

ACE Private Risk Services®

## From Passion to Investment: Asset Protection Strategies for Collectors



## Executive Summary



Although the wealthy have regained much of their net worth from the partial recovery of global financial markets, they have not regained their confidence in those markets. As a result, an increasing number are turning their passions for fine art, fine wine, and other collectibles into more than a hobby. They're turning their passions into a means of balancing their investment portfolios.

In much the same way that traditional investments in stocks, bonds and real estate increase in value over time, non-traditional investments in fine art, antiques, fine wine and other valuable collections can be expected to gain value, as well. In fact, in some cases, non-financial assets have outperformed more conventional investments. But, the big difference between these two asset classes is that collections also possess an aesthetic value for their owners. And yet, many affluent people and their financial advisors do not devote the same time and effort to managing the risks encountered with prized collections that they devote to traditional investment portfolios.

In addition to understanding the diversification benefits of holding investments in fine art and other collectibles, there is a need for more specialized consideration of the broad range of financial exposures affecting the investments' value and preservation. This runs the gamut from the need to assure authenticity and title to limiting the potential for theft, loss and damage.

Managing these risks requires a sophisticated understanding of these asset values and their potential loss exposures. It further requires both sophisticated expertise in loss mitigation and prevention, and key relationships with organizations that specialize in preserving the value of collections that represent a significant portion of a family's wealth.

## Passionate Investing

Like all markets, prices in the fine art market go up and down, as a consequence of myriad, and often unpredictable factors, such as market demand, critical perspectives and curatorial tastes. While the fine art market and related collections like antiques and fine wine have taken a beating during the recent recession, prices again seem to be on the upswing. Record dollar values were seen in the past year for Pablo Picasso's *Nude Green Leaves and Bust* (\$106 million—\$26 million more than was expected) and Albert Giacometti's life-size bronze sculpture *Walking Man 1*, which fetched \$104 million at auction.

Fine wine values are also holding steady, although they are below the peaks they achieved during the run-up to the financial crisis. Even more prosaic art forms like comic books are achieving record values—the 1939 *Detective Comics No. 27*, which featured the debut of Batman, sold for a record \$1.5 million earlier this year.

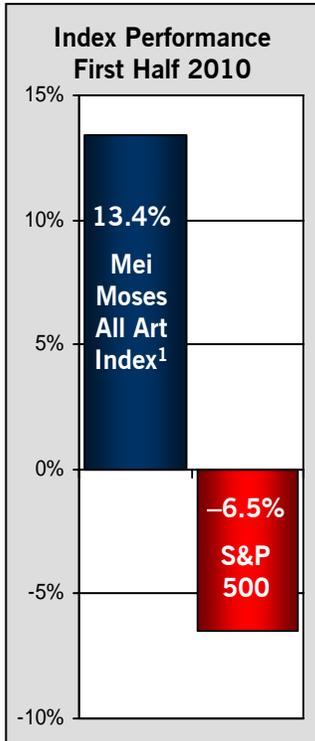
New investors from emerging Asian, Eastern European and South American countries that have not felt the brunt of the global recession are helping to keep prices for art, antiques, wine and other collectibles at near-peak levels. A 2008 report by Barclays Wealth cites the expansion in global wealth as a key factor in the appreciation of fine art values. Chinese millionaires spent \$830 million on fine art in 2009, *Newsweek* (July 21, 2010) reported, and Asia now has three million millionaires, 26 percent more than in 2009, according to a study by Merrill Lynch and Cap Gemini.

Art investments compare favorably to investments in stocks, statistics compiled by the Mei Moses Fine Art Index ([www.artasanasset.com](http://www.artasanasset.com)) indicate. This index benchmarks higher-end art investments and compares their investment performance against other investment categories, like stocks.

“While stocks have outperformed most categories of art investments over the past 25 years on a compound basis, art benchmarked by the Mei Moses Index has outperformed stocks over the last ten years,” says James Kane, president of HUB Personal Insurance, a Chicago-based insurance brokerage specializing in the high net worth market.

Fine art, wine, antiques and other collections can help balance market upheaval in more traditional investment classes. The difference is that collections provide both financial and aesthetic value to their owners. The term “passionate investing” has become part of the lexicon to describe the emotional attachment people have for their collections. Paintings, sculptures, wine, and antiques may have been passed down by previous generations, offering a link to the past. Depending on the individual, a rare stamp or a Louis XIV armchair produces a wide range of emotions. Buying such items augments these feelings with the pride of ownership.

Summer Street, vice president of business development at The Chicago Conservation Center, an art restoration firm in the Windy City, is very familiar with the passion affluent people have for their fine art collections. Ms. Street regularly calms the anxieties many owners feel about damaged paintings, sculptures and other collectibles. “Their pain is palpable,” Ms. Street says. “Sure, they’re worried about the financial impact on the damaged work, but they’re just as concerned about the aesthetic or cultural loss.



