Volume 15

Wealth Insights

Profit or Pleasure?

Exploring the Motivations Behind Treasure Trends

Wealth and Investment Management

BARCLAYS

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About this report

Researched by Ledbury Research and written in conjunction with the Wealth and Investment Management division of Barclays, this 15th volume of *Wealth Insights* investigates the concept of value and investments, both financial and emotional, and how this relates to what we treasure. It is based on two main strands of research.

Firstly, Ledbury Research conducted a survey of more than 2,000 high net worth individuals, all of whom had over USD$1.5 million/GBP£1 million (or equivalent) in investable assets and 200 with more than USD$15 million/GBP£10 million. Respondents were drawn from 17 countries around the world, across Europe, North America, South America, the Middle East and Asia-Pacific. The interviews took place during January and February 2012. In the analysis, individual countries with less than 50 respondents have only been included in the regional findings.

Secondly, Ledbury Research conducted a series of interviews with academics, professionals and other experts from around the world. Our thanks are due to the interviewees for their time and insight. We would also like to extend our appreciation to Dr. Emily Haisley and Kahlen Qi who undertook and managed the data analysis which informed the report. The report was written by Rob Mitchell of Longitude Research.

Foreword

To anyone whose childhood library included Robert Louis Stevenson's *Treasure Island*, or perhaps Arthur Ransome's *Swallows and Amazons*, the prospect of a report on "treasure" has a transportive effect, conjuring images of chests stuffed with gold doubloons and recollections of many a happy hour spent exploring whether "X marked the spot."

We might assume that in the twenty-first century, the treasure maps have all been scoured and their secrets unveiled; however, this is not the case. The discovery in 2011 of SS Gairsoppa, 300 miles southwest of the Irish coast and resting on the sea bed at a depth of some three miles made headlines across the world. The reason? Torpedoed in 1941 en route from India to Liverpool, she was transporting 240 tons of silver, believed to be valued today at GBP£155 million (USD$244 million), of which the salvage firm that made the find is entitled to keep 80%.

Stories like that appeal to the Jim Hawkins in all of us. However, it is not just the salvage firms that are collectors of treasure, or what we might less emotively term "treasure assets." Owning possessions that are financially valuable, emotionally pleasing and culturally significant is a timeless tradition and one that shows no sign of abating. Indeed, the recent record valuations achieved at auction for artwork has heightened media interest in treasure assets. However, the notion that art, or indeed, any commodity, is worth whatever someone is willing to pay for it is worthy of further scrutiny. To what extent do holders of treasure assets separate value from cost; what motivates them to hold these items; and what might be a trigger to sell?

These are among the themes explored in *Profit or Pleasure? Exploring the Motivations Behind Treasure Trends*, the fifteenth volume in our *Wealth Insights* series. In the report, we look at the financial and emotional reasons high net worth individuals across the world have for holding treasure assets. We examine trends in the markets for these particular assets, and assess behavioral biases and various risks involved in holding them. We also delve deeper into the issues of valuing and holding these treasure assets.

Working in partnership with Ledbury Research, we have surveyed more than 2,000 wealthy individuals worldwide, and have interviewed a series of experts who have provided their valuable input. From this intelligence we have produced a report that helps us to map the motivations of high net worth individuals for seeking out and holding different treasure types, as well as examining the consequences of these motivations, which we anticipate will help individuals when it comes to evaluating their own reasons for holding treasure assets.

I hope that you find this latest volume of *Wealth Insights* an interesting and exciting read.

Thomas L. Kalaris
Chief Executive
Barclays Wealth and Investment Management
Executive Chairman of Barclays in the Americas

Our Insights Panel

Dr. Greg B. Davies, Head of Behavioral Finance at the Wealth and Investment Management division of Barclays

Elizabeth Von Habsburg, Managing Director at the Winston Art Group

Dietrich Hatlapa, Founder of the Historical Automobile Group International (HAGI) which calculates the HAGI Indices

Philip Hoffman, Chief Executive of the Fine Art Fund

Vikram Mansharamani, Lecturer at Yale University and Author of *Boombustology*

Rachel Pownall, Adjunct Associate Professor at the Tilburg School of Economics and Management

Anthony Ruscigno, Director in the Wealth Advisory business of Barclays

Felix Salmon, Finance Blogger at Reuters

Dr. Stephen Satchell, Fellow of Trinity College at Cambridge University

Chris Smith, Investment Manager for the Wine Investment Fund

Jonathan Spall, Director of Commodities at the Investment Banking division of Barclays

Meir Statman, Glenn Klimek Professor of Finance at the Leavey School of Business, Santa Clara University and Author of *What Investors Really Want*

Don Thompson, Professor at the Schulich School of Business, York University, Toronto; Contributing Editor to *The Art Economist*; and Author of *The $12 Million Stuffed Shark*: *The Curious Economics of Contemporary Art*

Dr. Sarah Thornton, Author of *Seven Days in the Art World*

> The emotional and social attachment to treasure means that investors are extremely likely to make sub-optimal decisions about when to buy, sell or how much to pay.

Introduction

In May 2012, a version of Edvard Munch's *The Scream*, sold for a record USD$120 million at Sotheby's in New York[1] after a period of bidding lasting just 12 minutes. It joined one of only a handful of paintings that have exceeded the USD$100 million mark, including Picasso's *Nude, Green Leaves and Bust*, which sold for USD$106 million.

The world of collectibles thrives on such fairytales. Stories of investors who bought paintings, wine collections or antiques for a song and then sold them years later for millions abound in the popular media. In 2011, a painting by Roy Lichtenstein sold for almost USD$40 million. Thirteen years previously, its owner purchased the artwork for just USD$2 million[2]. Also in 2011, *Gimcrack on Newmarket Heath* by George Stubbs sold in London for GBP£22.4 million (USD$36 million), which was among the top five highest prices ever paid for an Old Master at auction. The painting had been previously purchased in 1951 for GBP£12,500 (USD$20,000)[3].

These stories of exponential growth understandably stoke investor interest in the world of collectibles. With traditional financial markets still highly volatile and interest rates at record lows, the possibility that art, wine, antiques and other collectibles could earn a handsome return that is uncorrelated with broader financial markets is certainly alluring. Add to that a post-crisis mistrust of esoteric financial instruments, and a perception that tangible, scarce and non-fungible investments could provide a stable store of value in uncertain times, and it is no wonder that a growing number of investors have increased their exposure to art, wine and other collectibles.

For today's wealthy investor, acquiring and holding collectibles is akin to building a store of treasure. The rationale for accumulating this treasure can vary considerably. First and foremost, wealthy individuals acquire treasure because they enjoy it. It may give them an emotional or aesthetic pleasure, or be an interest that they want to share and discuss with friends. They may be passionate and extremely knowledgeable about art, antiques or sculpture. They may enjoy exhibiting it in museums, or basking in the status that the ownership of a rare and beautiful item can bring. These are perfectly legitimate reasons for accumulating treasure, and these personal holdings can rightly form an important part of any individual's total wealth.

Gaining access to the market for collectibles, or treasure assets, is now easier than ever. The Internet has opened up the auction process, enabling collectors more easily to bid for and acquire objects anywhere in the world. Collectibles now increasingly share the characteristics of broader financial markets. There are market indices and specialist funds, which enable individuals to invest in art, wine or other treasure assets indirectly. There are even asset-backed financing products that enable collectors to borrow against their treasure assets.

This combination of increased investor interest and more robust market infrastructure has led to a surge in activity across a wide range of different treasure assets. According to Artprice, 2011 was the best ever year for sales of art at auction. Auction house Christie's had a bumper year, with sales up 9% over the previous year to a record USD$5.7 billion[4]. Rival Sotheby's did even better, with a 21% increase in annual sales to USD$5.8 billion[5].

1 http://www.sothebys.com/en/auctions/2012/impressionist-modern-art-evening-sale-n08850/overview.html
2 http://blogs.reuters.com/felix-salmon/2012/01/12/art-is-not-an-investment-part-872/
3 http://www.telegraph.co.uk/culture/art/artsales/8631008/Old-masters-stand-the-test-of-time.html
4 http://www.bloomberg.com/news/2012-01-31/christie-s-sales-surge-9-on-demand-for-contemporary-art-warhol-picasso.html
5 http://www.ft.com/cms/s/2/48e723e4-62e1-11e1-9245-00144feabdc0.html

Boom times for auction houses however do not automatically translate into strong returns for investors. Collectibles markets are riddled with inefficiencies, are frequently opaque and illiquid, and are extremely volatile and risky. They involve high transaction, storage, insurance and appraisal costs. Appreciation in value can also incur a higher tax burden in some jurisdictions, such as the U.S.[6] Some categories of treasure are also highly susceptible to vagaries in fashion, which can cause prices to fall as dramatically as they have risen.

Of course, for many collectors the cost and financial risk of treasure are irrelevant given the intellectual stimulation and aesthetic pleasure it brings to them. But when acquiring such assets primarily for their financial benefits, extreme caution is essential. It has long been known that investors in equities and other financial asset classes can be susceptible to a host of cognitive biases that make it difficult for them to make rational decisions. With art, wine and other treasure assets, these biases can be even more pronounced. When buying a painting, for example, collectors can all too easily let their heart rule their head. The emotional and social attachment to treasure means that investors are extremely likely to make sub-optimal decisions about when to buy, sell or how much to pay.

In this report, we examine the financial and emotional motivations for holding treasure assets, and explore how they should be treated in the context of an individual's total wealth. We look at recent trends in key collectibles markets, and assess the risks and behavioral biases associated with holding treasure as part of a broader financial portfolio. At a time when investors continue to be concerned about financial markets, tangible assets, such as art and antiques, hold strong appeal. But as we argue, they should primarily be held for the pleasure they bring, rather than any potential financial benefits.

6 Neither Barclays in the U.S. nor its Wealth and Investment Management employees in the U.S. render tax or legal advice. Please consult with your accountant, tax advisor and/or attorney for advice concerning your particular circumstances.

Executive Summary

The lure of treasure. A desire for tangibility and familiarity, coupled with concerns about broader markets, is encouraging more investors to increase the proportion of their wealth that is allocated to treasure. Currently, wealthy individuals hold an average of 9.6% of their total net worth in treasure assets although, in some countries, this share is as high as 18%.

Classic cars come at a high cost. Precious jewelry, fine art and antiques are the most popular categories in terms of the number of people who own them. But the most costly pursuit is the ownership of classic cars. Collectors of classic automobiles who have already started a collection — although relatively few and far between in the survey — have invested an average of USD$641,000 in their hobby.

Treasure is "sticky." Many wealthy individuals express a desire to *declutter* and offload treasure that they have acquired, but the reality is that few go through with these intentions. High required returns to sell keep many hanging on, with owners of fine art, for example, on average needing a 62% price increase in the year after first owning them before they are willing to consider a sale. This is an example of the endowment effect, whereby individuals will require a price that is much higher when selling an item than they would be willing to pay when purchasing it.

Few acquire treasure for solely financial reasons. Relatively few wealthy individuals own treasure solely for its financial characteristics. Just 18% of the treasures that survey respondents own are held purely as an investment and only 21% are believed by their owners to provide financial security if conventional investments fail. Investors that do seek financial returns or insurance from their treasure typically favor commodity-like items, such as precious metals, coins and jewelry. They derive relatively low enjoyment from what they own and are more likely to sell their treasure than those who are influenced by other motives.

The emotional return. The emotional motivations for wealthy individuals to own treasure are complex, but can essentially be grouped into three main categories: enjoyment; social; and heritage. The motivations are not mutually exclusive and an investor may own a single item for one, two or all three categories of motivation. No investment, let alone treasure, is held entirely for financial reasons or emotional ones.

- The most important motivation for owning treasure is enjoyment. With the exception of specific categories, such as precious metals, wealthy investors acquire treasure first and foremost because they derive pleasure from it. Almost two-thirds of the treasure owned by respondents is held primarily because of the pleasure that it brings them. This supports a view that treasure should be regarded as part of an individual's personal holdings (assets which are owned to support lifestyle or enjoyment purposes), rather than as a separate asset class in the investment portfolio.

- Owning treasure can also be a social activity. Roughly one-quarter of the treasure owned by respondents is held for social purposes, such as sharing with friends or showing it to people. Classic cars and fine art sculptures are the categories of treasure that respondents hold where ownership is most likely to be linked with pleasure from sharing them with other people and status from showing them off to peers.

- Finally, some wealthy individuals may acquire treasure for its heritage value. These individuals enjoy what they own, and want their descendents to enjoy it too. They are often reluctant to sell their treasure at any price and believe that they have a duty to share what they own for the good of society.

The social utility debate. Wealthy individuals who acquire treasure can perform a valuable role in society by loaning it to museums and protecting it. But there is a view that those who seek to hold treasure and remove their capital from productive investment do a disservice to the economy. By investing directly in businesses and other core parts of the economy, it can be argued that wealthy individuals contribute more to society than collectors with large exposures to art and other treasure assets. These two contrasting perspectives make this a passionate and relevant debate.

The emotional motivations for wealthy individuals to own treasure are complex, but can essentially be grouped into three main categories: enjoyment; social; and heritage.

Treasure Trends

Treasure assets, such as fine art, jewelry and antiques, are an important component of total wealth. On average, the wealthy individuals surveyed for this report say that their treasure assets comprise 9.6% of their total net worth. Women tend to own slightly more treasure, accounting for around 11% of their net worth compared with 9% for men[7].

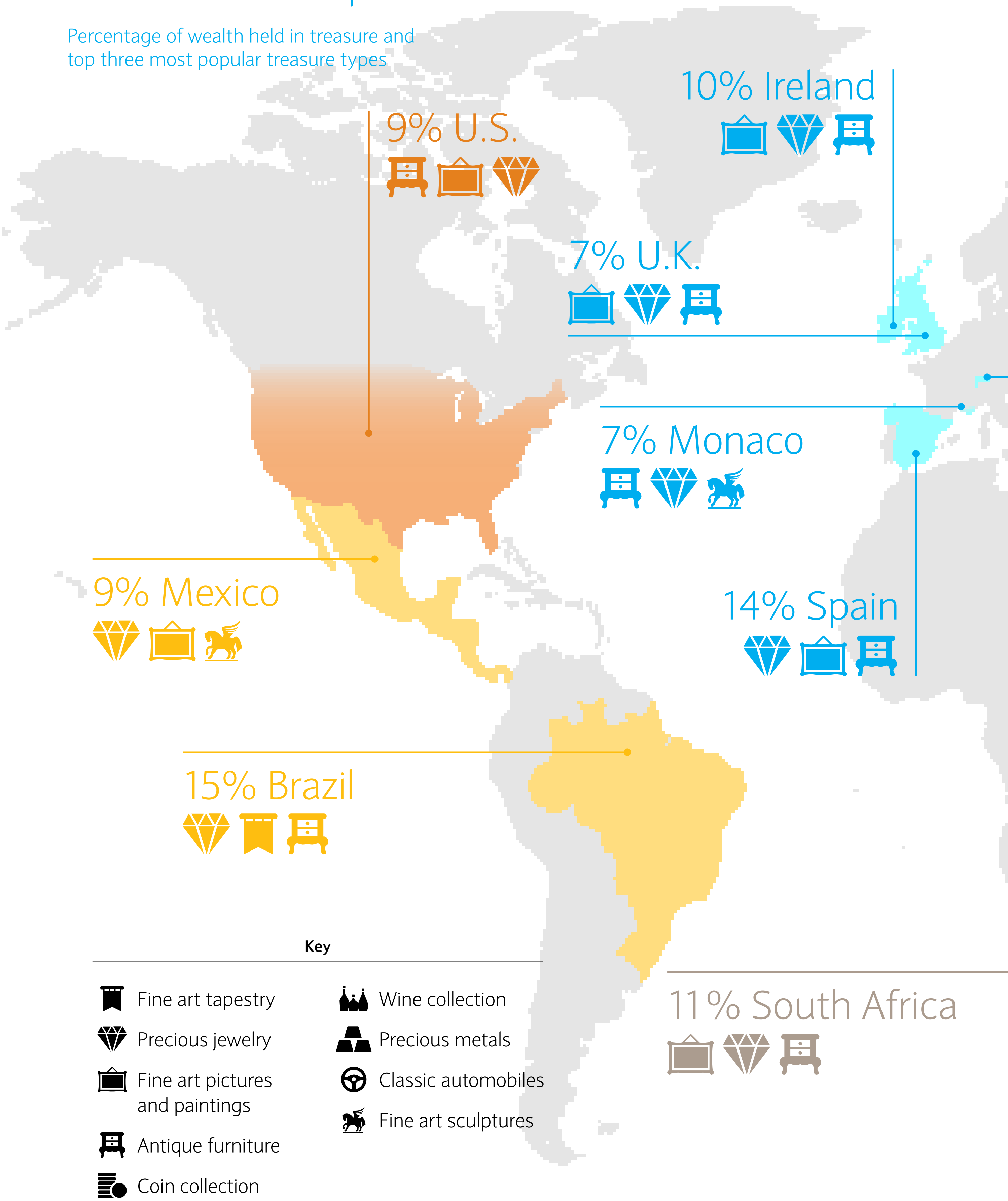
The proportion of wealth held in treasure assets varies widely between countries. Respondents from the United Arab Emirates top the list, with 18% of their wealth held in treasure, followed by those from Saudi Arabia and China at 17% (see chart 1). These findings hold even when gold, a popular asset class in the Middle East and Asia, is excluded.

