The investment potential of antiquities

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"Antiquities: the hottest investment", screamed a *Time* headline after the sale at Sotheby's New York in December 2007 of the so-called Guennol Lioness for $57.2 million[1] (Baugh 2007). This was not just a high price for an antiquity, it was said to be the highest price ever paid for any sculpture, the previous high being $29 million for a piece by Pablo Picasso. But although such high prices might appear to put antiquities out of reach of the more modest investor, the "good news" for *Time* was that it is still possible for the individual investor to buy antiquities for a moderate sum and make a profit.

The belief that antiquities might prove good vehicles for investment first took hold in the 1970s (Nørskov 2002, 291-292), at a time of high inflation, when it was thought that tangible assets might hold their value better than the more traditional financial ones. In 1974, the British Rail Pension Fund started the ball rolling when it began buying a broad range of art objects, including antiquities. At the time, inflation in Britain was running at 27%. By 1980, when the fund stopped buying, it had purchased more than 2,000 objects for about £40 million (Faith 1985, 208-214). By the end of the 1980s, other investment funds had joined in. In 1986, Merrill Lynch raised $7.3 million for the Athena I Fund to invest in ancient coins, and in 1988, it raised a further $25 million for the Athena II Fund to invest in ancient coins and antiquities (Grimes 1989). Under the management of coin and antiquities dealer Bruce McNall, each Athena fund was intended to realize a profit within seven years. In 1988, the New York dealer Edward Merrin entered into a partnership with Canal Arts (controlled by financier Asher B. Edelman), whereby Canal would subsidize purchases by Merrin and share the profits from subsequent resales. The partnership got off to a good start with the record breaking purchase of the head of a Cycladic figurine for $2.09 million at Sotheby's New York in December 1988. Six months later, Merrin was believed to have sold the head for more than $3 million (Grimes 1989), though other large investment interventions into the antiquities market did not always prosper to such an extent.

It is not clear whether large investment funds are still active in the antiquities market, but for the general customer antiquities dealers now routinely stress the investment potential of antiquities. One reason they give is that antiquities are subject to diminishing supply, so that prices can only go up. Thus Hicham Aboutaam, for example, co-proprietor of Phoenix Ancient Art, has said that there is "a limited number of objects

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[1] The "Guennol Lioness" was described in the Sotheby's catalogue as "A magnesite or crystalline limestone figure of a lioness, Elam, circa 3000-2800 BC. Height 8.26 cm" (Sotheby's 2006), with an estimated price of $14-16 million. It is known as the Guennol Lioness because it was part of the Guennol Collection, formed over several decades by Edith and Alastair Bradley Martin and named Guennol after the Welsh word for martin.

that soon will not be in private hands anymore. It will end up in museums, and that's why it's a very good investment"[2]. Similar opinions are expressed on the websites of other antiquities dealers, for example AncientArt[3], Fragments of Time[4], and Royal-Athena[5]. This line of reasoning has a good pedigree. Christopher Lewin, the actuarial mastermind behind the British Rail Pension Fund's entry into the art market, also believed that '… demand will increase, supply won't …' (Faith 1985, 209).

But economists have long argued, for paintings at least, that inelastic supply destabilizes price so that it becomes more susceptible on the demand side to the vagaries of individual wealth and taste, and thus subject to unpredictable fluctuations. For one economist, at least, art investment is a "floating crap game" (Baumol 1985). So, from a theoretical perspective, an argument for diminishing supply does not constitute an argument for increasing price. But there are also empirical objections, in that the supply of antiquities is more elastic than is usually allowed for, and it is often of dubious legality. Although antiquities dealers like to maintain that most of their stock derives from old collections, and so the total number of antiquities available for circulation is limited and will diminish, in reality, it is not the case. Many and perhaps even the majority of antiquities that enter circulation are derived from illegal excavations. Thus the quantity of antiquities available for circulation is not limited by the number of collections presently in existence, and there is no guarantee that it will diminish in the short to medium term. In fact, future supply could increase radically in quality or quantity if a new "source" is discovered and exploited. It has been alleged, for example, that many of the coins obtained by the Athena funds were derived from new but illicit finds in the Mediterranean area, and by 1993, when it became time to realize the investments, there were something like 45,000 coins to be sold and prices struggled to achieve parity (Norman 1993; 1994). In August 1994, Merrill Lynch announced it would pay out between \$20–\$30 million to settle lawsuits by Athena investors aggrieved at the shortfall on their investments (N.A. 1994).

