COLLECTIBLES
RISKS AND REASONS TO INVEST

PUBLISHED
28th August 2014

AUTHOR
Samantha Goins

Introduction

Collectibles are not traditional financial products; they are tangible assets, which are often aesthetically pleasing and highly desirable emotional investments. They do not produce an income, and their value is not based on the performance of an underlying company or property, they are worth however much someone is willing to pay. Collectibles, known as 'passion investments' or 'objects of desire' include classic cars, fine art, rare stamps, coins, fine wine, watches, furniture, antiques and jewellery.

Collectibles are often items of personal interest and typically seen as a hobby, rather than an investment. However many 'investment grade' collectibles can provide diversification, a hedge against inflation, a physical store of wealth and an additional source of returns when included within an investment portfolio. Investors are presented with a vast array of options, and specialist knowledge is often needed to successfully navigate the market.

PUBLISHED
28th August 2014
AUTHOR
Samantha Goins

COLLECTIBLES
RISKS AND REASONS TO INVEST

Background

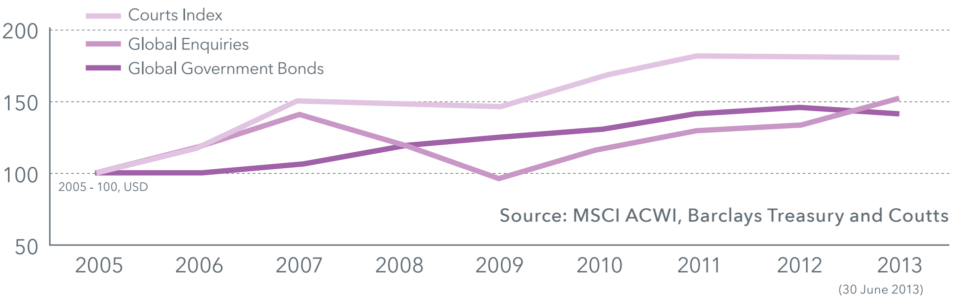
Collectibles are high-value luxury items which are often purchased for pleasure rather than profit. Unlike traditional financial products, each asset is unique and therefore one cannot be swapped for another.

According to the 2009 World Wealth Report, the 2008 financial crisis impacted high net worth individuals' (HNWI) demand for luxury items like yachts, private jets and cars. Despite this decline in luxury spending, some collectible items including fine art, jewellery and watches saw demand from HNWIs increase in 2008 as investors looked for assets to provide a long-term store of wealth.

The financial crisis underpinned the volatility and correlated nature of mainstream financial markets with investors suffering significant losses. Achieving adequate diversification has become increasingly difficult. A small allocation to collectibles within a well-diversified investment portfolio can provide vital diversification from mainstream financial assets.

Coutts launched the 'Objects of Desire' Index last year. This index tracks the value of several passion assets, rising by 77% since 2005 - outperforming shares and bonds over the period as well as throughout the 2008 financial crisis.

Coutts Index in USD [2005 - 2013]



Benefits

Collectibles do not hold any economic value, however they are desirable assets which can provide a number of financial benefits.

'Investments of Passion'

There is a reason they are labelled as passion investments – their value is derived from their desirability. Owning a 1967 Ferrari 275 GBT/4 NART Spider, sold at auction in 2013 at US$27.5m[1], does not provide an income, but may be a lifelong aspiration. Classic cars are one of the most popular collectible investments, as well as the best performing – according to the Coutts Index, classic cars have risen by 257% since 2005[2]. While investing in a collectible may bring a large return in the future, they are something that can be personally enjoyed.

Diversification

Collectibles can provide excellent diversification from mainstream financial assets due to their physical, tangible nature. However their value can be impacted by spending patterns during a recession for example.

Collectible are not fungible, meaning that each item is unique and cannot be swapped for another – aiding diversification qualities. The Economist Valuables Index tracks the performance of several collectible items. The chart below evidences the difference in performance between assets on this index.

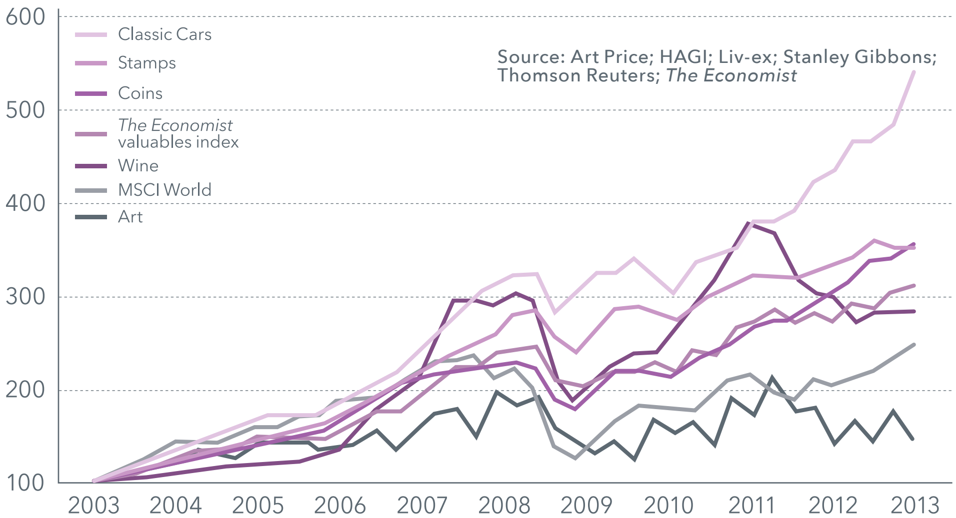
Supply and Demand

Limited supply is a defining characteristic of collectibles - they wouldn't be valuable if they weren't scarce. This makes an interesting case for investment as it creates an inverse supply and demand curve. Items such as wine, where supply is consumed, or stamps, where the condition may deteriorate if not cared for properly, become increasingly scarcer over time, helping to drive prices up.