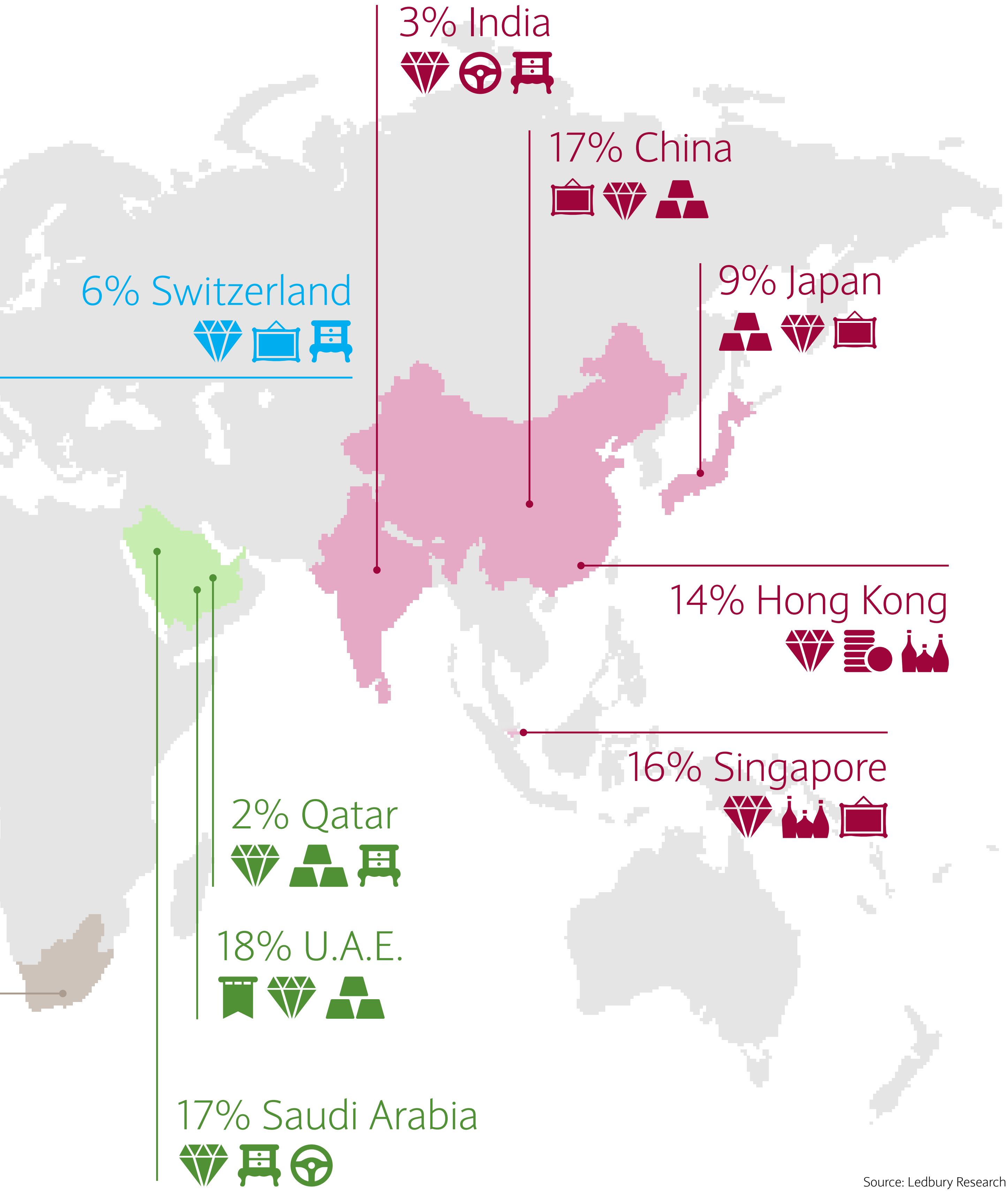
Although there are exceptions to this rule, one general theme seems to be that respondents from economies that have more volatile or less developed financial markets and high per capita incomes tend to hold higher proportions of treasure in their portfolio. Treasure in these markets can often be embedded in the local culture and perceived as something that is portable. It may be considered to be a more secure store of value than paper assets, hence its popularity as a gift at weddings. The wealthy may also see it as a hedge against inflation, which remains high in some of these countries.

7 These figures are based on a self-estimated calculation of treasures that individuals own.

Chart 1: Treasure Map

Percentage of wealth held in treasure and
top three most popular treasure types



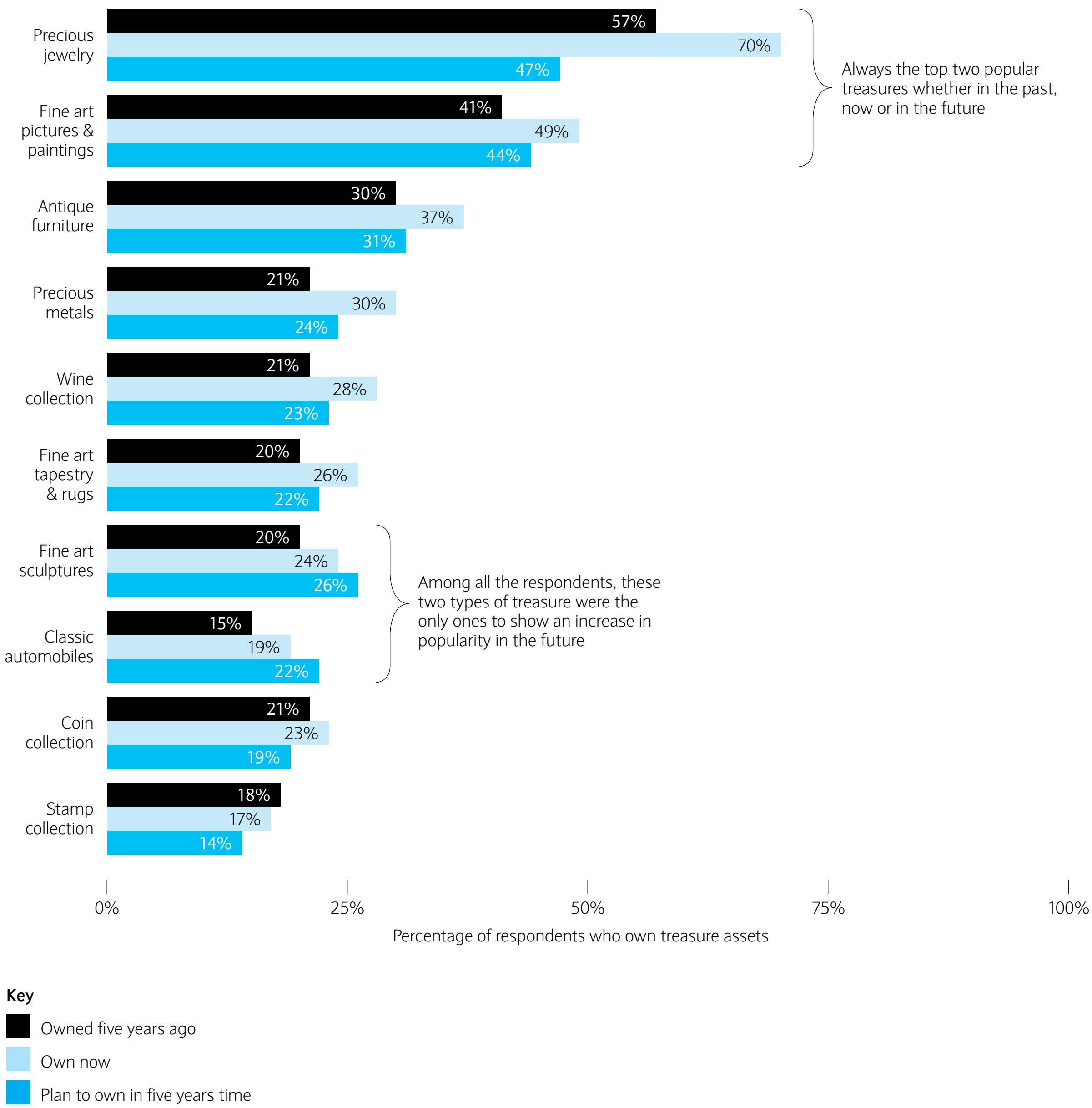


Source: Ledbury Research

A focus on treasure is not limited to emerging markets, however. In general, our survey suggests that the proportion of wealthy individuals who own treasure assets has increased compared with five years ago (see chart 2). But care must be taken when interpreting this data. For one thing, the individuals in the survey would have been younger and probably less wealthy five years ago, and hence it is natural that they will have acquired more treasure in the intervening period.

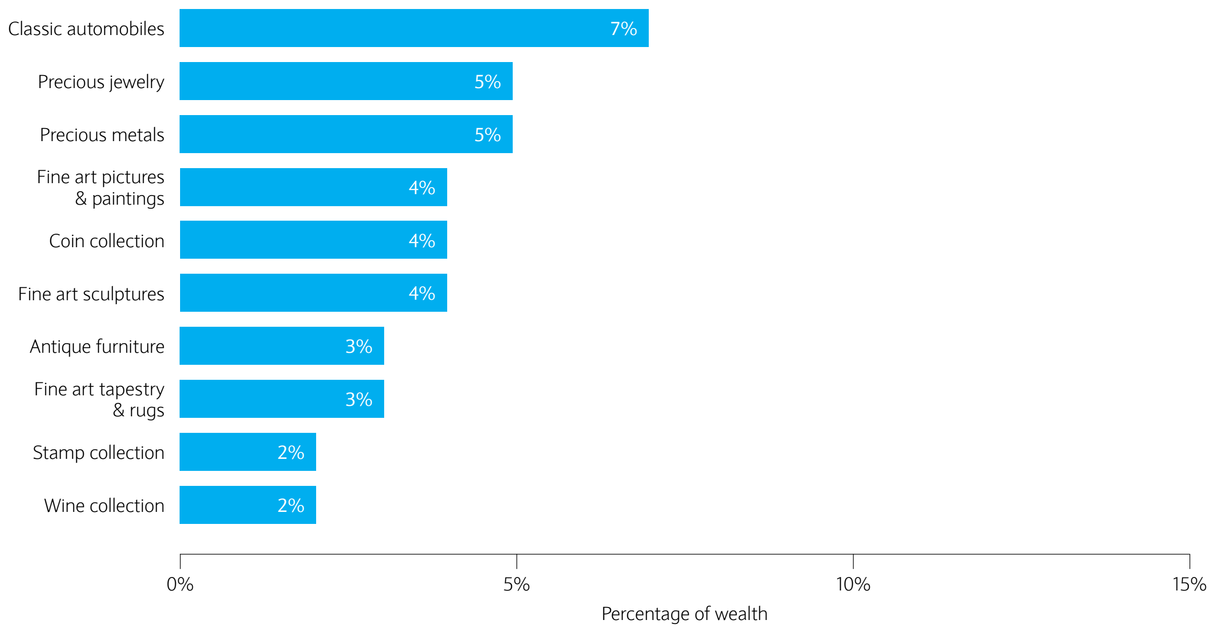
Anecdotal evidence also points to an increased focus on alternative assets, however. Phillip Hoffman, chief executive of the Fine Art Fund, says that he has seen a significant increase in the number of wealthy individuals seeking to own alternative assets, like art, as part of their portfolio. “In the old days, clients just wanted equities, bonds and a bit of real estate, but now they want a very wide distribution of assets and are looking to put a proportion of their wealth into categories of alternative assets like art,” says Mr. Hoffman.

Chart 2: Treasure: Past, Present and Future



Source: Ledbury Research

Chart 3: Percentage of wealth held in treasure assets*



*Among those that own this treasure type
Source: Ledbury Research

Increased allocations to treasure assets could be attributed to a variety of factors. The impact of the financial crisis is certainly one. Concerned about the stability of traditional financial assets, a growing number of wealthy individuals perceive that treasure, such as paintings or jewelry, could offer a more stable source of value. "In times when paper wealth is seen to be more risky, investors are drawn to real, tangible assets," says Vikram Mansharamani, a Lecturer at Yale University and Author of *Boombustology*.

Dr. Greg B. Davies, Head of Behavioral Finance at the Wealth and Investment Management division of Barclays, says that this growing focus on treasure is just one example of a familiarity bias that has become more pronounced since the financial crisis, whereby individuals focus on investments that they feel they understand. "We have seen evidence of wealthy investors moving closer to their home markets when investing and into simpler financial instruments," he explains. "The increased focus on treasure assets is part of that same trend and represents a general move toward simplicity, familiarity and tangibility."

Precious jewelry is by far the most popular category for wealthy individuals to own followed, at some distance, by fine art and antique furniture. When asked in a 2012 survey what they owned five years ago, 57% of wealthy individuals in the survey say that they owned precious jewelry but, when asked what they own today, the proportion rises to 70% overall, and 81% among women. The percentage of wealthy individuals owning fine art paintings, antique furniture, precious metals and wine has also increased fairly significantly (see chart 2), although again, this may reflect increased wealth and age in general, in addition to an increased preference for treasure assets.

Jewelry has long been popular for its "intrinsic value" — unlike cars or real estate, for example, it does not require upkeep and will generally not deteriorate over time. In some cultures, there is also a tradition of holding a proportion of wealth in assets, like jewelry, that can be easily transported in the event of an emergency.