Merrill Lynch might be considered lucky, in that at least its ownership of the coins was never questioned. US financier William I. Koch was not so lucky when he took a flutter on the Elmali Hoard. The Elmali Hoard comprises 1900 ancient Greek silver coins discovered in April 1984 near the town of Elmali in south-west Turkey, and smuggled out of Turkey to Munich, where 1700 were bought by OKS Partners. OKS Partners was a consortium of Koch (providing the money) and Jonathan Kagan of Lazard Frères and Jeffrey Spier (providing numismatic expertise). OKS bought the coins for about \$3 million, with a view to selling them for \$7.5 to \$10 million. In 1987, OKS started selling, but in 1989 Turkey sued Koch for the coins' return. By then, Koch had sold about \$1 million worth, but frightened by the Turkish action, his customers started asking for their money back (Acar and Kaylan 1988). In 1999, Koch returned 1661 coins to Turkey, and presumably lost the price of their purchase.

Nevertheless, despite uncertainties of supply and the past misfortunes of some high-level speculators, there still appears to be a broad level of agreement in the worlds of popular finance and the antiquities market that antiquities are good investments. The

[2] Interview at: http://www.phoenixancientart.com/press/2005/bloomberg/02112005bloomberg.html)
[3] http://www.artancient.com/investing-antiquities.php, accessed August 24
[4] http://www.fragmentsoftime.com/invest.htm accessed August 24, 2009
[5] http://www.royalathena.com/PAGES/intropages/ancientartasaninvestment.html accessed August 24, 2009

empirical reasoning seems to be based on the continuing succession of record breaking sales, such as that of the Guennol Lioness, with the bridging assumption that continuing record prices are indicative of market buoyancy more generally. Unusually high prices paid for unique objects are just as likely to exemplify the kind of erratic demand predicted by economists, however, and it is noticeable that no time series data have been made available to confirm the assumption of a profitable investor's market. This paper aims to make good this omission. It presents the results of some preliminary investigations into the investment potential of antiquities, using repeat sales data drawn from the illustrated catalogues of the major auction houses (Sotheby's, Christie's and Bonhams). Two data sets are considered. The first set comprises repeat sale price information for 143 antiquities sold at auction in 2005. The second set comprises resale price information for ancient glass vessels from the Constable-Maxwell glass collection, which was sold by auction at Sotheby's London in 1979. Many pieces were bought by the British Rail Pension Fund, and subsequently resold at Sotheby's London in 1997.

2005 repeat sales

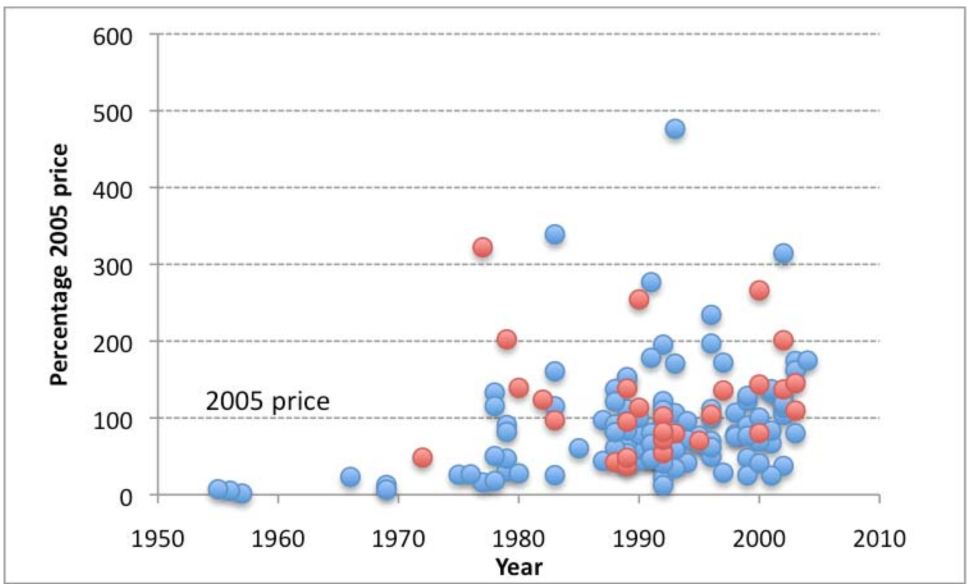

Figure 1. Repeat sales data. The price of an object's first sale expressed as a percentage of its 2005 price. All prices were converted to GB pounds and deflated to 1948 using the British RPI. The red data points indicate objects with initial prices above the 80th percentile, the blue data points indicate all other objects.