Physical Store of Wealth

During times of economic turmoil investors look for safe haven assets as a tangible store of wealth. Collectibles are not financial assets and their value will rarely fall to zero.

Collectible Price Indices Comparison in USD [2003 - 2013]



[1]http://www.thewealthreport.net/resources/thewealthreport2014.pdf
[2]http://www.coutts.com/news-and-insights/press-releases/2014/coutts-index-reveals-passion-investments/

COLLECTIBLES
RISKS AND REASONS TO INVEST

Hedge against Inflation

The price of physical assets often increases with inflation. This is an important characteristic to have, particularly during times of high inflation or low interest rates, when the value of cash or bonds can easily be reduced by inflation.

Considerations

Fraud

Many collectibles require specialist knowledge to be accurately assessed and valued. Fraudsters could potentially cash-in on investors' inexperience. As collectibles are not financial instruments there is no compensation from the FSCS or recourse to the FOS.

Liquidity

Each collectible sector has very different buyers and sellers - some are more active and reported on frequently (fine wine), whilst others, such as antique furniture, where items only go on sale every few years at auction or privately, may have far less price information available. Finding a buyer quickly may be very hard, particularly finding one at the price you want. Investors should also consider that prices can stay stagnant for a number of years, and therefore collectibles are often considered a medium to long-term investment.

Transaction Costs

Matching buyers and sellers can be a difficult task. After all, how many people are looking to buy a 1940s Rolex Panerai diver's watch (which sold for £56,250 in 2013)[3]? Using a specialist broker or auction house can come with a high price tag - transaction costs can be as high as 25%[4]. Investors must often wait for the value to increase significantly to realise a profit.

Storage and Insurance Costs

Items must be in pristine condition if they are to be desirable to future buyers. As valuable objects they must be transported, handled and stored with care and kept fully insured. The cost of ownership can be significant and must be considered when purchasing collectibles.

Unclear Pricing

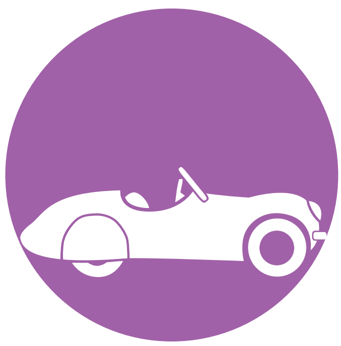
Possibly the biggest risk to investors is the risk of mispricing. With items that are unique and often sold infrequently valuations can be difficult. In some cases this can work in favour of the investor if they are able to pick up an item for below its market value.

Mitigating the Risks

The best way to effectively mitigate the risks is to acquire as much knowledge as possible on the particular collectible and its sector. For many people this is a lifelong task that takes years of dedication. Finding a trustworthy specialist to give you an accurate appraisal and information is one of the best ways to protect against fraud or mispricings.

Conclusions

Traditionally many people have concentrated on obtaining collectible items for their personal pleasure. Finding the right investment can be tricky, requires a large amount of time and research and often specialist knowledge. The right collectible asset can provide a hedge against inflation, diversification from mainstream assets, a long-term store of wealth and strong returns – but there are a number of risks to consider, and returns may not be realised for many years in the future.



[3]http://www.thewealthreport.net/resources/thewealthreport2014.pdf
[4]Dimson, E., Spaenjers, C., Ex post: The Investment Performance of Collectible Stamps. Journal of Financial Economics (2011), doi:10.1016/j.jfineco.2010.12.005

Disclaimer

This article is provided for general information purposes and for use only by Investment professionals and not by retail investors.

Reliance should not be placed on the information, forecasts and opinion set out herein for any investment purposes and Intelligent Partnership will not accept any liability arising from such use.

Intelligent Partnership is not authorised and regulated by the Financial Conduct Authority and does not give advice, information or promote itself to individual retail investors.

Publication

The information has been compiled from credible sources believed to be reliable, however it has not been verified and its accuracy and completeness are not guaranteed.

The opinions expressed are those of Intelligent Partnership at the date of publication and are subject to change without notice.

TO FIND OUT MORE ABOUT OUR LATEST ARTICLES, BLOGPOSTS AND REPORTS, VISIT OUR WEBSITE:

www.intelligent-partnership.com

OR INTERACT WITH US HERE:

intelligent partnership*

CONTACT US:

+44 (0) 203 375 1700
enquiries@intelligent-partnership.com
www.intelligent-partnership.com

Intelligent Partnership Limited
Halford Chambers
1-3 Halford Road
Richmond
TW10 6AW
Company Registration No. 06442114
Company Registered in England & Wales