 96c Olive Bistre (block of four) (HKD 6.4m – 2011) in Hong Kong
- Plate 77 Penny Red (£550,000 – 2012) in Hong Kong
- Reunited block of 12 2d blues (£950,000 – 2013) in Australia

Source: Paul Fraser Collectibles, China Guardian, Wall Street Journal, Telegraph

RISKS AND DUE DILIGENCE

Obviously, as with any investment, an investment into rare stamps and coins is not without risk.

LIMITATIONS TO INDICES AND ANALYSIS

- There are though a number of flaws with anything that attempts to measure the performance of collectible assets.

- The data used to construct collectibles indices can sometimes be highly selective, which makes comparisons to traditional investments such as stocks, bonds or commodities rather meaningless. Collectibles are often illiquid, unique or priced according to demand and condition – there is no continuity.

- Indices often only include a selection of data from the market.

- The market isn't transparent and therefore only selected data may be released and used for compiling indices. This creates the risk that only successful sales or top performers are included in the index – which means it may only represent a small section of the overall market and performance.

Stanley Gibbons have taken numerous steps to provide clarity and openness to their indices, by sharing the underlying data through their website and Bloomberg listing, justification of the chosen rare stamps and coins that are included and by aiming to provide a good cross section of the market (with the inclusion of 250 rare stamps on GB250 and 200 coins on GB200). Data and prices are based on annual catalogues which in turn are based on achieved auction prices and third party sales. For rare stamps and coins that do not change hands particularly often, catalogue prices may be based on best estimates and therefore can never be 100% accurate.

As Veld discusses in his paper "Portfolio Diversification Benefits of Investing in Stamps"[7], it is extremely difficult to come up with a reliable index of rare stamp prices. With millions of different stamps in issue, ranging from pennies to millions of pounds, it is a challenge to select and include a good sample of stamps in an index which will provide an accurate picture on the performance of the market. Due to this, indices often only cover selected markets, and stamps worth between specified values. Added to this the complexities in valuing stamps and it can be very hard for investors to accurately keep track of the worth of their portfolio and compare the performance to other, more mainstream, assets.

RISKS THAT CAN BE MITIGATED

One of the key risks is simply buying the right stamps or coins. Because each stamp or coin is unique and because so few meet all of the criteria to make them investment grade, a large amount of technical knowledge is required to assess their value and identify investible opportunities. Collectors may build this knowledge up over a period of years (although that may not necessarily be the case – remember that they are interested in completing their collections, not earning investment returns). But for first time investors, this means they are very exposed to overpaying or simply purchasing the wrong assets - stamps or coins that may never rise in value.

Ordinary retail investors lack buying power and are only likely to be making small purchases, often buying single items. They do not necessarily have the purchasing power to buy large collections when they come onto the market (which often offers the best value way of purchasing rarities). Ordinary retail investors will be unable to negotiate discounts and would typically pay higher transaction costs (as a percentage of the purchase).

Closely linked to buying power, individual buyers do not have access to deep markets. Stamps and coins are traded at auctions and in specialist shops around the globe and a large network of contacts and a lot of specialist knowledge is needed to access genuine buyers and sellers.

These risks can be summarised as information asymmetry – some market participants have more knowledge than others. Buyers believe they know something the sellers don't and vice-versa. It can be a competitive environment and quite intimidating. However, investors can easily mitigate these risks by working with a trusted agent or broker who has the required technical knowledge. This evens up the information asymmetry, tilting it in the investor's favour and harnesses the broker's buying power to minimise transaction costs and get the best value for the investor.

Internationally there are large variations in the classification and grading of rare stamps, which can render a stamp desirable to collectors from one country rather undesirable to collectors from another. Investment grade stamps should be in superior condition and match the prime examples included in stamp catalogues. The prices listed in these catalogues are the prices dealers expect to achieve (including their mark-up) for only the best examples. Investors need to be mindful when purchasing stamps that they are not "over graded" – i.e. they must be in the condition that they are being advertised or sold in. This can require expert knowledge and is another strong reason for only buying through reputable dealers or with the assistance of a specialist. Some rare stamps may have a certificate of authenticity which can aid resale.