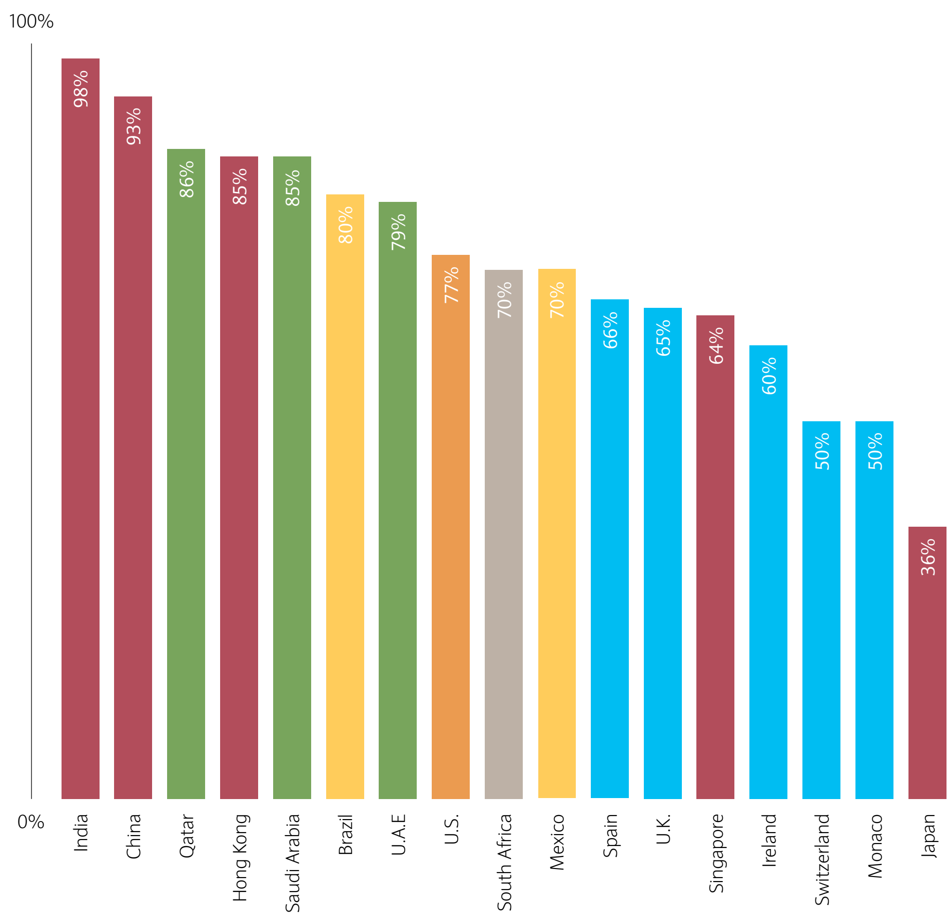
Rising prices for precious metals and gemstones have added to the appeal. In 2011, demand for gold exceeded USD$200 billion for the first time, according to the World Gold Council. Precious gems have also risen in value and achieved record prices at international auctions. In 2011, a huge diamond known as the "Sun-Drop Diamond" sold for USD$12.4 million. "People are buying jewelry because it's a safe haven that continues to increase in value," says Elizabeth Von Habsburg, Managing Director of the Winston Art Group, the largest independent art appraisal company in the United States.

Vintage or estate jewelry has grown in popularity and value. In December 2011, the collection owned by Elizabeth Taylor went under the hammer at Christie's in New York. The auction, which ran for two weeks, achieved a new world record for a jewelry collection of USD$156.8 million. This is more than three times the previous world record for a jewelry auction, when a collection belonging to the Duchess of Windsor was sold in Geneva for USD$50.3 million in 1987.

On average, the wealthy individuals in the survey who own precious jewelry have a collection that is worth around 5% of their entire net worth. Precious jewelry is particularly popular in India, where 98% of respondents say they have some in their treasure collection (see chart 4). "Wealthy Indian families have owned enormous stocks of gold and jewelry since time immemorial because it's portable, safe and not subject to confiscation," says Felix Salmon, Finance Blogger at Reuters.

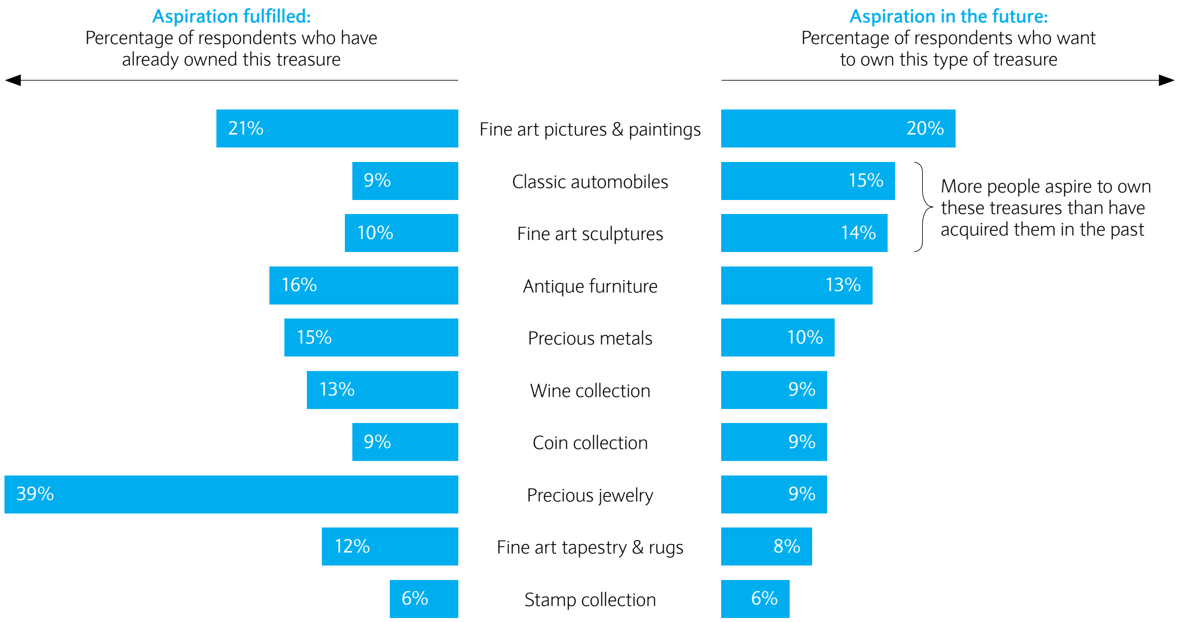
Although jewelry is the most popular treasure asset, it is not necessarily the most expensive. Collecting classic cars, while pursued by just 19% of wealthy individuals, is the most costly treasure pursuit by some margin. Among those who own classic cars, the average collection is worth 7% of their net worth, which is equivalent to USD$637,000 (GBP£395,321).

Chart 4: Percentage of respondents who own precious jewelry



Source: Ledbury Research

Chart 5: Aspirational treasures



Source: Ledbury Research

Collectors are certainly willing to pay high prices for the right car. In 2011, a 1957 Ferrari 250 Testa Rossa Prototype sold for USD$16.4 million, making it the most expensive vehicle ever sold at auction. According to the Historic Automobile Group International (HAGI), which created several indices that track classic cars, auction prices rose by 20% in 2011.

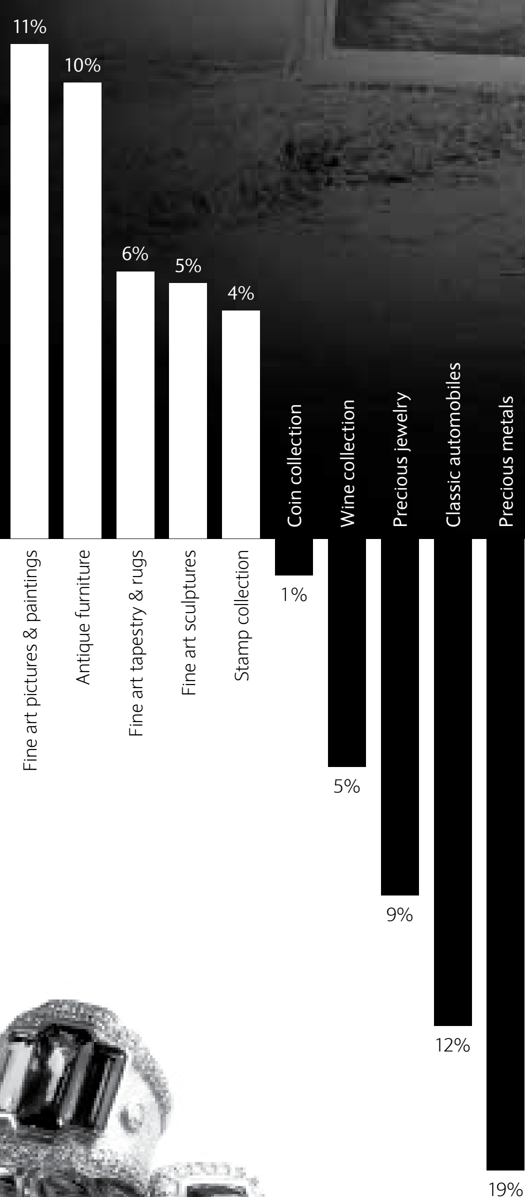
Dietrich Hatlapa, founder of HAGI, argues that the historic car market is relatively liquid compared to other collectors' markets and is also characterized by some investors who are constantly trading up and seeking to improve their collections. "Classic car collectors can border on the obsessive and are never satisfied," he says. "They always want something rarer and more collectible."

But investors must be extremely cautious when acquiring classic cars as an investment. Fashion can change, affecting valuations, and cars, unlike jewelry, can depreciate in value as a result of dents, scratches or rust. The cost of upkeep, maintenance and insurance can also be considerable, as can the transaction costs when buying or selling at auction.

Despite these risks, collecting cars is a hobby that looks set to increase in popularity. When asked which categories of treasure they want to own in the future, classic cars top the list of categories where individuals do not own one now, but would like to do so in the future (see chart 5). This suggests that classic car collecting, like the ownership of fine art sculptures, is seen as a particularly "aspirational" type of treasure whose high entry costs and level of cachet make it particularly appealing for some individuals.

Chart 6: Popularity of treasure types over life span

Percentage difference of respondents over the age of 55 who hold these types of treasure compared to those under the age of 45

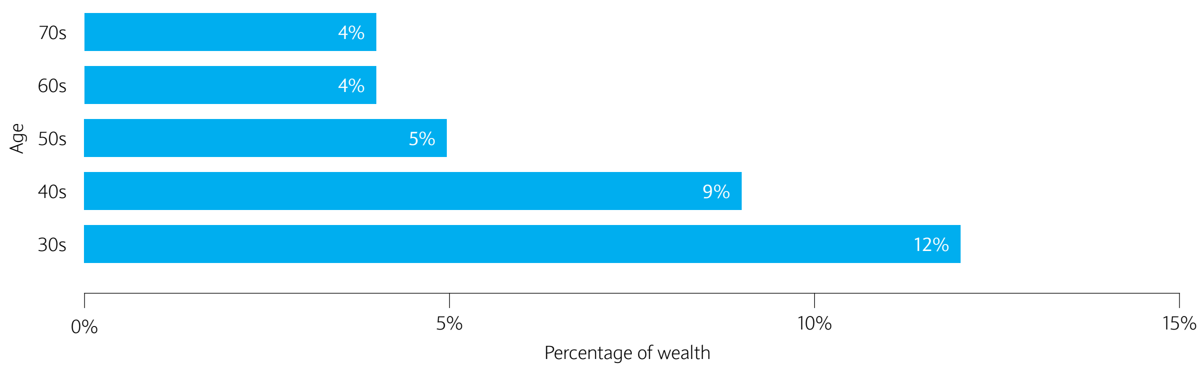


Percentage difference of respondents under the age of 45 who hold these types of treasure compared to those over the age of 55

Source: Ledbury Research

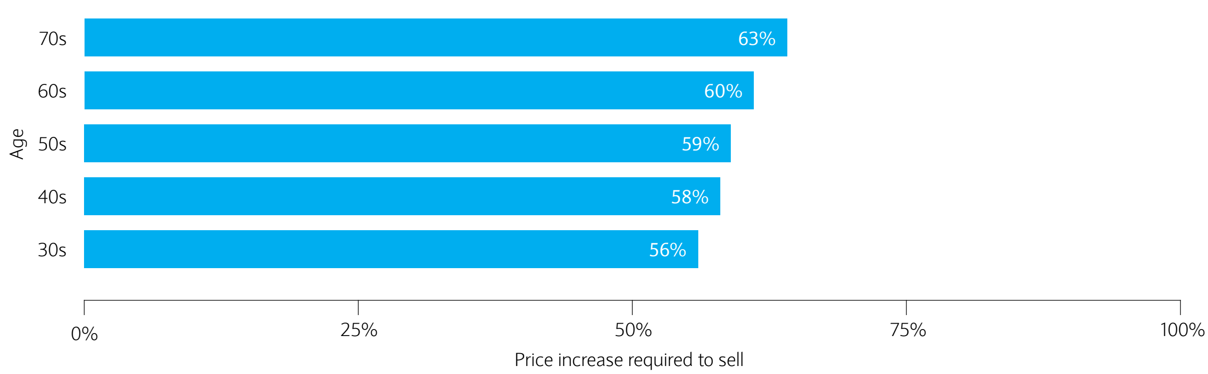
There are certain categories of treasure that increase in popularity with age. Fine art and antiques tend to be more popular among respondents aged 55 and over, while those under 45 prefer cars, wine, precious metals and jewelry (see chart 6). In general, younger individuals also tend to hold a higher absolute amount of assets in treasure and a higher proportion of their wealth in treasure assets (see chart 7), even when the effects of gender, net worth and wealth are taken into account. "Younger investors are more willing to adopt higher-risk strategies and that makes them well suited to seek financial return from collectibles as part of a diversified portfolio," says Rachel Pownall, Adjunct Associate Professor at the Tilburg School of Economics and Management.

Chart 7: Percentage of wealth held in treasure assets by age



Source: Ledbury Research

Chart 8: Price increase required to trigger a sale by age



Source: Ledbury Research

Decluttering and the endowment effect

Looking ahead to the next five years, respondents generally say that they will reduce the number of types of treasure they hold. This holds true in the case of all categories, with the exception of fine art sculpture and classic automobiles (see chart 2). The motivations for this *decluttering* will vary, and may encompass a desire to liquidate assets, realize returns or carry out estate planning. It may also reflect an expectation that broader financial markets will eventually prove to be a better investment than treasure assets once a sustained economic recovery takes hold. As fear recedes, investors may return to the markets and see less need to hold their wealth in tangible assets.

Despite these intentions, behavioral finance tells us that the reality may be somewhat different. Dr. Davies highlights the planning fallacy as one reason why individuals may not go through with their intentions to *declutter*. "Whenever people plan projects, they are invariably over-optimistic about the time it will take and the cost they will incur," he explains. "People may think they are going to get rid of their treasure, but I suspect that we will see a similar pattern in five years' time, with individuals moving into some categories of treasure and out of others but with no real net reduction in the quantity they hold."

Another factor is the endowment effect, whereby people demand a higher price for an item before being prepared to sell it than they would be willing to pay for it. "Once people own something, they start to ascribe value to that object simply through having owned it and that means that they are not willing to sell it at the same price for which they would buy it," explains Professor Pownall. "This is one reason why people might think that they are going to offload their treasure, but in reality they don't because their attachment becomes too great."

