Can wine, art, and other collectibles work as hedges against inflation?

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Collection of different types of handmade framed paintings in the workshop. PHOTOGRAPHER: BARABAS ATTILA / ISTOCKPHOTO / GETTY IMAGES

When inflation is ripping as it is now, people inevitably start talking about assets that can hold their value during economic turmoil. That is when the conversation often turns to art, wine, sneakers and other categories of fun-to-own collector items.

These collectibles — or “treasure assets,” as Credit Suisse calls them — strike some people as potential havens. Scott Minerd, the global chief investment officer at Guggenheim Partners, recently said fine art is likely to produce better returns than U.S. stocks over the next five years.

Michael Hartnett, Bank of America’s chief investment strategist, made a similar point last year, arguing that real assets such as wine, art, diamonds and classic cars could beat U.S. stocks over the next decade.
So does this mean it’s time for you to load up on collectibles?

Maybe. But probably not.

As fun as it is to imagine amassing a giant collection of fine Burgundies or vintage muscle cars, collectibles rarely pay off in practice the way they do in our daydreams.

For the most part, they are a meh proposition, at least in strictly financial terms. The most authoritative attempt to assess their money-making appeal is found in the 2018 Credit Suisse Global Investment Returns Yearbook. A team of eminent researchers looked at the returns generated by wine, stamps, art and violins between 1900 and 2017. They concluded these treasure assets produced long-run gains slightly above that of bonds, but far below stocks – and with a lot of volatility thrown in.

If you still want to take your chances, it helps to understand some aspects of the collectibles market that its fans don’t tend to dwell on.

For starters, consider how performance is measured.

Sales pitches for collectibles typically point prospective investors toward price indexes designed to measure the gains of, say, all fine art sold at auction. These indexes nearly always show impressive returns, especially if you focus on their performance during periods of high inflation.

It’s no surprise that researchers who focus on these indexes arrive at positive conclusions. Consider a study last year by researchers at money manager Man Group and Campbell Harvey of Duke University. Looking back over the past century, they calculated that art produced an average real return of 7 per cent a year during periods of high inflation, while wine returned 5 per cent a year and stamps 9 per cent. Not too shabby at all.

But look closer. One issue with price indexes is that they don’t include ownership costs. If you own fine wine, you need to store it in a climate-controlled vault. Similarly, if you own a classic car, you require a secure garage. Even with stamps, sneakers and fine art, you run into the costs of insuring the valuables.

These costs vary widely, but are usually big enough – think a percentage point or so of the asset’s value, per year – to exert an appreciable drag on real-world returns, especially if you hold a collectible for a couple of decades. And they are just the beginning of what collectors are likely to shell out.

When it comes to actually turning your collectible into cash, transaction costs not reflected in the price indexes will probably eat up a big portion of the return you have achieved on paper.

Art galleries, for instance, typically charge at least a 33-per-cent commission, according to visual-artists group Artquest. Auctioneers will ding you for 20 to 50 per cent of the
sale price, according to Consumer Reports. Even if you negotiate down these fees, the sting will hurt.

This brings us to a final issue: unpredictability.

Indexes that track collectible prices span a wide variety of items. Most collectors, though, don’t own a broad assortment of treasure assets. They collect items they like in a specific niche that fascinates them.

This means the returns to any single investor are harder to forecast than the broad indexes would suggest. If other collectors don’t happen to share your growing passion for Indonesian sculpture or Hermann Hesse first editions, your collection may lose value even if broader indexes of such collectibles are steadily climbing.

Investors should keep their expectations in check. “Collectibles have appreciated in fits and starts,” the Credit Suisse researchers wrote. “They do not move in unison and enthusiasm waxes and wanes for segments of the market.” In short, they are interesting speculations, but nowhere near a haven.