RISKS THAT CANNOT BE MITIGATED

Like any market, buyers need to be matched with sellers. As stated, at the moment there are plenty of buyers willing to pay high prices for rare stamps and coins. But investors must take a view on how long those buyers will be around and for how long they will be willing to pay those kind of prices. If, for some reason, buyers were to withdraw from the market investors would be faced with losses on their assets.

There is no real way to mitigate against this. Diversification (not over allocating to stamps and coins) helps to protect the overall portfolio – but apart from this practical step investors must come to their own assessment of the strength of buyers in the market and what the future buying trends are likely to be.

With no income streams, business plans or liquid public exchanges it is very difficult to establish just what fair value is for a rarity, so having a positive view on the likelihood of future buyers being willing to pay for your assets is essential.

"Investors potentially need to factor in future price volatility. As stamps become more mainstream for private and professional investors then volatility could increase over time." **David Stevenson, FT Columnist**

OTHER RISKS

Occasionally large stamp collections can come onto the market (usually when a collector passes away) which can push down the prices of some assets if it produces a sudden glut of supply. This usually only has a minor or temporary impact. Buried hordes of ancient coins are sometimes unearthed as well – the William I silver penny was considered to be a very rare coin until over 8,000 of them were unearthed in 1833, which decimated its rarity value. Such finds are less frequent today.

Forgery is unfortunately a risk with both rare stamps and coins. Rare stamps can be forged outright, although this practice is thought to be rare these days. More commonly, the condition of stamps can be artificially improved – stamps can be re-gummed, re-perforated, cleaned, margins can be tidied up and pen marks can be removed. How much of this could be considered legitimate and how much is outright faking is a matter for debate amongst the collectors. Rare stamps can also be made more desirable by adding a forged cancellation mark, which turns a poor quality unused example into a fine quality used one.

Coins can be forged by using moulds taken from existing rare coins. This is the simplest method of forgery, but can usually be quite easily detected by an expert. The more sophisticated method is to engrave dies based on original coins so that copies can be struck. This method is much harder to detect, but investors and collectors do not need to be unduly worried – reputable dealers and organisations such as British Numismatic Trade Association are happy to help assess coins for authenticity. Many coins have signed authenticity documents.

COMMEMORATIVE SETS

Mints and postal authorities around the world issue commemorative sets of both coins and stamps to mark important occasions such as a royal birth, an important state anniversary or an event such as the Olympics. Whilst these might have value for collectors who are following a relevant theme, they never have investment value as rarities and should be avoided by investors. Indeed, in the 60s and 70s many small countries were deliberately issuing these sets to cash in on the demand from collectors – but they were issued in such numbers that they would never have any financial value. Gambia and Liberia, for example, each issued more than 500 different new stamps in one year[3].

REGULATION

Stamps and coins are unregulated investments. They are personal property, not financial securities or promises to pay in the future. This is part of their tangible nature and one of the qualities that makes them such good diversifiers. However, this does mean that they are not covered by the FSCS (Financial Services Compensation Scheme). If your broker or agent were to go bankrupt while holding your cash or your investments, you could lose all of your investment. Similarly, they are not covered by the Financial Ombudsman Scheme (FOS), so if you are mis-sold an item there is no recourse to the ombudsman to try and hold the seller or broker to account. However, the investors would still own a tangible asset which holds intrinsic value, and as long as it has not been sold at an inflated price the investor should be able to sell on the open market.

"There are so many nuances that determine whether a stamp is suitable for investment that we strongly recommend you consult an expert. It's also important you buy from a name you can trust, as a guarantee of authenticity is only as good as the organisation issuing it."