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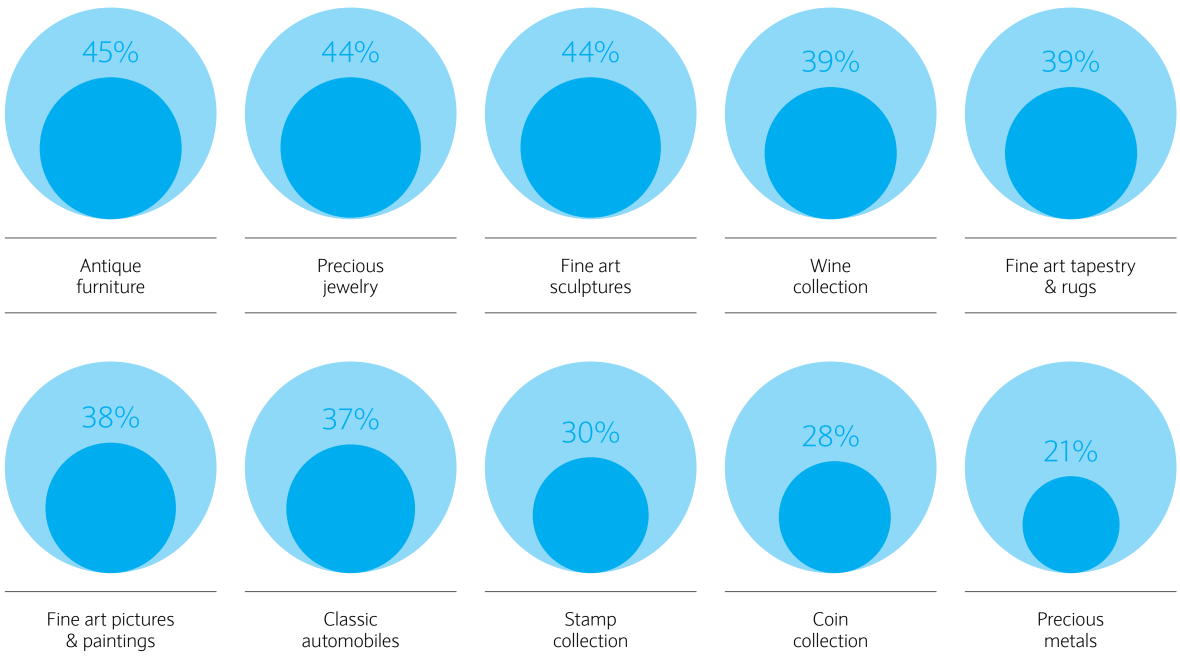
Certainly the price increases individuals would require before they would sell their treasure are extremely high. For example, respondents say they would require an average price increase of more than 60% in the first year of owning an asset to trigger the sale of fine art or paintings, and just over 50% to prompt them to sell a wine collection. The fact that individuals are only willing to sell at these levels suggests that financial gain is not the primary reason why individuals own these assets.

As individuals grow older, their attachment to treasure grows, suggesting that *decluttering* happens less frequently than individuals think. Respondents in their 70s, for example, will typically require a greater increase in value from their treasure assets in order to trigger a sale than those in their 30s (see chart 8). This is consistent with the fact that younger people are more likely than older people to use their treasure as a financial investment. Their emotional attachment is therefore lower, and they will be more willing to buy and sell in order to seek a return. "Wealthy individuals can benefit from a regular appraisal and periodic cataloguing of their treasures," explains Anthony Ruscigno, Director in the Wealth Advisory business of Barclays. "A personal assessment of collectibles is particularly useful for individuals with a significant number of personal holdings. By doing this, they are able to provide a 'roadmap' of items owned which is helpful for personal, familial and insurance purposes."

Some people, of course, may never be willing to sell their treasure. For them, the motivation for owning an item is not financial, but emotional. They may want to keep hold of an item, save it for the next generation as an heirloom, or ensure that it is available for others to enjoy in museums or their own homes. Some categories of treasure are more likely to be considered priceless than others. Just under half of respondents who own antique furniture, precious jewelry, fine art sculptures and wine collections consider their treasure to be priceless. Far fewer hold a similar view of the more commodity-like categories, such as coins or precious metals (see chart 9).

Chart 9: Percentage of respondents for whom their treasure is priceless



Source: Ledbury Research

Women and treasure

Around the world, the number of female high net worth individuals is on the rise. Women are playing a more prominent role in business, finance and entrepreneurship, and are taking greater control of their finances and wealth management. Research from the World Bank suggests that women account for up to 80% of purchasing decisions and that, by 2014, they will control a GDP that is bigger than that of India and China combined.

In the coming years, this trend will have significant implications for collectibles markets. Overall, women in our survey tend to have a stronger preference for treasure assets than men. On average, they allocate 11% of their net worth to treasure, while the corresponding figure for men is around 9%. For now, the absolute amounts held by men and women are broadly similar, but as female wealth grows, demand for treasure could increase if the proportion that they allocate to these assets remains stable.

The motivations for holding treasure differ between men and women. In general, women respondents are less likely to consider their treasure to be a financial investment, or to own it as financial security if conventional investments fail. They are also less likely to agree that there is a duty to share valuable possessions for the good of society. For women, it seems, treasure is something that is deeply personal, and that is tightly bound up with its aesthetic qualities, rather than financial motivations.

The types of treasure that women collect reflect this preference. In general, women respondents are less likely to own the "commodity-like" treasure assets, such as precious metals, than men, and they are more likely to prefer aesthetic treasures, such as jewelry, antique furniture and fine art tapestries.

The personal motivations for owning these assets also means that women are more likely to hang on to them than men. The *decluttering* phenomenon that we observe from the broader survey is less pronounced among females. For them, it seems, these assets are more likely to be "treasured" over a lifetime, and have a deep intrinsic value that forms an important part of their overall wealth.

Bequeathing assets

Well-meaning parents may think that they are benefiting their dependents by leaving treasure to them, but the reality can be very different. Expensive works of art, sculptures and furniture can cost significant sums of money to insure, store and maintain. They can also be subject to inheritance taxes, which can be high in some countries, like the U.S. and U.K. The burden of owning this treasure means that respondents who have inherited their wealth are much more likely than those who acquired it through other means to say that they have either sold it, or plan to do so in the future (see chart 10).

Ms. Von Habsburg confirms that selling on inheritance is the rule rather than the exception. "In our experience, most of the inherited works of art and collectibles are sold," she says. "The inheritors may hold on to one or two pieces that have a strong sentimental connection but, in most cases, they wish to sell, often quite quickly."

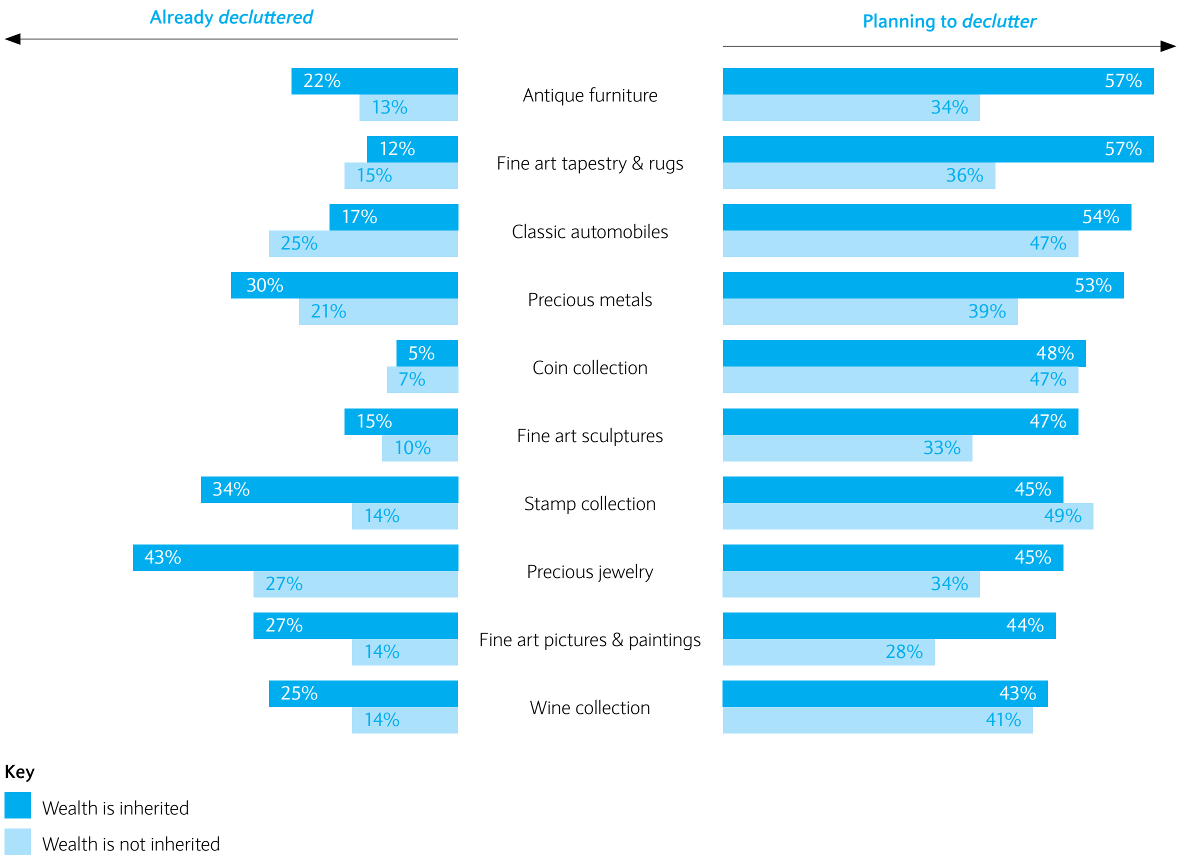
There are several reasons in addition to the cost of upkeep that are driving this trend. "Tastes change," says Ms.Von Habsburg. "And the inheritors often have their own ideas of what they like and want to collect. Collectibles that may be popular with one generation may not be popular with the next. Also, inheritors may be very keen to monetize the assets and put them into their preferred asset class. Inheritance tax issues can also be an important driver of monetization."

The tendency for wealthy individuals to sell treasure when they inherit it highlights the importance for individuals to plan carefully when bequeathing treasure to dependents. Passing an art collection down the generations can create a wonderful legacy, but it can also be an unwanted burden. In some cases, it may be better to liquidate these assets prior to bequeathing them although, of course, they may want to enjoy them into old age and therefore be unwilling to do this. At a minimum, family members should engage in a candid discussion regarding their plans for the inter-generational transfer of treasure, and the associated interest and desire that the next generation has in receiving these items. "We often find that inheritance adds a completely new dimension to owning treasure," says Mr. Ruscigno. "This is especially relevant when emotions and attachment to valuable assets comes into play. Individuals and family members should anticipate this so they understand the key estate planning aspects surrounding the retention, sale or transfer of treasure across generations."

Ms. Von Habsburg notes that attitudes are changing over time and she believes that more and more of the current generation of collectors that are planning for the future realize that their collection may not be of interest to their offspring. She notes that it is possible, for example, to set up trusts where tax is deferred on collectibles. Before any decision is made, however, she recommends that a correct appraisal needs to be done. "Too often, decisions can be made in terms of insurance appraisals without having a current fair market value, which means that decisions get made on an incorrect basis. You need to establish the correct level of value at the outset."

As we discuss in the next section, these difficulties with valuation have much broader implications. The fact that valuation can be so subjective is precisely what makes investing in treasure so risky, especially if an individual's motivations are primarily financial.

Chart 10: *Decluttering*: What has been, what will be?



Source: Ledbury Research


WINE SALES
RESTAURANT
ART & FURNITURE

Emotional versus financial motivations

Recent years have seen significant convergence between the world of treasure and the financial services industry. Investors seeking diversification[8] into treasure assets can now invest through specialist funds. They can track prices using indices such as the Mei Moses Index for art and Live-ex Index for wine. Some financial institutions may enable items to be used as loan collateral. And investors can seek advice on investing in treasure through a network of private banks, family offices and wealth advisers.

Markets for art and other treasure assets, although tiny compared with traditional asset classes, are growing. According to Skate's Art Investment Handbook, there are works by 300,000 artists, valued in total at USD$400 billion, available to trade at any time on the global art market; this results in a trading volume of USD$60 billion per year (although to put that into perspective, weekly trading volumes for all stocks in the Russell 1000 during April 2012 were USD$640 billion)[9]. Investing in art, once the preserve of a wealthy elite in Europe and North America, is now global. In 2010, China overtook the United States as the world's largest art market for the first time[10].

8 Diversification does not protect against loss
9 http://www.brcinvest.com/market-soars-trading-volume-dwindles/
10 *The International Art Market in 2011: Observations on the Art Trade over 25 Years*

Financial motivations

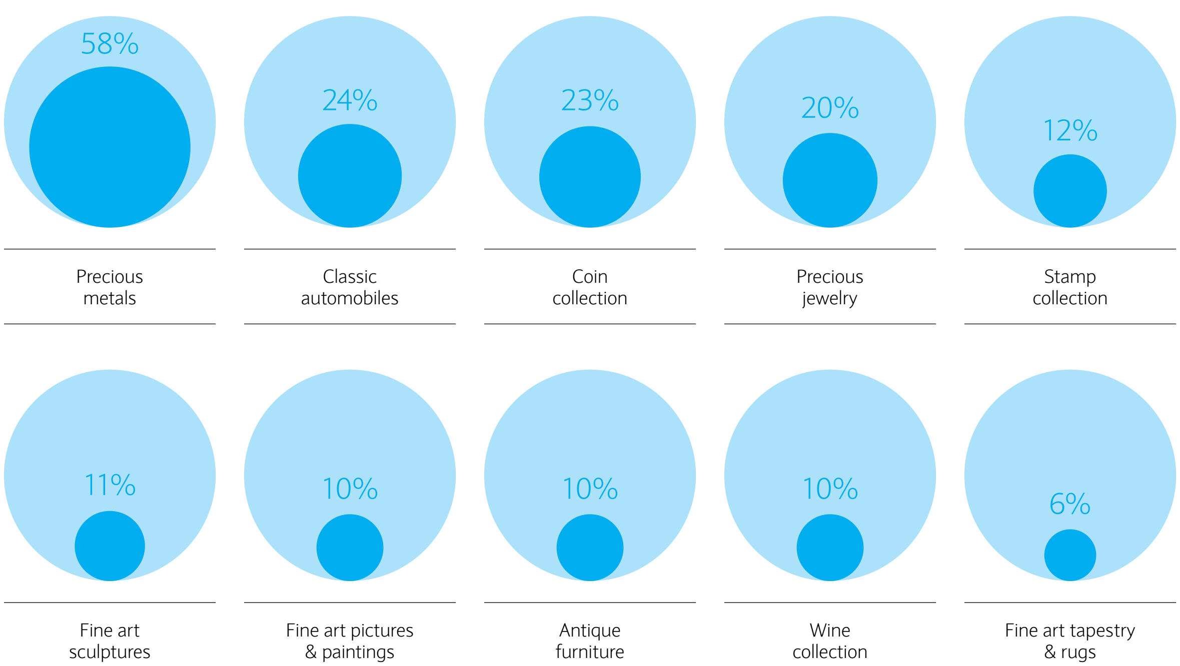
Many advisers argue that investing in treasure assets, such as art, helps to diversify portfolios, protects against inflation and currency devaluation, and provides returns that are uncorrelated with those in the main financial asset classes. On average, only 18% of the treasure owned by wealthy individuals in our survey is owned purely as an investment and just 21% to provide financial security if conventional investments fail; although, it should be noted that there will be overlap between these motivations.

Analysis of specific categories of treasure shows that this result is skewed somewhat by precious metals, which are arguably more commodity-like in their characteristics. Nearly 60% of respondents say they own precious metals for pure investment motivations, while 10% of them said they hold fine art, antique furniture or wine for the same reason (see chart 11). The pattern is similar when respondents are asked whether they hold different assets to provide financial security should other investments fail (see chart 12).

Financial motivations for holding treasure can encompass a range of different underlying preferences. Mr. Salmon argues that individuals who buy treasure for financial reasons do not always do so in the anticipation that the item will provide a financial return. "People do not generally buy treasure because it is going to rise in value," he explains. "They do so because it has a permanent value of some description. That is a much more sensible and realistic motive than buying something because you expect to make a profit from it."

There are significant regional differences in the propensity of wealthy individuals to hold treasure for financial reasons. Respondents from India and Qatar hold a substantial portion of their treasure, in part, for financial motivations (67% and 50% respectively), while respondents in the U.S. and Switzerland hold less than 10% of their treasure assets for financial reasons (see chart 13).