Figure 1 shows for 143 objects the price of an object's first sale expressed as a percentage of its subsequent 2005 price. It is clear that since the 1950s there has been a general trend towards increasing price, but that since 1978 the trend has become more variable. For antiquities that were bought after 1978, 51 were sold in 2005 for less than the value of their original purchase price – 39% of the total number. Thus over the past two decades, while on aggregate antiquities have shown some appreciation in value, it has not been consistent. Prices reflect market conditions at the time of transaction, and to some extent must be affected by the financial health of the art market and the broader context of the international economy. But there are also factors impacting upon price formation that are specific to the antiquities being sold, relating to object type, object quality and object provenance. Future research will examine this data set according to archaeological culture.

It is frequently supposed that better quality objects are more likely to appreciate in value than poorer quality ones. This data set offers no immediate confirmation of that supposition. If quality is reflected in price, then higher priced objects would be expected to perform better than lower priced objects. As Figure 1 shows, however, the objects with initial prices above the 80th percentile do not seem to have performed better than objects with prices below that percentile. Future work will refine this analysis by correcting price data for object size.

Finally, there is the issue of provenance (ownership history). It is increasingly being argued (though again without any empirical support) that objects with a good provenance are appreciating in value more than objects with no provenance. The assumption is that objects with no published provenance actually have an illicit provenance, in that at some point in their ownership history they have been the object of an illegal transaction. (Or they might be fake). Again, future work will examine this data with regard to provenance.

Constable-Maxwell glass

The second data set comprises the resale prices of objects from the collection of ancient glass assembled by Mr and Mrs Andrew Constable-Maxwell and sold at Sotheby's London in 1979. The collection had been assembled over the preceding two decades (Harden 1979). Figure 2 shows the percentage change in price of objects between an original sale in 1979 and a subsequent sale. It was not until 1986, seven years after the auction, that resale prices began to equal or exceed anything paid in 1979. This apparent fall in the market value of Constable Maxwell glass in the years immediately following the 1979 auction might be because the antiquities market generally declined in value after 1979, the supply of ancient glass onto the market increased, or conditions peculiar to the 1979 auction itself caused the objects offered to be sold for more than their true worth. The intervention of the British Rail Pension Fund might have been crucial in this respect. The fund bought only 6% of the objects on offer, but contributed 63% of the total sale proceeds. If the fund's large injection of money did drive auction prices up on the day, it would reaffirm the inability of the antiquities market to withstand large scale financial speculation that was first exposed during the Athena fund sales. In monetary terms, the market is not large enough to absorb the intervention of a major investment fund without prices being raised at point of purchase and lowered at point of sale, and thus, ironically, undermining the intention of the intervention. Even after two or three decades, many Constable-Maxwell pieces failed to achieve their 1979 price.