Keith Heddle, Stanley Gibbons Investments

SOURCES OF INFORMATION

Below is a list of reputable sources of information on rare and collectible stamps and coins. This includes companies that can also provide portfolio management, broker-dealing or auction services. These are the specialists that investors will need to work through to access the stamps and coins market.

STANLEY GIBBONS: Founded in 1856, Stanley Gibbons is the world's largest and best known rare stamp merchant and market leader in other heritage collectibles. With offices in the United Kingdom, the Channel Islands, Hong Kong and Singapore, they have a deep network of contacts and unparalleled market intelligence. Over the last few years they have branched out from just providing services to genuine collectors to helping investors who want to gain exposure to the market by offering a range of investment products. (investment.stanleygibbons.com)

WARWICK AND WARWICK: Established in 1958, Warwick and Warwick is a physical and online auction house for many heritage collectibles as well as offering valuation and trustee services. warwickandwarwick.com

PHILATELIC TRADERS SOCIETY: Formed in 1929, the society is member organisation that works to ensure fair play in the rare stamps market for traders and collectors alike. (philatelic-traders-society.co.uk)

ROYAL PHILATELIC SOCIETY: Established in 1869, the Royal Philatelic Society is the oldest philatelic society in the world. (rpsl.org.uk)

BRITISH NUMISMATIC TRADE ASSOCIATION: Trade association for dealers in coins and medals, members sign up to a code of conduct to ensure fair dealing with consumers. They also keep a register of stolen goods, forgeries and organise trade shows. (www.bnta.net)

BRITISH NUMISMATIC SOCIETY: The leading organisation for the study of coins, medals and paper money. britnumsoc.org

PROFESSIONAL COIN GRADING SERVICE (PCGS): The PCGS offer third-party authentication and grading services for high value collectibles such as rare stamps, coins, autographs and memorabilia. (http://www.pcgs.com/)

FÉDÉRATION INTERNATIONALE DE PHILATÉLIE: An international organisation formed in 1926 to look after the interests of stamp collectors and philatelists. Many countries and regions also have their own dedicated societies. (f-i-p.ch)

EBAY: The world's biggest online marketplace estimated to trade $300m of stamps, $1.1bn of coins and $6bn of collectibles every year.

However, we would advise extreme caution using this market channel – the risks of fraud or of people taking advantage of over-enthusiastic amateurs are compounded by the anonymity of the internet. (ebay.co.uk)

STAMP CATALOGUES

Catalogues are the starting point when it comes to stamp valuations and are a useful way of comparing the relative value of a wide range of stamps. However, the prices reflect the retail value of stamps in fine condition. They are the prices that dealer's expect to achieve for the sale of a stamp and include a mark-up. Stamp investors may very well struggle to achieve these prices when they sell to the dealer. The mark up varies but is in the region of 20%.

- Scott – published in the US, English language, strength in US issues
- Stanley Gibbons – published in the UK, English language, strength in Great Britain, China & British Commonwealth
- Michel – published in Germany, German language
- Yvert & Tellier – published in France, French language

ACADEMIC RESEARCH

There has been some academic research into the desirability of investing in passion assets and in particular rare stamps.

Campbell, Koedijk de Roon (2009) looked at the desirability and performance of Emotional Assets, with a focus on demand for investing into luxury goods. This included a study of a number of indices in order to gauge the risk/return profile of investing into emotional assets. The research centred on luxury goods sectors as reported in the Merril Lynch/Cap Gemini World Wealth Report 2007. This research is limited in reference to the performance of rare stamps and coins and mainly relies on data looking at the performance of art.

Fischer & Firer (1985) examined the investment characteristics of the international stamp market in their study the risk/return characteristics of the postage stamp market. They used the concept of modern portfolio theory to look at portfolio diversification and how international stamps could be used as a source of additional diversification within an investment portfolio.