Chart 11: For each treasure, percentage of respondents who own the asset purely as an investment



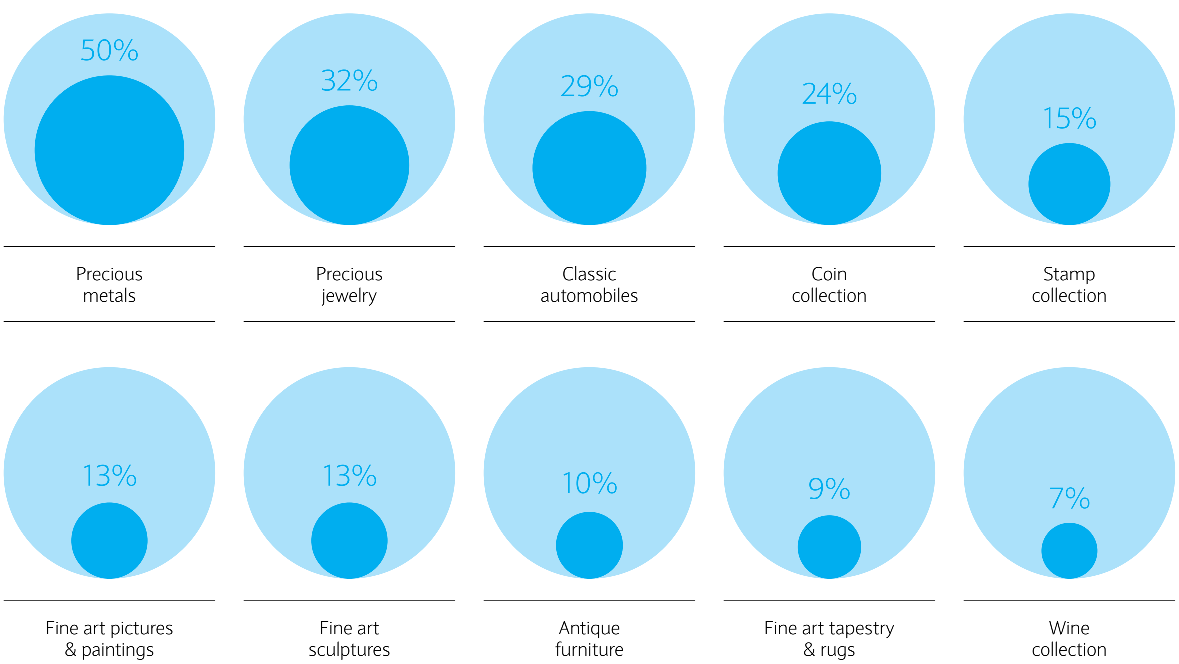
Source: Ledbury Research

Again, it seems that respondents from countries with large amounts of new wealth, where there is high inflation, or where financial markets may be less developed and more volatile, have a preference for holding at least part of their wealth in treasure as a store of financial value. It is striking to note, for example, that 98% of respondents from Qatar and 90% from India agree that it is hard to find things that will remain secure in terms of financial value (see chart 13).

But is holding treasure really a good investment? Some investors will, of course, do extremely well even if most do not earn good risk-adjusted returns. By one measure, returns from investing in art can outpace stock markets. The Mei Moses All Art Index[11], which tracks returns from paintings sold mainly in New York and London, returned 11% in 2011, beating the return from the S&P 500 by about 9%; although, of course, an example of a single year with specific selected indices in no way proves a more general point.

Many observers also point to problems with indices like Mei Moses, which inherently cover a tiny proportion of the art market, and only those sales that took place at auction, rather than the far larger proportion that are transacted privately or through dealers. There is also a selection bias, because works that come up in auction will typically be those that are likely to sell.

Chart 12: For each treasure, percentage of respondents who own the asset to provide security should other investments fail



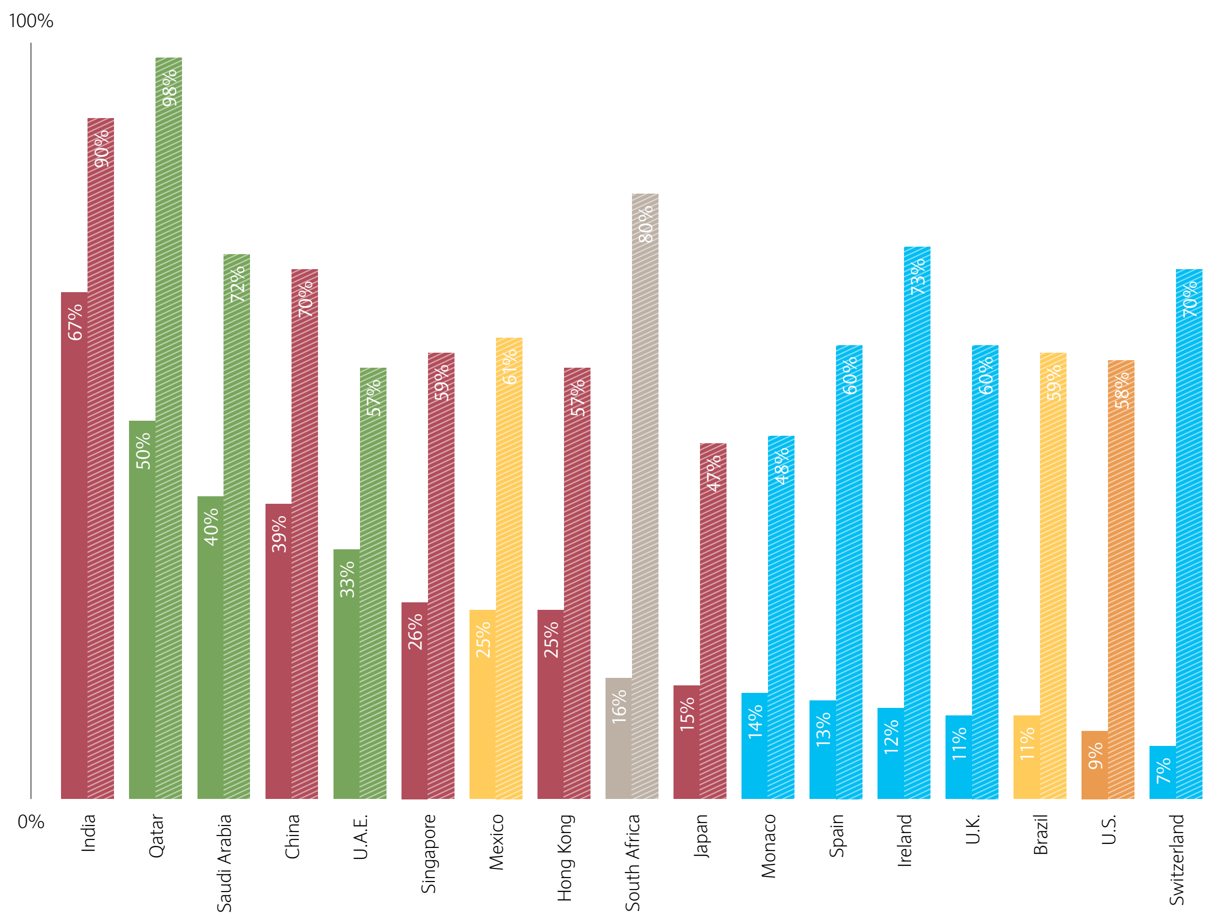
Source: Ledbury Research

11 The Mei Moses family of art indexes are based on a proprietary database of repeat sale pairs created from transactions in the art auction markets of the U.S., Europe and China. The database now has a total of over 30,000 repeat sale pairs for approximately 20,000 individual works of art.

"Indices do not include work that auction houses have refused to accept for resale," says Don Thompson, Professor at the Schulich School of Business, York University, Toronto; Contributing Editor to *The Art Economist*; and Author of *The $12 Million Stuffed Shark: The Curious Economics of Contemporary Art*. "Art that has not found success in past sales no longer appears in prestigious evening auctions. Only successful artists — those with rising sales prices at auction — have their work appear in the index. This is analogous to looking only at S&P 500 stocks that have increased in value, and concluding that investment in shares is a good thing."

There is also limited evidence that treasure assets are uncorrelated with broader financial markets. When the financial crisis first struck in 2008, the prices of many collectibles dropped significantly. Then, as financial markets recovered in 2010, the art market also rebounded. In a comparison between art prices and the performance of the London Stock Exchange going back to 1765, the academic William Goetzmann found a strong positive relation between the movements of both[12].

Chart 13: Financial motivations for holding treasure



Key

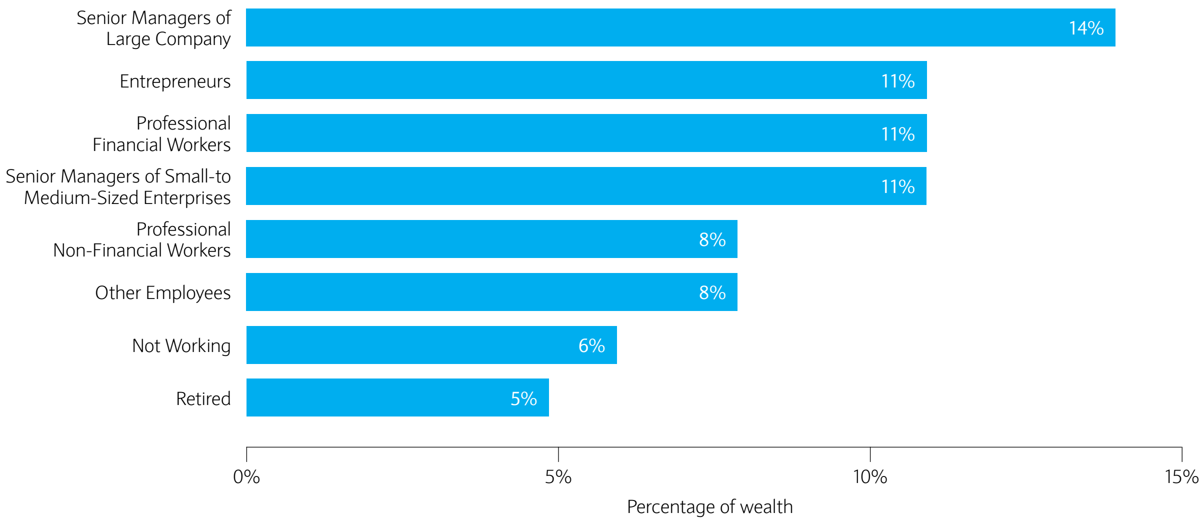
Percentage of assets held for financial motivations

Percentage of respondents that agree it is hard to find things that will remain secure in terms of financial value

Source: Ledbury Research

12 *Art and Money*, William Goetzmann, Luc Renneboog and Christophe Spaenjers, April 2010

Chart 14: Propensity to own treasure by profession



Source: Ledbury Research

The types of individuals who acquire treasure tend to be people like entrepreneurs and professional financial workers, whose large incomes and wealth fall when broader financial markets suffer (see chart 14). “Demand for treasure is driven by investors with large incomes, and that is heavily cyclical,” says Dr. Davies.

In addition to being correlated with financial markets, investing in treasure is highly risky. Consider the art world as an example. Although media reports tend to focus on the blockbuster auctions where everything massively exceeded its reserve, there are many items that fail to sell and many that auction houses will not be prepared to put forward at all.

Art is typically an illiquid investment, which means that sellers cannot always offload it in times of need. “The first time you try to sell a painting, you suddenly realize how ill-equipped the market is and how huge the bid-offer spreads are,” says Mr. Salmon. “It’s much harder to sell art than people think and just because something is valued at a certain amount doesn’t mean that you can expect anything approaching that if it is sold.”

This does vary from one category of treasure to another, however. Chris Smith, an Investment Manager for the Wine Investment Fund, points out that wine is easier to value and sell than, say, art, because many bottles of wine are made at a single chateau each year, whereas every painting is unique. Even within wine, however, there are differences. "If you're looking for liquidity, it's better to invest in Bordeaux than Burgundy, simply because the quantities are larger," explains Mr. Smith.

Valuation is another key challenge, despite the emergence of indices for some types of treasure and an increase in publicly available price information. In the art world, trading volumes are extremely thin, which makes it very difficult to arrive at an objective valuation. The length of time that elapses between a single work coming for auction for a second time can be enormous. Research by Clare McAndrew, founder of Arts Economics, a consulting firm, found that it takes on average about 30 years for the same work of art to appear on the market again[13].

The prices achieved at auction for similar works can vary enormously, and be influenced by a range of factors, including the skill of the auctioneer, the interaction between bidders and the sale price of previous lots. Even the weather on the day can make a difference. Professor Pownall has conducted research that compares repeat sales in the London market with the weather on the days when auctions took place[14]. "We found that, on exceptionally sunny days, people were willing to pay more," she explains.

The transaction costs associated with investing in treasure can be high, and many investors omit to factor these into their overall financial planning. At major auction houses, buyers can expect to pay up to 25% on the value of purchases, although the premium on sales falls as final bids increase. Buyers also need to take into account sales taxes — which will vary depending on where the purchase is made — import taxes, transport costs and brokerage fees — which could cost around 10% of the purchase price.

There are also ongoing costs to consider, including insurance, storage and maintenance. Property and casualty insurance will cost between USD$700 and USD$1,000 per USD$1 million of appraised value[15]. Certain pieces may require storage in climate-controlled units with consistent temperature and humidity. In total, the annual costs of managing a collection are typically between 1% and 5% of the value of the works[16]. A rise in the collection's value over time increases this burden, because the annual costs grow in absolute terms.

Although investing in art and other treasures is often cited as an effective means of diversifying a portfolio, simply holding a proportion of wealth in art, for example, is not enough even if that were the case. Investors must also diversify within a single category, because the sub-categories can have very different dynamics, risks and returns. Contemporary Chinese art, for example, will behave very differently from the market for Old Masters. Diversifying properly therefore requires very deep pockets, because of the need to hold a variety of items with different characteristics.

13 Quoted in *CFA Magazine, The Fine Art of Investing*, May to June, 2010
14 *Does the sun "shine" on art prices?*
15 http://www.artinfo.com/news/story/32347/art-insurance/
16 http://online.wsj.com/article/SB10001424052748703959704575453162597091330.html

Funds can offer collectors who are motivated by financial goals a way of achieving that diversification[17] without owning multiple categories outright. “People have seen the growth and value of art, and they want to have a stake in it but can’t access it on their own,” says Mr. Hoffman of the Fine Art Fund. “We’ve got 45 people on our team and we cover twelve different sectors of the art market. If you know what you’re doing in the art market, you can buy privately and you can often get a big discount for being a cash buyer. You can then sell at auction or at retail and the margins can be enormous.”

Finally, there can be problems with authenticity. In 2011, the Knoedler Gallery closed after a controversy involving a painting purported to be by Jackson Pollock but now believed to be a forgery. Some scholars have been reluctant to authenticate works because they fear lawsuits should they make the wrong call. If a scholar who specializes in an artist’s work says that a painting is not authentic, they run the risk of a lawsuit brought by the seller. With most scholars offering their opinions for free or at minimal cost, there is therefore little incentive for them to make pronouncements on a work that could later prove controversial.

Of course, investors may also benefit from these inefficiencies in the art market. Many individuals can and do make large sums of money from investing in art and other treasure assets. The relatively small size of the art market means that there are more opportunities to create and move markets than in, say, equities or currencies. Even something as simple as exhibiting a work can enhance its value. “There are some people who have started collecting and single-handedly created a market,” says Dr. Stephen Satchell, Fellow of Trinity College at Cambridge University. “That’s not done necessarily by just shrewdness, but by enthusiasm too and because they’ve been smart enough to collect something that’s popular.”

But creating consistently positive returns requires a high degree of expertise, time and contacts, which very few casual collectors will possess. Funds can be one way of accessing this expertise but, as with funds in traditional financial markets, finding the right ones can be challenging. “To be a successful art fund you need size, expertise, track record and the ability to source art privately,” says Mr. Hoffman. “If you haven’t got those it will be extremely difficult.”