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– James Kane, HUB International

They feel responsible for preserving a great artist's painting or sculpture for their families, as well as for future generations to experience and appreciate. When damage occurs, it creates tremendous stress and can also act as a humbling reminder that we are all caretakers of such precious works of art.”

Casino developer Stephen A. Wynn would likely agree with Ms. Street's assessment. Mr. Wynn hosted a party in 2006 that included writer Nora Ephron and broadcaster Barbara Walters. He then accidentally put his elbow through Picasso's *La Reve*, a painting he owned and had just sold for \$139 million. Stunned, Wynn reportedly told his guests, “I'm glad I did it and not you.” Although the painting was restored, the sale was subsequently canceled after its value plummeted by a reported \$40 million.

## Broken Pieces, Broken Hearts

Mr. Wynn is far from alone in experiencing the financial and emotional losses resulting from a damaged work of art or other valuable collectible. Additional losses in recent years include an antique 1909 German Steiff teddy bear on loan to a children's museum in England that was torn to pieces by a guard dog. The toy was valued at \$75,000. At the Milwaukee Art Museum, a fundraising event dubbed “Martini-Fest” resulted in drunken attendees damaging two bronze sculptures. And a twelve-year-old boy visiting the Detroit Institute of the Arts with his sixth-grade class was the culprit in damaging a Helen Frankenthaler canvas called *The Bay*. The boy had stuck a wad of chewing gum on the painting, requiring its restoration.

Less extravagant losses include two works in an exhibition titled “Los Angeles: 1955-1985,” at the Pompidou Center in Paris that accidentally fell off the wall and were destroyed. The damage underscores another common cause of loss—incorrect display. “We've seen several instances of paintings that were accidentally knocked off a wall by a passerby due to a poor choice of location or flimsy hanging materials, or drawings and photographs that faded because of exposure to sunlight, an effect often compounded by old acidic framing materials,” says Ms. Street. “Rare furniture and other antiques can also be damaged by sunlight, and most often by high fluctuations in temperature and humidity levels. Many people like to display their paintings above a fireplace, where hot dry air, smoke, and acidic soot buildup can cause damage. We've seen paintings and other collectibles damaged by water and mold because they were displayed in a room below a bathroom that experienced a leak. Even more often, works are hung in a bathroom, where they deteriorate from daily exposure to high humidity from showers, sinks, and baths. Just as we as a culture try to reflect more upon our environment, we need to reflect more closely upon the micro environments in which we place these works of art. They will age more gracefully when we do so.”

Other factors causing loss include improper storage and transport of wine, paintings, rare furniture pieces and even comic books. HUB has received claims from owners who turned off the air conditioner in their vacation homes when leaving, only to return and discover damage to their art and other valuables. “We've seen our share of claims from bottles of wine that were shattered during transit, or paintings and fragile glassworks that were damaged because they were incorrectly crated during transport, or the vehicles lacked proper temperature and humidity controls,” Mr. Kane reports. “When the collectibles were unloaded, the owners suffered both financial and emotional consequences.”

Another damage-related risk is the handling of collections by security personnel at an airport. The Transportation Security Administration implemented new rules in the aftermath of 9/11 that permit security personnel to open for inspection any and all packaged goods to determine evidence of explosives. A crate containing a valuable painting or sculpture may be cracked open or reassembled without the same care that professional art shippers employ, resulting in damaged or even lost items.

## Is It Real?



Matisse painting stolen from the Museum of Modern Art in Paris

More than damage confronts owners of fine art and other collectibles. Theft is another risk to collections. The Federal Bureau of Investigation (FBI) and Interpol estimate that art theft and smuggling result in annual global losses each year between \$4 billion and \$6 billion. In May, five paintings by such artists as Picasso, Henri Matisse, Fernand Leger and Alfredo Modigliani were stolen from the Museum of Modern Art in Paris. Their combined value was estimated at between \$126 million and \$635 million.

Interestingly, the FBI notes that most of the stolen art in its computerized database represents works that were taken illegally from residential homes. Smaller objets d'art and paintings typically are at greater risk than larger pieces, given the difficulty of removing such items from museums, galleries and homes. "Even if the works are insured for theft, their loss has an emotional impact," notes Mr. Kane. "You can't hire Renoir to paint the painting all over again. It's gone and irreplaceable."

Owners of large collections frequently loan valuable works to museums. On the one hand, this widespread practice can help increase their market appeal and value. But on the other, it makes thieves more aware of the collection's owner, increasing the possibility of theft when the works return to the owner's home.

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Investors are threatened by other risks, such as being fooled by forged works or buying pieces that they later learn were not owned by the sellers. Film director Steven Spielberg, for instance, purchased a Norman Rockwell painting, *Russian Schoolroom*, in 2007 that his staff later found on a list of stolen art (it had been heisted three decades earlier from a St. Louis-based gallery).