Veld (2007) looks at the Portfolio Diversification Benefits of Investing In Stamps based on auction prices and the SG100 Stamp Index provided by Stanley Gibbons. This study highlights some of the obvious issues with compiling a reliable index of stamp prices whilst considering the previous literature available on collectible based investments. Returns and the diversification benefits of stamps are analysed for UK and US investors by comparing stamps against the FTSE 100 & 300 and the S&P 500, Dow Jones Industrial and the Russell 300 index. The SG100 Stamp Index was available on the Bloomberg Professional® service and was an index of every day collectible stamps. The Index was discontinued as it added to the confusion surrounding investment grade and purely collectible stamps.

In Ex Post: The Investment Performance of Collectible Stamps (2011), Professor Elroy Dimson of the London Business School and Christophe Spaenjers, PhD student at Tilburg University, analyse the investment performance of rare stamps over the past century. They combine research from academic, media and industry resources to critique the investment market for rare stamps.

HOW TO INVEST

BUYING PRIVATELY

Experienced collectors and investors will attend fairs and auctions to source, price-up and purchase rarities. Collectors' fairs are held regularly at various locations around the world for both coins and stamps. The decennial London Philatelic Exhibition will next be held in 2020 and, heralded the "mother of all shows", it is said to already be having an impact on prices at auction.

Other more recent exhibitions include London 2015 Europhilex, Singapore 2015 World Stamp Exhibition and the World Stamp Show in New York in 2016. There have been 14 international exhibitions hosted in London since 1890.

However, as noted above, accessing the market this way requires specialist knowledge and anything brought or sold at auction will incur high transaction costs. Both buyers and sellers have to pay a percentage of the hammer price as a premium to the auction house, which can mean total transaction costs are as high as 25%[1]. VAT has to be added as well – another 20%. Even when buying directly from a dealer, rather than at auction, investors will have to overcome the dealer's premium. This is one of the reasons why stamps and coins should be considered a long-term investment - there has to be a fair amount of appreciation before the transaction costs are overcome. The long holding periods offset the high transaction costs. But bear in mind that depending upon the investment style, an equity portfolio may very well be turned over several times in a similar 10 year holding period, perhaps incurring a similar amount of transaction costs overall.

Buying and selling online carries the same risks. The online environment makes research easy and many different opportunities can be explored. A skilful trader could exploit other buyers' and sellers' lack of experience and perhaps even a novice could uncover hidden value with enough diligent research. Buying online also increases the risk of over-grading, particularly if the buyer cannot physically examine the item before they agree to purchase. This risk can only be minimised if the buyer is given the option to complete the transaction in person, after first identifying and negotiating online. But even though the market place is online, the need for specialist knowledge, deep contacts and buying power still remains.

ONGOING COSTS

Investors also have to consider the 'cost of ownership' which will mainly be the cost of storage and insurance. This cost can be minimal or even zero if investors choose not to concern themselves with these issues. But leaving stamps open to the possibility of theft or a deterioration in their condition is a major risk. Many investors choose to let their broker-dealer store them on their behalf and this is usually offered as part of the service at no extra charge. Investors much check that storage also includes full insurance and items are stored in suitable conditions to preserve their quality.

USING AN AGENT OR BROKER

One way of overcoming these issues is for investors to employ a specialist to work on their behalf. Different agents and brokers offer different services ranging from bidding at auctions on behalf of their clients to consulting on disposing of a collection (perhaps one that a novice had inherited) or advising potential buyers on the particular items they have in mind. For novices who buy into the investment case for stamps and coins and would like to have some exposure, but who do not have the expertise, this is the sensible way forward.

MONITORING INVESTMENT PERFORMANCE

As auctions can be infrequent and data surrounding the lots sold not widely disseminated, and as many transactions are private affairs, it can be difficult to establish a fair value for a particular portfolio of stamps or coins. There are no automated stock exchanges to provide daily pricing.

Price catalogues, now often available online, do give an indication of prices at a point in time and are the most useful way of forming a guideline valuation. However, they are only a guideline and the surest way of valuing a collection is to ask an expert to provide a valuation service. This will have a cost, but there is no need to undertake this exercise very often as stamps and coins are a medium to long-term investment.