17 Diversification does not protect against loss.

Behavioral biases

When an individual invests in any financial asset — whether a stock, bond or real estate fund — their reasons for doing so will typically combine both financial and emotional motivations. As well as thinking about the potential financial returns from investing in a hedge fund, for example, an individual may also derive a benefit from the status that being a sophisticated investor brings, while an investor in bonds may derive comfort from their perceived safety.

Treasure investments are no different. Although some individuals may acquire treasure primarily for financial reasons, a greater proportion of the benefits can be derived from the emotional aspects, such as enjoyment, status, sharing with friends or bequeathing to dependents. “When somebody buys a painting for USD$80 million, the utilitarian value of that painting is no greater than that of a poster that sells for USD$20,” says Meir Statman, Glenn Klimek Professor of Finance at the Leavey School of Business, Santa Clara University and Author of *What Investors Really Want*. “This means that most of the benefits come from the expressive and emotional aspects.”

The fact that treasure has such a large emotional component to it means that collectors can be particularly susceptible to behavioral biases and heuristics. “We know that traditional investments suffer from behavioral biases but, in the art market where there’s a greater amount of emotional value involved, then these biases are by definition more severe,” says Professor Pownall. “Investors are more averse to making losses and tend to want to hold onto winners for a longer period of time in the art market than with traditional investments.”

The *availability bias*, a mental shortcut whereby investors will draw conclusions from information and examples that are readily at hand, can skew decision making. Because media reports on art sales tend to focus on the spectacular gains and the record-breaking hammer prices, investors may falsely believe that these are representative of broader trends in the market. “Stories about those spectacular gains give investors a false sense of security that the average return on art is very high because those cases are the most available in their memory,” explains Professor Statman.

In a public auction, bidders may become susceptible to the *winner’s curse*, which holds that the winner of the auction will be the one that has been most optimistic in their appraisal of an item’s value, and therefore almost by definition will overpay. Emotional attachment to an object can exacerbate this phenomenon, causing the *affect bias*. “People will tend to pay more and consider a purchase to be less risky if they like an object and they’ll also pay more if they are in a good mood,” says Professor Pownall.

The previous price paid for a similar item can also have an impact on price expectations in a bias known as *anchoring*. Academic research has shown, for example, that buyers in an auction will “anchor” their estimate of the value of an artwork on the previous sale[18]. But this can create distortions because the previous sale may have taken place in a “hot” market, when valuations were unusually high, or in a “cold” market, when they were uncharacteristically low. Bidders can also anchor their valuation to the estimate given by the auction house at the time of sale.

Treasure can be susceptible to some strange inversions of traditional economic theory. With most consumption goods, increased scarcity leads to higher prices but with art, the opposite sometimes seems to be true. It is striking that, of the artists that achieve the highest prices at auction, many are highly prolific. Damien Hirst and Andy Warhol, for example, have produced countless artworks yet, rather than reduce prices, their familiarity and exposure have helped to raise them. “The mere fact that a collectible is highly priced will induce demand from some buyers,” says Mr. Salmon. “When you buy a Damien Hirst or an Andy Warhol, they are instantly recognizable and people know them first and foremost for being expensive.”

Some collectors will ascribe different motivations for their investment depending on its performance over time. For example, if the value of an item increases, they are more likely to ascribe this to their shrewd financial judgment, but if it falls, they may focus more on the emotional benefits. “According to the *attribution bias*, people think of assets differently depending on whether they are rising or falling in value,” says Professor Pownall. “If prices are rising, they will be happy to think of collectibles as an investment but, if they are falling, they are more likely to say that they bought something because they like it.”

18 *Anchoring Effects: Evidence from Art Auctions*

> “People will tend to pay more and consider a purchase to be less risky if they like an object and they’ll also pay more if they are in a good mood.”
>
> **Rachel Pownall**, Adjunct Associate Professor at the Tilburg School of Economics and Management

As good as gold

Throughout history, gold has played a central role in the development of humankind. In the words of economic historian, Peter Bernstein: “Gold has motivated entire societies, torn economies to shreds, determined the fate of kings and emperors, inspired the most beautiful works of art, provoked horrible acts by one people against another, and driven men to endure intense hardship in the hope of finding instant wealth and annihilating uncertainty[19].”

Gold has been crucial in the world of finance, initially as a currency, then as a backbone to currencies, through the gold standard and the Bretton Woods system. Today, central banks hold gold as a store of value and as a guarantee to redeem promises to pay depositors. Although some central banks, including the U.K., have sold off gold holdings over the past two decades, many have been buying it again as soaring sovereign debts have undermined the value of the U.S. dollar, the euro and the yen.

Yet as an asset, gold does not pay any direct financial return, whether a dividend, coupon or rent. As Warren Buffett said in a 2012 preview to Berkshire Hathaway’s Annual letter to shareholders[20]: “It has two significant shortcomings, being neither of much use nor procreative.”

So why do investors hold gold? There is a strong historical association between gold and treasure, and a perception to this day that, if you own gold, then you are both rich and safe. Jonathan Spall, Director of Commodities at the Investment Banking division of Barclays, explains that much of gold’s popularity is due to political uncertainties. “People hold gold because it’s a hedge against uncertainty,” he explains.

Mr. Spall believes that owning gold is, in many ways, no different from owning a Rembrandt. “The painting is worthwhile for them because they believe in it, even if other people see it merely as a collection of wood, canvas and paint,” he says. “It’s the same with precious metals like gold. They provide security because people believe in them. Buyers analyze an investment in gold in a very different way from an investment in copper, for example, although both are commodities.”

Since February 2012, better news on the U.S. economy and some much-needed breathing space in the eurozone crisis have caused gold prices to fall slightly. With investors feeling slightly more optimistic about the global economy, what does this mean for gold over the longer term? This may be a difficult question to answer but, whatever happens, gold is unlikely to lose its appeal. As Warren Buffett has said: “When people a century from now are fearful, it’s likely that many will still rush to gold.”

19 *The Power of Gold*, Peter Bernstein
20 http://www.berkshirehathaway.com/2011ar/2011ar.pdf


GOLD
999,9
ESSAYEUR
FONDEUR

Types of emotional motivations

For most wealthy individuals, the emotional motivations for holding treasure are far more important than the financial. Treasure is something that can be enjoyed individually, or shared with friends, peers or the general public. It is something that can confer status on the owner, provide intellectual stimulation and be a source of respect that says more about an individual than his or her wealth, position or background.

These motivations are tightly bound up with each other. People who own treasure may have various emotional motivations. They may collect classic cars to show to people, wine to share and paintings to pass on to the next generation. A single item of treasure may comprise multiple motivations.

Enjoyment

Enjoyment is by far the most important motivation for owning treasure. Almost two-thirds of the treasure owned by respondents is held because of the pleasure that it brings them (see chart 15). “Art is one of the few tangible assets that also qualifies as a passion investment,” says Mr. Thompson. “There is more enjoyment in displaying art on your wall than in displaying stock certificates.”

The enjoyment motivation comes out on top everywhere with the exception of Saudi Arabia, India and Qatar (see chart 16) — where financial motivations are more important, as discussed in the previous section. It is also particularly strong among older respondents.

The fact that enjoyment is such an important motivation supports a view that treasure should be regarded as part of an individual’s personal holdings rather than as a separate asset class within their investment portfolio. An individual’s personal holdings comprises all those assets that play a role in their lifestyle, such as personal property and treasure, and for which the financial characteristics are less important than the use or pleasure that they provide. “Treasure is important to people first and foremost for personal reasons, not financial ones,” says Dr. Davies. “Owning these items is largely about enjoyment of life and has far less to do with financial motives or the achievement of financial goals.”

When considering an optimal investment solution, a good wealth manager will take into account treasure holdings in the context of an individual’s total wealth, because they can have an effect on the type of strategy that will be suggested, even for the purely financial assets. The wealth manager should also aim to understand the importance of an individual’s broader personal objectives, as this again can have a profound impact on financial planning and an appropriate investment portfolio.

The level of enjoyment that collectors derive from their treasure, and the extent to which they view it primarily as a financial investment, are motivations that are inversely correlated with each other. The more that collectors say they acquire treasure for financial reasons, the less enjoyment they tend to derive from it. But there is a strong link between enjoyment and other emotional motivations. Individuals who enjoy owning treasure are also likely to value it for its social or heritage benefits.

In this respect, the high degree of emotional value that investors attach to their treasure brings positive benefits. There may also be financial benefits from ownership, but for most wealthy individuals, this is not first and foremost why they own these objects.

Chart 15: Motivations for owning treasure assets*

62%
I enjoy owning them

37%
I want to protect them to be enjoyed by my children/grandchildren

35%
They are a part of my family/culture

26%
I enjoy sharing them with my family/friends

26%
I like to show them to people

21%
They will provide financial security if conventional investments fail

20%
Their value is because there are so few of them around

18%
They are purely an investment

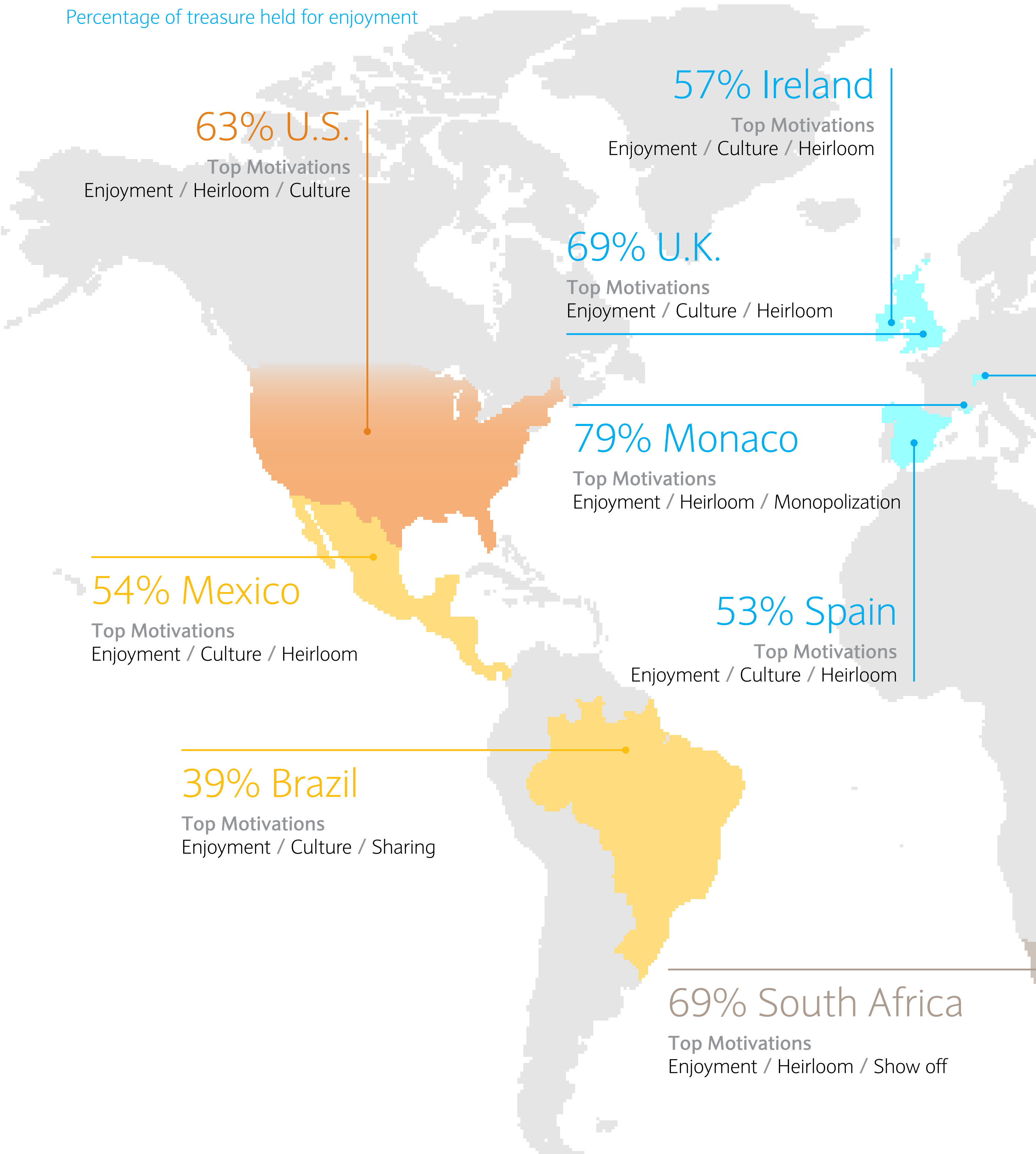
12%
I don't want anyone else to have them

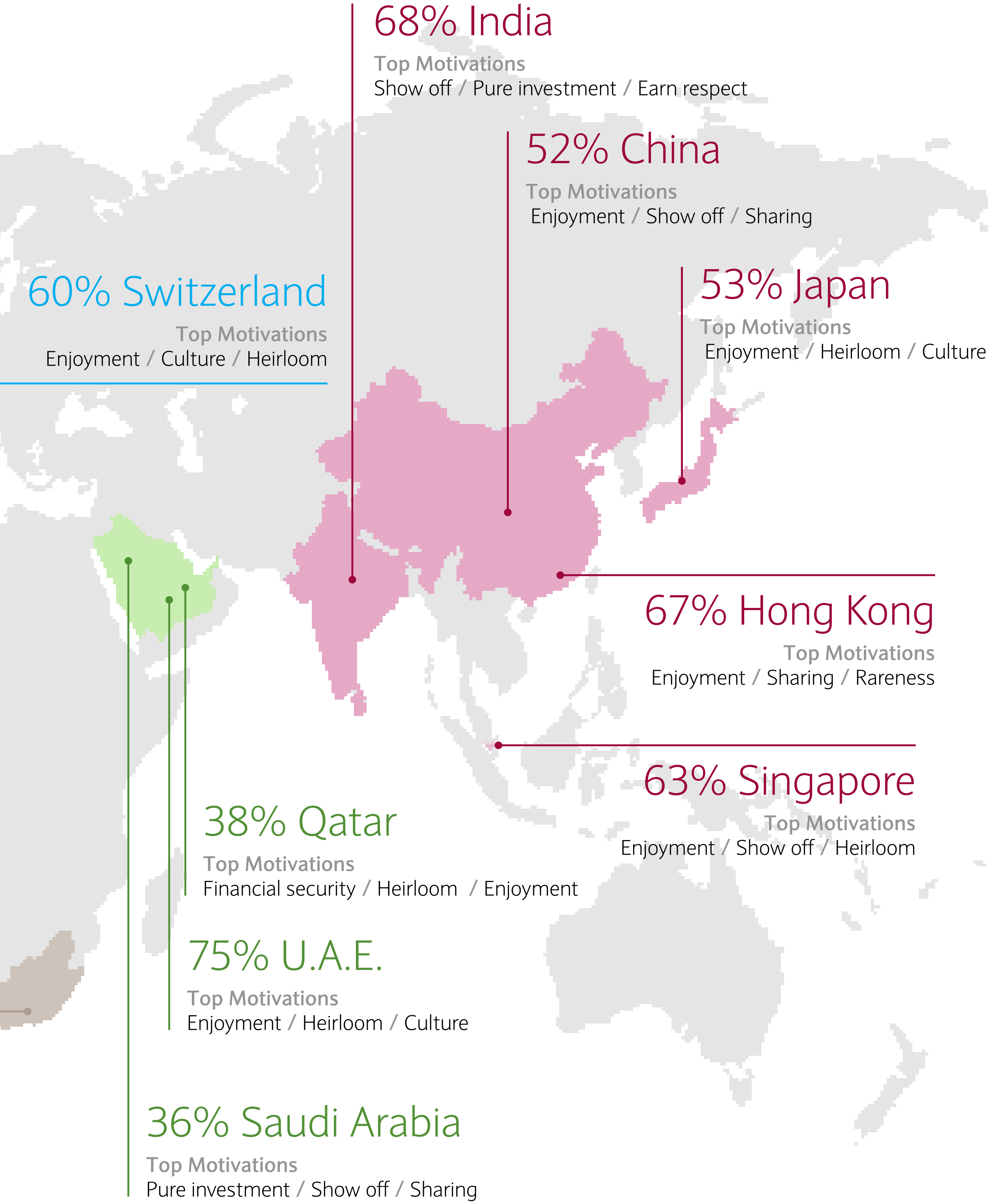
10%
Other people respect those who have them

