Art as an Asset

Beyond its aesthetic appeal, art can offer a meaningful—and at times lucrative—way to diversify a portfolio. Yet investing in art isn't as simple as buying what you love. It requires expertise, strategy, and, perhaps most importantly, passion.

Mike Molewski, a CAPTRUST financial advisor in Allentown, Pennsylvania, has learned this firsthand—along with several of his clients. One enjoys acquiring modestly priced oil paintings from Cuba. Another prefers high-end works from a New York City gallery.

Molewski himself owns about 40 early American Western-themed pieces, including oil-on-canvas paintings that capture the lives of Native Americans.

“Artwork can be an important and enjoyable part of a diversified investment portfolio,” Molewski says. “It’s nice to feel interested in and passionate about a piece when you first see it, but ultimately, it has to be a sound investment.”

Art advisor Laura Smith Sweeney, founder and principal of LSS Art Advisory in New York and San Francisco, echoes the sentiment. She says most buyers want purchases to increase in worth, or at least retain their value.

Art is a passion asset like other collectibles such as cars and wine. “These assets fall into the alternative portion of a portfolio,” says Smith Sweeney, who has a dual background in art history and wealth management.

Recently, Smith Sweeney says, a client told her how much she treasured a new piece—a portrait of a woman—that they found together. It captivated the buyer’s interest when she saw it at an art fair, and she loves it even more now that it’s installed in her home. “It reminds her of the Mona Lisa because the eyes seem to follow you.”

That emotional connection is part of the magic—and the challenge—of collecting art. But behind every compelling piece lies a set of practical considerations. For investors, understanding the financial mechanics of the art market is just as important as following one's heart.

Exploring Options

"There are several financial advantages to owning quality artwork," Molewski says. For instance, art is a traditionally stable asset class, comparable to gold. It's illiquid but often a good investment in the long run.

"We suggest collectibles such as art be no more than 10 percent of a person's portfolio because of it's illiquidity," he says. "To sell them, you have to find the right resources, pay commissions, and pay transfer costs, plus any taxes due."

"Some people invest in shares of blue-chip artwork through firms such as Masterworks or Public," says Molewski. Masterworks is devoted completely to art and collectibles. Public offers a wider range of investable assets that includes art.

While fractional investing offers a lower barrier to entry, some collectors prefer a more hands-on approach. For example, one of Molewski's New York clients bought an $800,000 painting for his family's home. This level of investment requires additional due diligence, and Molewski says the client was careful about seeking an art dealer's expert advice to make sure his purchase was an investment-grade piece.

Molewski says his personal collection is paying off for him and his wife, Diane. "We love the art we own," he says. "It fits the style of our home and makes it more enjoyable. It has also been a great investment. We've been asked to sell certain pieces, and the amount offered was much more than we paid."

"The key to buying a collection is working with a professional such as an art advisor, art dealer, or gallery owner," Molewski says. "There needs to be a lot of trust. If you don't trust your advisor, it's so much harder to make good decisions."

Avoiding Pitfalls

Smith Sweeney works on the other side of that relationship, often serving as the trusted advisor. She says one big piece of her job is helping clients avoid costly mistakes, such as overpaying or buying a forgery. “Clients sometimes come to us with artwork they purchased before working with us. They may have paid $25,000 to $100,000 for it, and there is a limited resale market for the work.”

The resale price, just like the buying price of a piece, is based on many factors, including the artist’s reputation and the medium, from oil paintings and sculptures to photographs and prints. As you’d expect, emerging artists’ work is typically priced lower than work from artists who already have global recognition. “It’s like start-up companies versus established, multinational corporations,” says Smith Sweeney.

“Limited-edition prints often appeal to new buyers,” says Meghan O’Callaghan, a San Francisco art advisor who works with Smith Sweeney. “These prints are not posters. The artist often collaborates with a master printmaker to create an original piece. It’s a booming segment of the market with strong resale value.”

And it’s a great way to get started when investing in art. Acquiring a few treasures can create a ripple effect. “Some people catch the bug and want to dive deeper,” says Smith Sweeney. “They move beyond buying for the wall above the couch. They want to become collectors. They want to get involved in the artists' careers."

Leaving a Legacy

Another benefit: Art can play a meaningful role in a family's long-term financial and philanthropic plans. Financial advisors can help clients think strategically about their collections by connecting them with reputable art professionals and helping them incorporate artwork into a broader estate plan. That includes evaluating the potential tax implications, ensuring proper documentation and valuation, and aligning the art with a client's legacy goals.

"Art is a unique asset, and planning for its future is just as important as planning for other investments," says Molewski. "We help clients think about where their pieces should go and how to handle the transfer thoughtfully and efficiently."

Some clients choose to pass down art to their children. Others donate pieces to museums or establish private foundations. Each option involves distinct benefits and challenges. For instance, gifts to family may trigger capital gains taxes if the art is later sold, while donations to charitable institutions can offer significant tax deductions but may require coordination with museum acquisition committees and donation guidelines.

In any case, the emotional value of art can complicate decisions.

"The art that my wife and I feel passionate about may not be the same as what our children care about," Molewski says. "If that's the case, we would want them to sell the art, then invest in what they like."

Ultimately, as a financial advisor, Molewski says the goal is to ensure the collection serves both the client's values and their financial goals—during their lifetime and beyond.

Written by Nanci Hellmich

Figuring Out a Fair Price

Determining fair pricing in the art world can be a challenge, but buyers can take steps to avoid overpaying.

The art world and market are notoriously opaque, says Alex Glauber, president of the Association of Professional Art Advisors and founder and principal of AWG Art Advisory in New York City.

"Unlike financial markets, the art market lacks regulation, transparency (the only publicly available price data is for works sold at auction, which accounts for less than half of the overall marketplace), and overall efficiency and liquidity," he says.

"Artworks derive their significance and value through cultural consensus and resonance, which is an imperfect process," says Glauber. "Since value derives from taste, which is mercurial, investing in art is inherently risky and speculative."

To reduce your chances of making costly mistakes, Glauber says to:

- **Be thoughtful.** A lot of collecting is reactive, but it's important to be proactive in understanding how to maximize your resources. The sheer volume of art offered means you'll always say no more than yes.

  Also make sure you understand the opportunity cost, Glauber says. Do you want to prioritize quality or quantity? Blue-chip art is generally more stable as an asset, but having too much of one type or from one artist can increase risk.

  Alternatively, collecting works by emerging artists at lower price points can diversify your holdings and create a more dynamic collection.

- **Buy with your eyes, not your ears.** An artist's personal brand can heavily influence a work's value, says Glauber. But name recognition alone isn't enough to make a purchase worthwhile.

  Do your research to understand what makes an artist influential or desirable, and don't be afraid to overpay for the right work, as opposed to getting a deal on a middling example.

  Good examples of a particular artist's style tend to hold their value and offer more long-term potential.

- **Study the pricing.** The inefficiencies of the art market mean the same piece could sell for vastly different sums, depending on the sales channel and venue.

  There is a lot of price dispersion between the primary market, galleries, and secondary market, most notably auctions.

  Once you determine an artist of interest, compare primary market (retail) pricing and past auction results so you can maximize your budget, Glauber says.