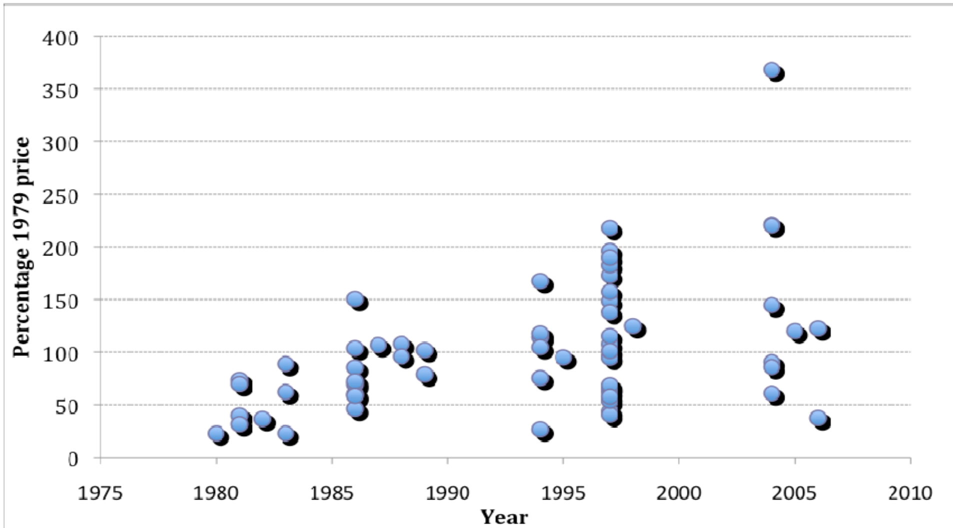

Figure 2. Constable Maxwell glass. The percentage change in price of an object between an original sale in 1979 and a subsequent sale. Prices have been deflated to 1975 using the British CPI.

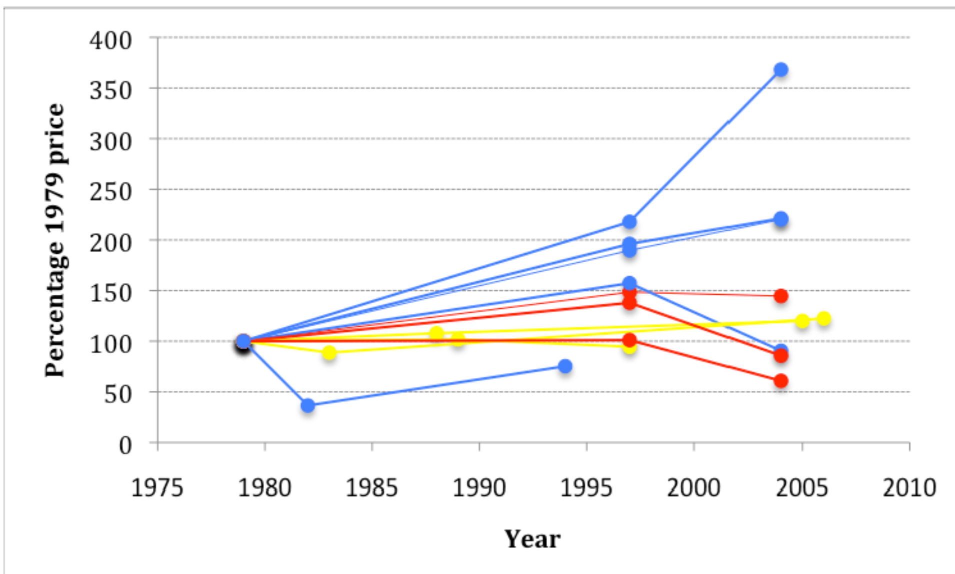

Figure 3. Constable-Maxwell glass. Percentage change in price of 11 objects resold on more than one occasion. Red data points indicate three most expensive of the 11 objects in 1979; yellow data points indicate three cheapest of the 11 objects in 1979, blue data points remaining five objects.

Figure 3 shows the price changes for 11 objects that have sold more than once since 1979. Although the general trend is one of increasing price, again there is a large degree of individual variability (as late as 2004, three out of nine objects sold for less than their 1979 price), and price appreciation is not related to object quality (as measured by price). The three best objects (red data points) performed no better than the three worst objects (yellow data points).

In 1979, the British Rail Pension Fund bought 21 Constable-Maxwell pieces for £493,733, and sold them in 1997 for £684,582 (at 1975 prices). Most of the appreciation was due to the "Constable-Maxwell cage-cup", a Roman (*c.* 300 AD) cage-cup bought for £346,667 and sold for £514,811. Excluding the cage-cup, the remaining 20 objects were bought for £147,067 and sold for £169,772. Future research will determine how this compares with the performance of other asset classes over the same period.

Conclusion

Antiquities are not guaranteed to hold their monetary value over time. Price fluctuations are caused by uncertain supply and idiosyncratic demand. It follows that the best opportunities for profit will exist at the information nexus, at the point where information about supply can be matched to information about demand. In other words, most money will be made by knowledgeable intermediaries – the antiquities dealers. At 1975 prices, between purchase at Sotheby's in 1979 and sale at Sotheby's in 1997 the British Rail glass appreciated in value by £190,849 (though subject to costs of insurance and curation). From the two sales, Sotheby's would have earned £111,179 from buyer's commission alone, with perhaps an equivalent amount earned from seller's commission.

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