*Percentage of treasure held for each motivation
Source: Ledbury Research

Chart 16: Motivations for owning treasure

Percentage of treasure held for enjoyment





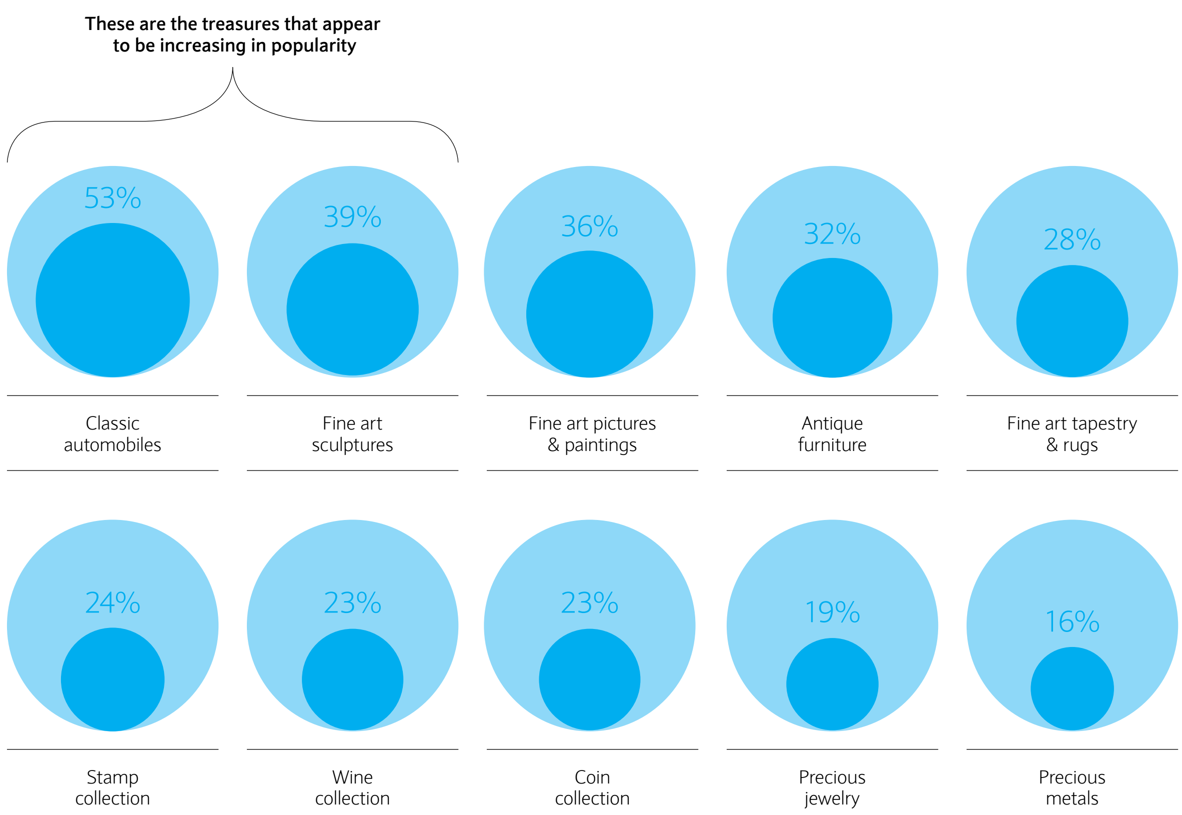
Source: Ledbury Research

The social motivation

Treasure, unlike financial assets, can be shared and enjoyed collectively. Roughly one-quarter of the treasure that respondents own is held for social purposes, such as sharing with friends or showing to people (see chart 15).

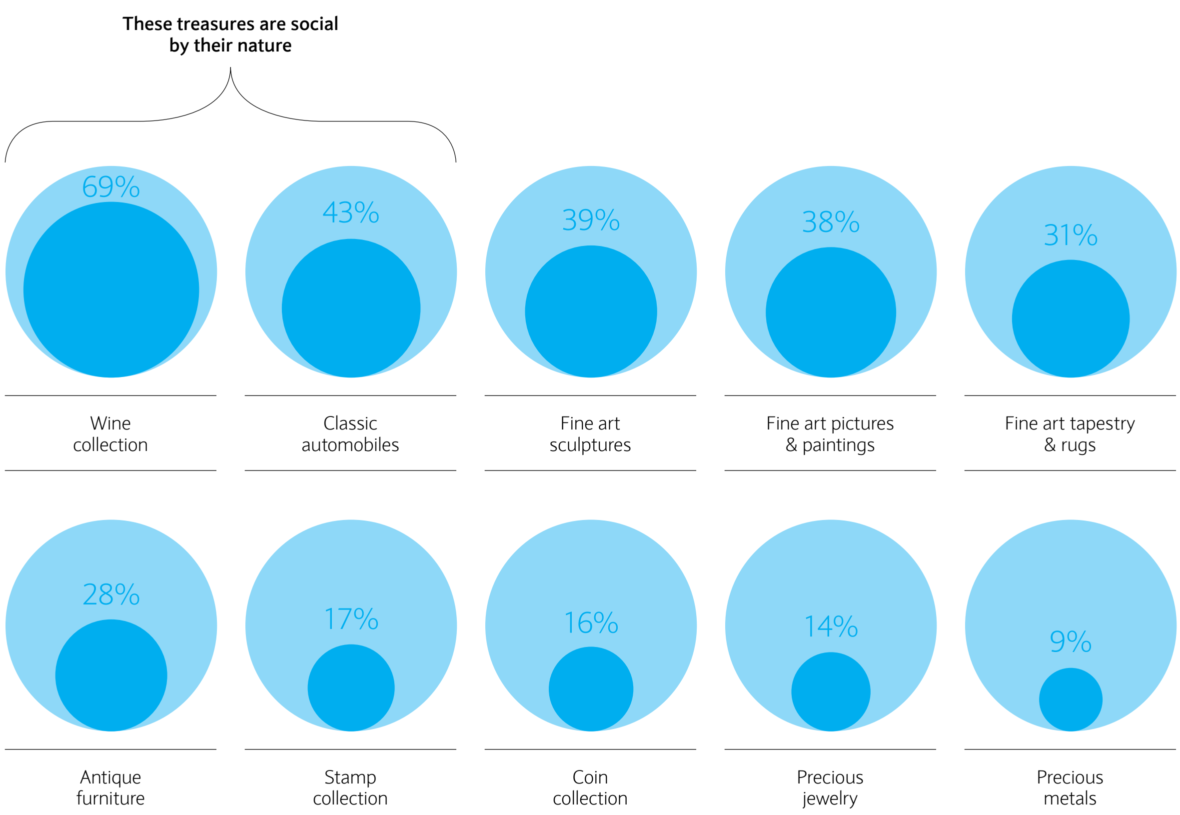
Wine and cars are the categories of treasure that are most closely associated with social motivations. Just over half of respondents who own classic cars say that they like to show their collection to other people, and nearly 70% say that they like to share their wine collection with friends (see charts 17 and 18). Wine is often an anomaly compared with other types of treasure because it is meant to be shared and, unlike other treasures, consumed. Cars are also the category of treasure that is most likely to be seen as providing a source of respect from other people (see chart 19).

Chart 17: Percentage of respondents who like to show their treasure to people



Source: Ledbury Research

Chart 18: Percentage of respondents who enjoy sharing treasure with their friends

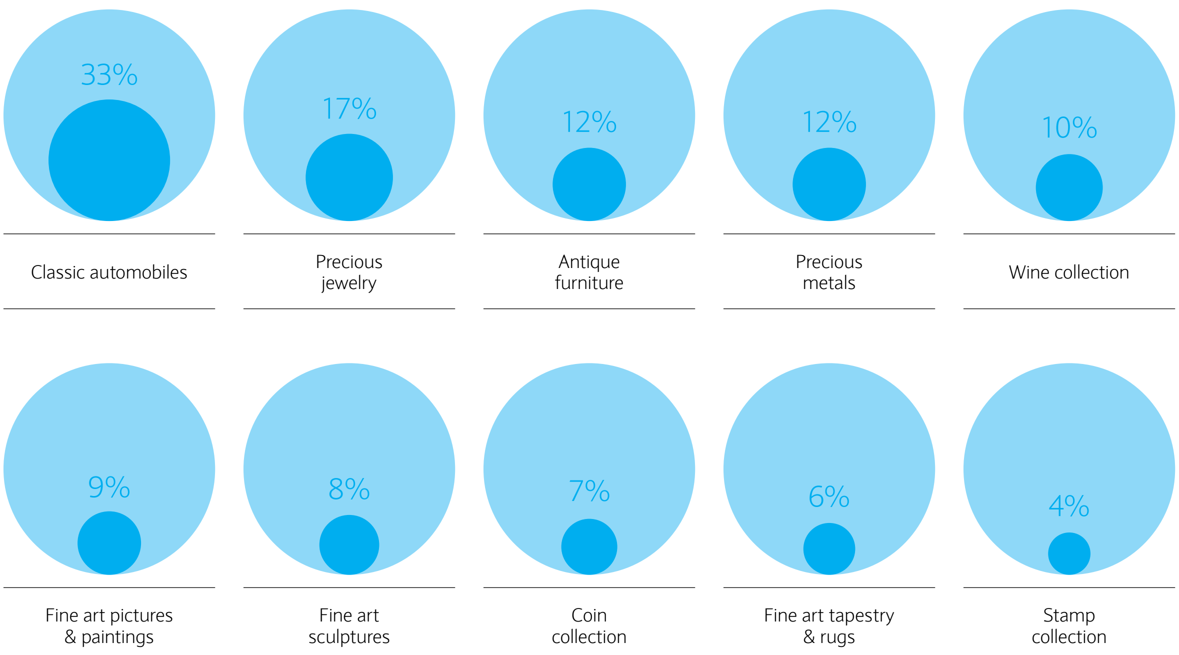


Source: Ledbury Research

This social motivation is particularly strong in key emerging markets. Respondents from India say that 75% of their treasure is collected, in part, because they like to show it to people, while the figure for China is 52%. By contrast, the figures for the U.K., Ireland, Switzerland and Japan are all less than 20% (see chart 20). This suggests that, in countries where there are large quantities of newly created wealth, there may be a propensity to demonstrate status through treasure.

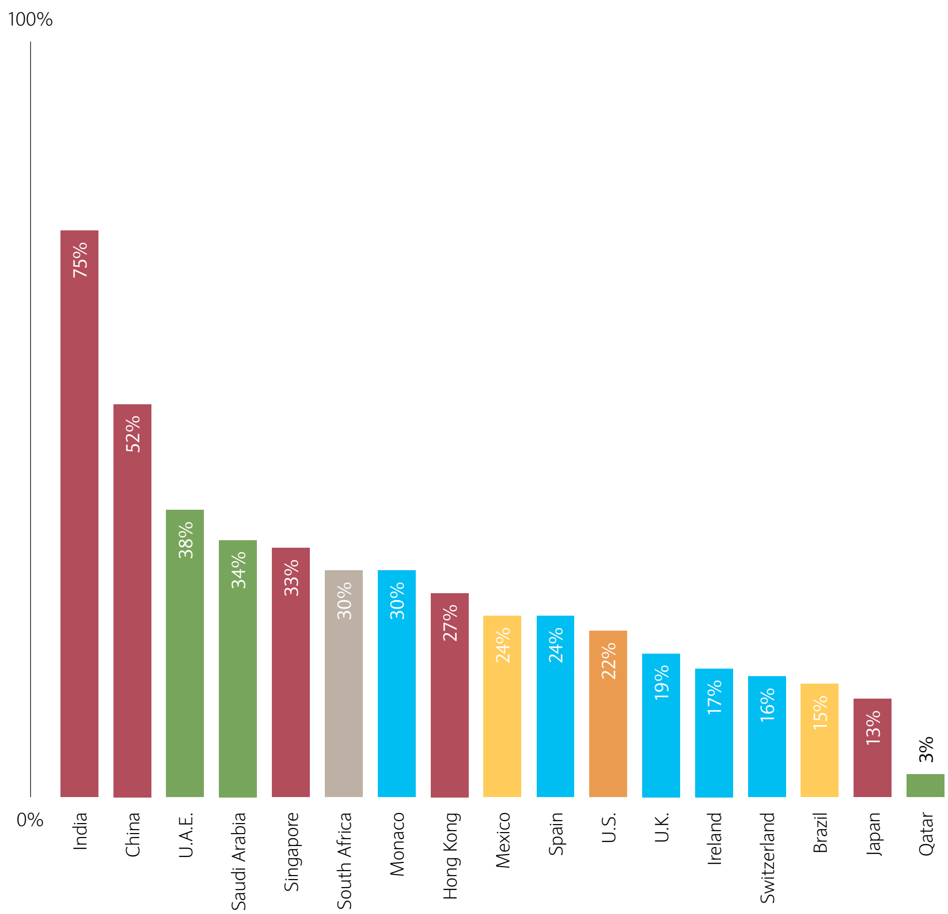
Status is an important aspect of the social motivation. A wealthy individual, who acquires a rare classic car or an expensive painting by a well-known artist, demonstrates to peers not only their good taste, but also their wealth and connections. "There is a signaling effect associated with scarce, valuable collectibles," says Professor Pownall. "People like to be able to show their peers that they can afford to buy these items."