EXIT

The timing of the exit will depend upon a number of factors. Obviously personal circumstances of the investors can dictate the timing of the exit, but this is sub-optimal. The ideal is to await market conditions and sell when prices have appreciated and collectors are interested in your items. Again, making this judgement is difficult for novices and requires professional expertise. Professional expertise is also required to identify the best sales channels – UK or overseas, auction or private sale?

PRODUCT DEVELOPMENT

STAMPS

By far and away the biggest operator in the rare stamps market is Stanley Gibbons, and they have used their size and scale to create the first investment products for rare stamps.

These are not collective investment schemes – investors' funds are not pooled in any way. According to Stanley Gibbons, each investor has their own individual portfolio of rare assets, selected according to their own personal investment objectives by their appointed Investment Portfolio Manager. There is no securitisation in any way – investors still own tangible assets that they can even take possession of if they wanted to. Even if Stanley Gibbons were to go out of business, investors would still own their stamps. The flip side with this investment structure is that it is still unregulated – there is no recourse to the FSCS or FOS if something were to go wrong.

Stanley Gibbons currently have three different investment offerings:

FLEXIBLE TRADING PORTFOLIO

This gives investors access to the rare stamp market whilst also providing greater flexibility. Stanley Gibbons put the initial portfolio together, and the investor receives regular ongoing advice on their options from a Investment Portfolio Manager. Investors have discretion over when they want to buy and sell stamps, and can choose whether to re-invest, with all transactions undertaken by Stanley Gibbons. The minimum initial investment is £15,000 and investors can add to their portfolio at any time they wish. There is no tie-in period and investors can buy and sell individual stamps depending on their performance. The longer the investor holds their portfolio the greater their share of the profit, which ranges from 30-80%:

- Up to 1 year - 30% of the profit
- 1 to 3 years – 50% of the profit
- 3 to 5 years – 70% of the profit
- Over 5 years – 80% of the profit

The risks are very similar to the open market. Investors need to be knowledgeable to be able to choose the right time to sell. But they do have access to Stanley Gibbons' expertise when they purchase their portfolio and access to a very deep market when they come to sell.

In addition Stanley Gibbons provide free storage, valuations and insurance during the term of the investment.

CAPITAL GROWTH PLAN

The minimum investment is £15,000 (no maximum) and investors commit for a period of 5 or 10 years, although they can sell after a minimum 1 year period should they wish (splitting any profits 50/50). At the end of the term, the portfolio is sold and Stanley Gibbons take 20% of the profit. The portfolio is selected for the investor by Stanley Gibbons' experts and should be a diverse, well-balanced portfolio that is tailored to the investors' needs. The portfolio can include a mix of investment grade collectibles including rare stamps, coins, military medals and historical signatures. Again storage, insurance and valuations are free. This is a very 'hands-free' investment, but investors have to be prepared to have their money tied up for a significant amount of time.

PORTFOLIO BUILDER

Investors commit to an initial payment of at least £1,000 and then monthly contributions of at least £100. Investors receive guidance and recommendations on what to buy and sell from Stanley Gibbons, but have the final say on all decisions. There is no tie-in period, so this is another very flexible option. Stanley Gibbons source the stamps, buy the stamps and also sell the stamps on behalf of the investor, with profits on each sale split 50/50.

There is also a premium portfolio builder option, which is very similar in most aspects but with higher investment levels, and better benefits. The minimum initial investment is £10,000 (plus £1,500 per quarter) and the investor keeps 70% of the profit.

These are the only three investment products in the rarities market for stamps and coins.

Other collectible specialists such as Spink (spink.com), Baldwins (baldwin.co.uk), DR&A (www.doreenroyan.com) and Philatelic Investor (www.philatelicinvestor.com) offer advice on building portfolios of stamps and coins. These firms do not offer products in the same way as Stanley Gibbons, but do offer adviser-broker-dealer services, using their specialist knowledge and market contacts to help their clients build suitable investment portfolios.