Modern authentication methodologies help to reduce this risk. For example, gamma ray analyses can help determine the age of paint pigments, as can carbon dating of the canvas. Newer CSI-like tests of an artist's thumbprints and DNA provide further authentication. In the case of fine wine, vintages and provenance are authenticated using high-energy ion beams produced by a particle accelerator.

Yet, even such sophisticated technologies and informed, expert sources can make mistakes. A famous example is the cache of more than a dozen rare wines, reputedly once owned by Thomas Jefferson and initialed Th.J. The cache included a fake 1787 Chateau Lafite that sold for a record \$156,450 at auction. Later analyses proved the wines were of more recent vintage, however.

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– Gerald Escobar,  
Asset Archives

## Valuing the Valuables

As collectors become passionate investors, having a system for tracking and valuing objects becomes essential. Keeping track of a collection that includes four or five works of art or two or three-dozen bottles of vintage wine is different than keeping track of a major collection or the bottles in a vast wine cellar. Consequently, assessing the value of large collections is a daunting exercise, increasing the risk of improper valuation.

“Affluent individuals are constantly acquiring and de-accessioning expensive collectibles,” says Gerald Escobar, president of Asset Archives, Inc., a global collections management firm based in Atlanta Georgia. “The value of these objects individually and collectively is constantly in flux, driven by changes in markets and other factors. Often, the individual works are not recorded for documentation purposes, and when they are, in some cases, it’s on an antiquated legacy spreadsheet system that fails to account for rising values. Someone with multiple residences—each containing valuable collections on display or on loan—may be unaware of or accidentally under-representing the financial value of these items.”

Adding to this risk is the reluctance of some high net worth individuals to appraise their collections because of estate tax concerns. “It’s a conundrum,” Mr. Escobar explains. “People don’t want an antique that has been passed down through the generations to be taxed upon their death, and thereby risk having to sell the item. Thus, they don’t have the item documented, appraised or insured. Yet, if the antique is damaged, they are on the hook financially for the loss.”

## Eleven Steps for Protecting Passionate Investments

There are myriad, complex risks that confront the owners of valuable collections. These financial exposures require expertise in their assessment, management and mitigation.

Here are steps that collectors and their wealth managers can take to manage the risks:



### 1. Assemble the correct team of experts.

- The team would include an insurance advisor like an independent agent or broker, an insurance company specializing in serving affluent clients, appraisers, an art conservation laboratory to provide pre- and post-loss advice and services, and loss prevention advisors.



### 2. Establish a system for tracking and valuing the collection on a regular basis.

- For large collections, consider purchasing specialized collection management software. It should allow the user to detail the name of the object, its size, current condition, date of purchase, the period of the piece, and its appraisal record.
- Store the records off-site in a safe location, such as a bank safe deposit box or a secure and private data web hosting solution.



### 3. Protect the collection from theft.

- Consider an investment in both perimeter and external security systems. The goal is to catch thieves 30 feet from the house—before they have entered the residence. Surveillance systems inhibit thieves, as do guard dogs and human guards.
- Register all collections with applicable registries that keep this information confidential so as not to alert thieves about their ownership.



#### 4. Protect the collection from fire and smoke.

- Ensure that all homes have fire and smoke detection systems installed. Consider installing a waterless fire protection system such as the FM-200, which restricts oxygen in a physical space to extinguish a fire within 10 seconds or less.
- If the home has a water sprinkler system for fires, make sure it is adjusted to ensure that valuable art is protected from water spray.



#### 5. Choose the display location and method to guard against damage from water, sunlight, and other hazards.

- Never locate valuable paintings, antiques, rugs, and other collection pieces under bathrooms, laundry rooms or other rooms where a plumbing leak is possible. Also, never hang artwork near the floor where it can be destroyed by flooding.
- Avoid locating valuable paintings, antiques, rugs, and other collection pieces near windows to reduce sunlight and external water exposure risks. In cases where sunlight cannot be avoided, install windows that reduce ultraviolet penetration.
- Large canvases that are close to the floor can be damaged by children and pets—hence it is advisable to hang these works in rooms permitting a more elevated display. If this is not possible, consider restricting children and pets from the area.
- Never display art above a fireplace, unless the fixture is never used.
- Use museum-quality hanging mechanisms and hire professional framers to hang individual works.



#### 6. Make sure art in storage is well protected from the elements.

- Do not store collections in the attic or basement, where heat and humidity levels can reach extremes.
- Consider purchasing a racking system and then crate and vertically place each painting separately in its own rack. Make sure the rack is elevated from the floor, and that the storage site is temperature and humidity controlled. Stabilize all racks to ensure they don't tip over in the event of a natural disaster like an earthquake or are so top-heavy that anyone might accidentally topple them.
- Alternatively, consider the services of a company that specializes in the storage of collectibles that are currently not being displayed. Review all references and visit the facilities to ensure the location is climate controlled.