Chart 19: Percentage of respondents who think that other people respect those who own a specific type of treasure



Source: Ledbury Research

Chart 20: Percentage of assets that are held to show to people

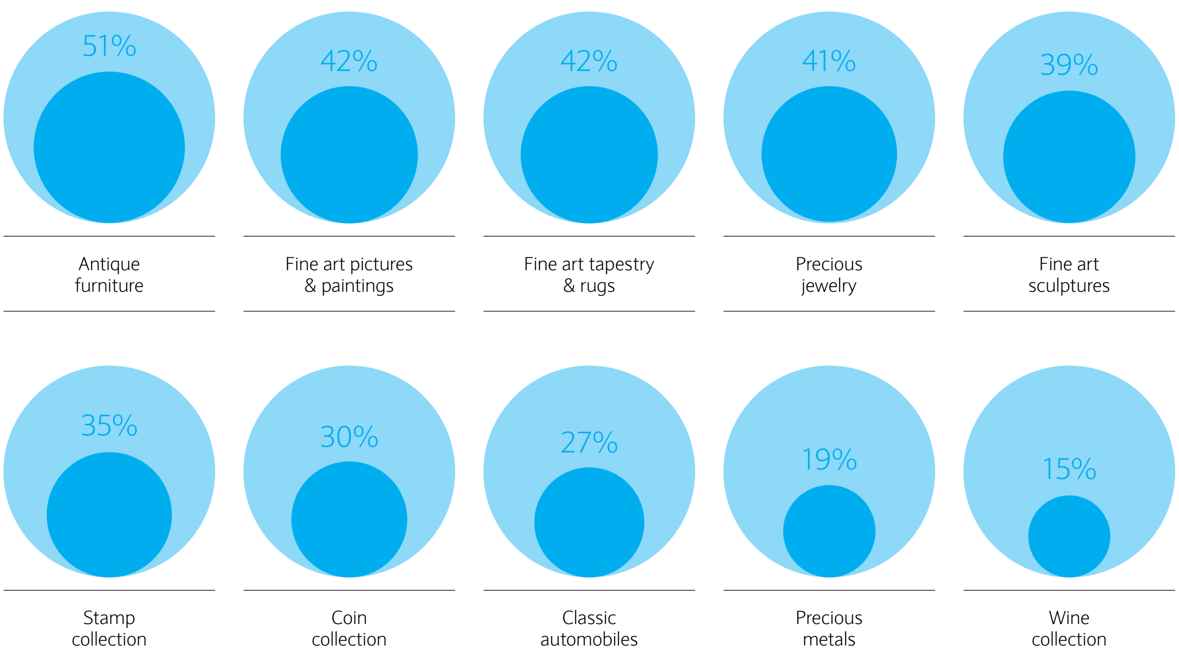


Source: Ledbury Research

The heritage motivation

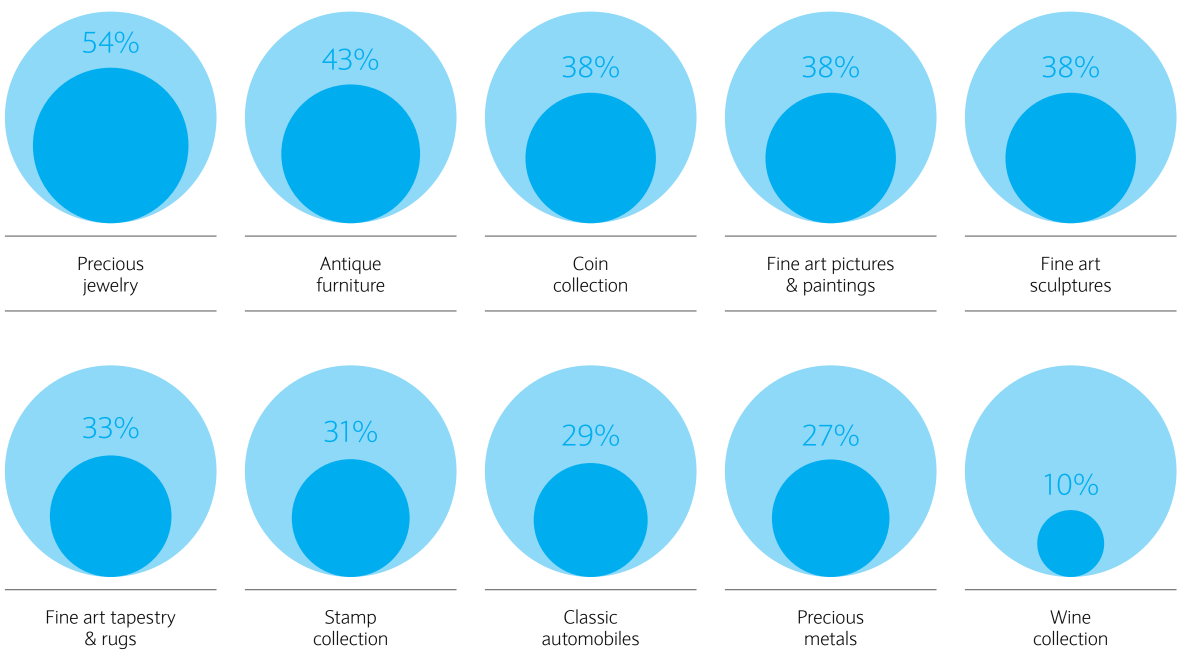
Heritage motivations, which encompass wanting to protect treasure for descendants and valuing it as part of the family or culture, are the second most important motivations for holding treasure (see chart 15). Categories of treasure with strong associations to heritage motivations include precious jewelry, antique furniture and fine art. For example, 51% of respondents who own antique furniture agree that they want to protect it to be enjoyed by their children or grandchildren, and 54% of those who own precious jewelry say that it is part of their family or culture (see charts 21 and 22).

Chart 21: Percentage of respondents who want to protect their treasure so that it can be enjoyed by their children/grandchildren



Source: Ledbury Research

Chart 22: Percentage of respondents who hold treasure because it is part of their family/culture



Source: Ledbury Research

> "Collections are more likely to increase in value if they are seen by the general public because art accrues value through exposure. This is particularly important with contemporary art, where the reputations of living artists are still being consolidated."
>
> **Dr. Sarah Thornton,** Author of *Seven Days in the Art World*

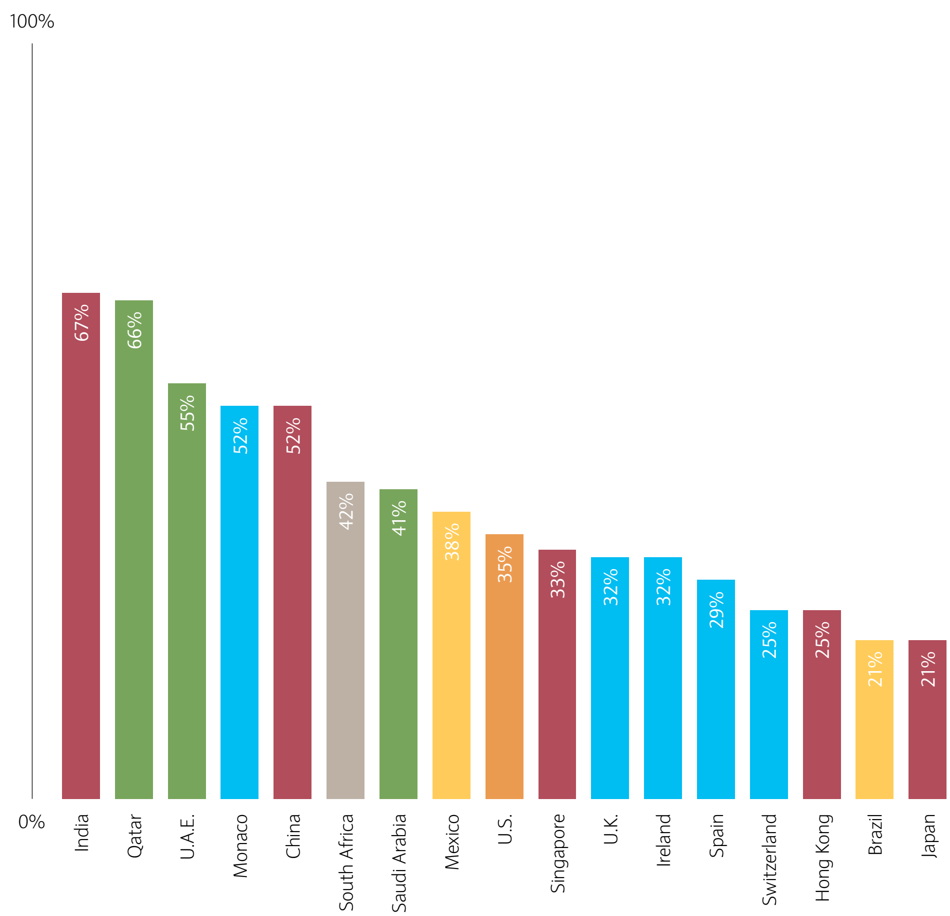
This heritage motivation is particularly strong in India and the Middle East (see chart 23). These are countries where there is often a dynastic view of wealth. Personal wealth is often tightly bound up with business wealth, which may explain why treasure is so often held for heirloom purposes in countries like India.

Respondents who have a strong heritage motivation to owning their treasure tend to agree that people have a duty to share valuable possessions for the good of society and are also willing to loan their items to museums. But as Dr. Sarah Thornton, Author of *Seven Days in the Art World* explains, the motivations for lending items in this way are not always altruistic. "There is genuine philanthropic desire to enrich the lives of others, but it's often mixed with other motives," she explains. "Collections are more likely to increase in value if they are seen by the general public because art accrues value through exposure. This is particularly important with contemporary art, where the reputations of these artists are still being consolidated."

Showing treasures in public can also be a motivation in itself, because it gives the lender status and enhances their enjoyment of the item. "Although some people store treasure away, others have a completely different motivation and want to share what they own as an important expression of themselves," says Dr. Davies. "Sharing these goods does not diminish their own enjoyment of them — if anything, it enhances it."

Yet as we explore in the next section, exhibiting treasure may not be the best way of doing good for society. Although there may be some cultural value associated with loaning works of art or sculpture to museums and exhibitions, wealthy individuals may be able to make a more positive contribution to society through more direct means.

Chart 23: Percentage of assets that respondents want to protect so that they can be enjoyed by their children/grandchildren



Source: Ledbury Research

The social utility debate

Owning treasure can have a very positive impact on society. A wealthy collector who nurtures living artists, protects the work of dead ones, and shares their collection in museums and exhibitions, plays an important role in enriching cultural life. Although only 41% of respondents agree that there is a duty to share valuable possessions for the good of society, 61% say that, if asked, they would loan some of their own possessions to museums or exhibitions (see chart 24).

But not every collector is as municipally minded. Consider the story of Van Gogh's painting *Portrait of Dr. Gachet*, which was purchased in 1990 by Ryoei Saito, a wealthy Japanese industrialist, for USD$82.5 million. Since then, the painting has never been seen in public again. Mr. Saito caused considerable controversy in the art world when he said that he wanted to be buried with the painting but, although he died in 1996, there is no evidence that his wishes were granted. Its whereabouts, however, remain unknown and it was conspicuously absent from a major Van Gogh retrospective, focused on the collection of Dr. Gachet, at the New York Metropolitan Museum of Art in 1999.

The willingness to share possessions with society varies widely from one country to another. In general, respondents from the Middle East and India are most likely to agree that there is a duty to share valuable possessions for the good of society, while respondents from the U.S., Japan, Hong Kong and U.K. are least likely to hold this view (see chart 25). This may reflect a strong culture of philanthropy in these regions, or again it may be bound up with status and a desire to demonstrate wealth and good taste.

Withdrawing valuable and important works of art from circulation certainly impoverishes cultural life. But it also could have a detrimental effect on the broader economy.

Compare buying an Old Master with providing seed capital to a young start-up company or investing in equities: When a wealthy individual acquires an Old Master, the money spent re-enters the economy, but there is no certainty about where that money will end up. It may be used to invest productively in the economy, or it may be used to buy another painting. By contrast, investing directly in a start-up will have a much more powerful economic impact if it goes on to be successful, while investing in equities can help larger companies to grow, invest and make a bigger contribution to economic development.

"Investing in art can be highly positive on a broader social level if the collector is willing to act as a custodian to the item and share it as a cultural treasure with a much wider audience. There is a school of thought however, that argues that investors can create greater social benefits if they invest directly in productive businesses or new ventures," says Dr. Davies. "Many will feel that this rings true in the current environment, prompting both a relevant and emotive debate."

Chart 24: General attitudes to treasure*

81%
I see the value of diversification

69%
The financial value of art is driven largely by public taste rather than intrinsic worth

67%
Emotions influence financial decision making

63%
It is hard to find things that will remain secure in terms of financial value

61%
If asked, I would loan some of my possessions to a museum/exhibition

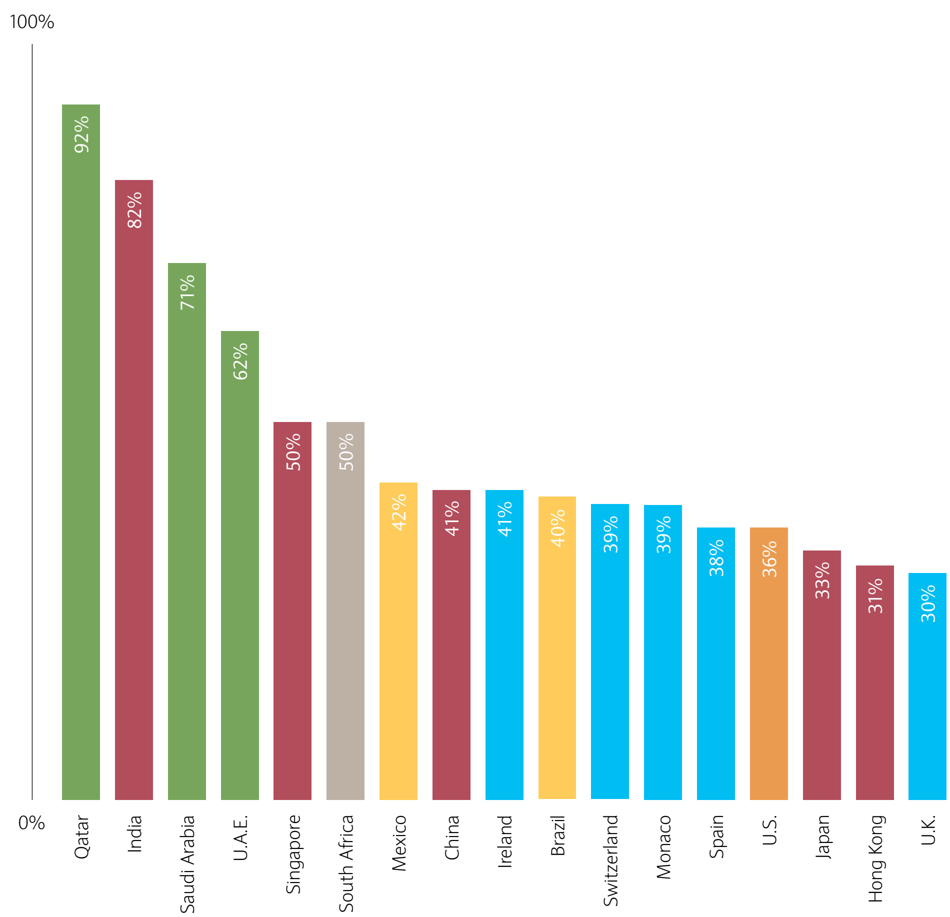
41%
There is a duty to share valuable possessions for the good of society

37%
People should invest their money so it is made available for others to use productively, rather than buying desirable items for personal enjoyment (e.g. gold, art, wine, etc.)

*Percentage of respondents who agree
Source: Ledbury Research

> With any investment, there are cognitive biases that can cloud decision making. But with treasure, where there is an inherently large emotional component, these can be especially pronounced. Being aware of these biases is a key first step.

Chart 25: There is a duty to share valuable possessions for the good of society*



*Percentage of respondents who agree with this statement
Source: Ledbury Research

Conclusion

Treasure, such as art, wine, antiques and classic cars, comprises an important part of an individual's wealth. Objects of great beauty or scarcity can be a source of great enjoyment and pleasure, as well as a powerful expression of an individual's status and values. Treasure can be something that can be held and taken out of circulation, or shared with a broader audience through museums, exhibitions and intergenerational transfer.

These assets may be first and foremost personal, but they can also have financial characteristics. Although relatively few wealthy individuals acquire treasure primarily for investment or insurance purposes, it can serve those purposes under certain circumstances. But when buying treasure for purely financial reasons, wealthy individuals must be aware of the shortcomings and practical challenges. Treasure markets are highly illiquid, opaque, risky and subjective. Although the market infrastructure around treasure is becoming more developed, this does not mean that art, antiques and other items should be considered as asset classes.

Behavioral factors should also be taken into consideration. With any investment, there are cognitive biases that can cloud decision making. But with treasure, where there is an inherently large emotional component, these can be especially pronounced. Being aware of these biases is a key first step.

But perhaps more importantly, wealthy individuals should be clear about their motivations for acquiring treasure and ensure that it is considered in the context of their broader wealth. Those that acquire treasure primarily for financial reasons must be aware that it is immensely difficult to earn consistent returns without the intermediation of an expert. Picking the right individuals to provide that expertise will be critical to success but, even then, investing in treasure carries many risks.

For most individuals, however, the principal role for treasure will be the enjoyment that it brings and its ability to enrich life. And, for most people, it is the emotional component of treasure that will always provide the best returns.

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