It is often pointed out by smaller dealers that Stanley Gibbons purchase prices are higher than their competitors – but they defend this by stating that they guarantee authenticity, have very high quality supporting material for each item and provide investors with access to the deepest markets for rare stamps and coins.

For investors wanting to access the rare stamp market through more traditional structures they could consider collective investment schemes or trading companies. Heritage Trading Limited (HTL) has recently been formed as an Enterprise Investment Scheme (EIS) qualifying company, providing excellent tax benefits to investors.

Investment options are limited for investors. Another way to get access to the asset class, other than investing directly or through one of Stanley Gibbon's products, would be to invest in the shares of some of the collectible companies. Stanley Gibbons and Avarae (a coin dealer) are both listed on the London Stock Exchange (LSE) (and are therefore SIPP or ISA eligible as well). This gives exposure to the businesses themselves, rather than a pure exposure to specific tangible assets.

"When it comes to stamp investment, primarily you are looking to safeguard your wealth and produce a profit; with the many subtle nuances to be taken into account there are many pitfalls for the novice. We advise that you speak to an expert about your financial aims and be guided by them on the selection of items for your portfolio."

Keith Heddle, Stanley Gibbons Investments

SWOT ANALYSIS

STRENGTHS

- **Diversification (negatively correlated with mainstream markets)**
- Strong Price Growth
- Tangible
- Positively correlated with inflation (inflation hedge)
- Inverse supply and demand curve

WEAKNESSES

- Opaque market – difficult to establish fair value
- Disjointed market – difficult to access
- Price growth depends upon new buyers being willing to pay premiums
- Difficult for the poorly advised amateur
- Hard to sell and exit, particularly for amateur investors

OPPORTUNITIES

- Growing interest worldwide, particularly in Asia
- Supply can only dwindle
- Room and scope for new entrants (investment providers) to enter the market

THREATS

- Buyers could 'die out'
- Unregulated assets which could be subject to counterfeit or fraud

CONCLUSIONS

Like most alternative investments, stamps and coins have properties that will help to fulfil a number of investment objectives. Firstly they offer diversification benefits – they show a low correlation to mainstream assets such as equities and bonds, where most investors allocate the majority of their wealth. This means that stamps and coins can offset losses in these assets in sudden market crashes, as was witnessed in the 1970s and again in 2008.

Secondly, they also show a positive correlation with inflation – as inflation increases, so does the value of stamps and coins, again providing a useful hedge in any portfolio.

Third, they offer the prospect of outstanding growth and returns in their own right – academic research finds that stamps return in the region of 7% per annum over the long run and indices of investment grade coins show growth of 12.4% over the last 10 years.

Finally, they are a non-renewable¬ asset – that is to say that as time goes by they get rarer as there is no prospect of new supply coming onto the market. Therefore, if the pool of collectors and their buying power stays the same or increases – which it appears to be happening as interest grows in newly rich economies – the prices of rare stamps and coins can only increase.

For investors who take a positive view of this investment case, accessing the market is still challenging. There are many pitfalls to avoid as buying and selling the right items at the right price is a specialist activity that requires knowledge and experience. However, there are adviser-brokers and stamp and coin based investment products on the market for those who do not have the time or motivation to develop their own understanding of the sector. These products and services seem like the swiftest and easiest way to get into the market for retail investors.

- Fantastic diversifier, no correlation to the mainstream markets
- Supply and demand equation pushes price up
- Distinguish between collecting and investment
- Invest for medium to long-term
- Invest a small part of overall portfolio
- Investment requires expertise
- Risks include fraud or over-paying – these can be mitigated by expertise
- Risks include buyers leaving the market – have to take a view on likelihood of this

APPENDIX

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"Stamps and coins are no longer just for collectors and enthusiasts. An investment case can be made for adding them to an investment portfolio."

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