#### 7. Store fine wine in a properly constructed wine cellar.

- Bottles should be placed on their sides to keep the cork wet and reduce the risk of oxygen entering the bottle.
- Temperature should be maintained between 55 to 60 degrees F. Fluctuations in temperature can speed the aging process. If the temperature is maintained with a heating and cooling system, make sure the system has a back-up power supply.
- Keep wine away from a constant light source, which may give off heat and damage the wine.
- Choose wine racks that are made of unfinished wood and not certain kinds of woods like cedar, which can impart an odor that affects quality.
- Ensure that wine racks can withstand natural disasters like an earthquake or hurricane, if the region is prone to such risks.



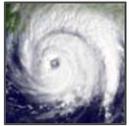
### 8. Use professional art shippers when putting collections in transit.

- Valuable collections are most at risk when they are being shipped. Hire only reputable companies that specialize in transporting valuable works. Trucks or vans should be temperature and humidity controlled, and fitted with air ride systems that reduce the risk of damage from shocks, vibrations and sudden stops. Specialized crating and packing materials are another necessity. References, too, are a must.
- When shipping by air, take advantage of the Transportation Safety Administration's new Certified Cargo Screening Program. Certain professional art shippers are certified to inspect and officially seal art during the packaging process. This program eliminates the risk that your art shipment could be opened and potentially damaged by inspectors while clearing airport security.



### 9. When loaning a valuable art piece or collection to a museum, make sure the museum has adequate safety measures and insurance in place.

- Ask where the collection will be displayed. The same precautions outlined in steps 4 and 5 should be followed by the museum.
- Have the insurance agent or brokers review the museum's insurance policy to make sure your collection will have adequate coverage against all potential threats.



### 10. Develop an evacuation plan in case of disaster.

- Plan ahead. Don't start thinking about saving the collection when the hurricane, wildfire or flood warning first sounds. List and prioritize items to be evacuated. Determine emergency packing and transportation methods.
- Set clear timeframes for when the collection should be abandoned in favor of life and limb.
- Apprise local fire companies of where art, antiques and other collections are stored in the home, and how best to extinguish a fire without damaging these works.

*"You don't want a situation like the one that occurred at Windsor Castle in 1992 when the building caught fire and the staff was hurriedly running to and from the building carrying priceless tapestries and works of art. A failure to plan is a plan to fail."* – James Kane, HUB International



### 11. Maintain proper insurance in case of loss, because even the best risk mitigation strategies are not perfect.

- Choose an insurance company that caters specifically to the needs of high net worth clients.
- Ask how coverage handles temporary fluctuations in the replacement cost of valuable articles. The best valuable insurance policies will pay market value up to 50 percent higher than the scheduled amount of coverage in case of loss.
- Annually review the inventory of valuable collections, adjusting coverage levels as needed.
- Make sure items added to the collection are also added to the insurance policy. The best insurance companies automatically provide coverage for newly acquired items, but they all require notice within a certain period of time, usually 30 to 90 days depending on the item, so that they can adequately charge for the additional risk.

## Conclusion



With collections becoming a greater part of overall personal wealth, and the works' aesthetic and investment appeal guaranteeing their continued purchase, high net worth families and their wealth managers would be prudent to consider the many services brought to bear by specialized insurance carriers and the independent agents and brokers representing them. More traditional investments in stocks, bonds and real estate require constant attention to reduce the prospect of financial loss. The same consideration must also be given to clients' passionate investments.

## References

1. Mei Moses Fine Art Index ([www.artasanasset.com](http://www.artasanasset.com))
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## About ACE Private Risk Services

ACE Private Risk Services is the ACE Group's high net worth personal insurance business, which provides specialty coverage for homeowners, automobile, recreational marine, umbrella liability and valuable collections insurance for affluent individuals and families. Additional information can be found at: [www.aceprivateriskservices.com](http://www.aceprivateriskservices.com).

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### **Gerald Escobar, President, Asset Archives, Inc.**

Asset Archives, Inc. serves as the next generation for contents and collections management. Headquartered in Atlanta, GA with service nationwide, Asset Archives serves over 400 clients and delivers solutions ranging in complexity, size and subject matter both in the United States and abroad. Contact: [gerald@assetarchives.com](mailto:gerald@assetarchives.com)

### **Summer Street, Vice President, The Chicago Conservation Center**

As one of the nation's leading private art restoration and conservation laboratories, The Chicago Conservation Center has cared for fine art from some of the country's most prestigious museums, galleries, corporate and private collections. The Center is the largest facility of its kind in the nation. Contact: [summer.s@theconservationcenter.com](mailto:summer.s@theconservationcenter.com)

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