

Starting or Building Your Fine Art or Collectible Collection

When it comes to art and collectibles, don't do it alone

Valentino Sabuco interviews Laurence Zale

Key Takeaways:

- Fine art and collectibles is a unique asset class and comes in unlimited varieties.
- Collections can appreciate significantly, but...
- Savvy collectors mostly enlist the help of a core professional team, including an independent visual arts advisor, a wealth advisor, and both legal and tax counsel, to fulfill their objectives.
- The expert team should be able to advise both novice and experienced collectors how best to use their collections for personal, philanthropic or estate planning purposes.

Collectors are driven by a variety of forces that include passion, status, curiosity, financial gain and tax relief. Many have charitable intentions, and they generally fall into two groups: (a) those who feel an emotional involvement with their collections, and (b) those who view their collections as disposable assets akin to stocks, bonds and real estate. Regardless of their relationships with their collections, collectors (and inheritors) will be affected by the inevitable—and unpredictable—life events of dollars, disputes, accidents, natural destructive events, divorce and death.

According to the 2015 TEFAF Art Market Report, compiled by Dr. Claire McAndrew of Arts Economics, the world art market exceeded 51 billion euros in 2014. The market increased by 7 percent over 2013. The aggregate market value of collectibles and other tangible personal property was not included in the research done by Dr. McAndrew.

When planning your financial affairs you and your advisors should try to clearly express your inspiration to collect, whether or not additional independent experts are needed to manage your collection and whether you wish to initiate a gifting or estate planning program. Here are some good questions to ask yourself:

- What kind of art and collectibles do you own?
- When did your interest in collecting begin, and what was your inspiration?
- Can you describe your first acquisition?
- Are you drawn to a particular type of object or artist?
- Do you have a favorite work?
- What is your biggest regret?
- Has your vision of collecting remained the same?
- Do you share your collection with other collectors or the public?
- Do you offer advice to existing or new collectors?
- What percentage of your total assets is devoted to art, collectibles and other tangible personal property?
- Are you a member of any collecting clubs, societies or affinity groups?
- Do you receive independent advice and information about acquiring, managing, selling or donating these assets?
- Have you considered the income tax and estate implications of your collection?

Val Sabuco: Laurence, what should a collector look for in fine art and collectibles?

Laurence Zale: How can the difference between two seemingly identical objects be determined? Collectors and their wealth advisors can make an informed judgment about an object's potential value and appreciation—apart from its aesthetic merit—by using the following criteria: authenticity, provenance, quality, condition and rarity.

1. **Authenticity:** Is the object genuine? Was it created by the hands of the artist?
2. **Provenance:** This is a record of ownership of the object. A complete provenance will track an object from its creation to the present.
3. **Quality:** This is an elusive criterion that brings in subjective opinion (often from experts) to help determine an object's value.
4. **Condition:** The condition of an object—even one of otherwise fine quality—will reveal its ultimate value. This is especially true for collectibles.
5. **Rarity:** A rare object is usually valuable, but if that object lies outside a collecting area it may affect the amount.

Other elements to consider in an object include: culture, subject matter, historical importance, size and medium.

VS: Laurence, what needs to be done to research the authenticity, provenance—the paper trail of ownership—and the value of fine art and collectibles from the perspective of a potential buyer and also from the perspective of a nonprofit?

LZ: Caveat to the collector of fine art or collectibles: Do not make impulsive purchases! Instead, conduct research on the authenticity of any work being considered. Independent sources to consult include published catalogs containing works of art by an artist of interest, museum libraries, and public libraries with art sections. The Art Authentication Research Service is another notable free resource. Qualified appraisers are informative, as are auction houses and dealer organizations. Nonprofits should review the donor's qualified appraisal, prepared by an experienced qualified appraiser, to determine if the proposed donation should be accessioned.

VS: Laurence, is there title insurance or the equivalent for valuable fine art and collectibles?

LZ: Defective title can be a significant financial risk for collectors who purchase or donate valuable fine art or collectibles, especially if those works get repossessed or seized to satisfy legal disputes in the United States or claims in foreign countries. Museums face a similar risk for fine art and collectibles that they purchase or receive as donations.

There are companies that provide title insurance for fine art and other important collectibles, including a wide spectrum of objects from rare books and manuscripts, rare stringed instruments and estate jewelry to vintage automobiles. Through their specialized title insurance policies, they typically guarantee clear legal title (or ownership) of objects for private collectors, museums, institutional collections and all other market stakeholders interacting with this asset class.

VS: Last, Laurence, what should advisors and nonprofits know about valuating fine art and collectibles that are earmarked for charitable purposes?

LZ: Gifts of fine art and collectibles present complex philanthropic issues such as valuation and tax. Wealth advisors should work closely with independent visual arts advisors, qualified appraisers, legal counsel and related nonprofits to ensure that their clients maximize the asset value and gifting opportunities of their fine art, objects and collections. Nonprofits need to consider if the fine art or collectible on offer is appropriate for their collection and if it meets the standards of their collection management policy—a statement of purpose and description of the types of objects left in their care.

Note: *Fine art and collectibles come in unlimited varieties and are collected in a variety of ways. The vital roles they often play in the lives of collectors are similarly varied. Thus, high-quality, effective management requires the combined expertise of a core professional team consisting of an independent visual arts advisor, a wealth advisor, and both legal and tax counsel.*

Conclusion

We're all motivated to increase our liquid assets and manage them successfully. But when it comes to fine art and collectibles, these assets are commonly ignored or not given adequate attention because they often are not part of most financial advisors' training and experience. Many advisors may be missing an opportunity to assist clients in thinking creatively about the management of their fine art, objects and collections—collectively worth billions. It is an opportunity to promote lifetime and estate planning techniques that assist clients in building wealth through art, to help them achieve personal and familial satisfaction, and to help them create a family or charitable legacy.

About the Author

Valentino Sabuco, CFP®, AEP®, is the executive director and publisher of **The Financial Awareness Foundation**, a 501(c)(3) nonprofit located in Sonoma County California. Valentino has pioneered the financial planning profession for over 40 years. TFAF serves as a nonpolitical "financial awareness advocate" for the general public, financial service and nonprofit professionals and their organizations, educational institutions, municipalities, and employers. Our mission is to significantly help solve a major social problem by dealing with the lack of financial awareness and financial literacy. We believe that teaching financial awareness, financial literacy and the essential principles to smart personal financial management are very important as this gives people the tools of empowerment to: make better informed and productive everyday money decisions; save time and money with their financial advisors and service providers; have the best opportunities to reach and maintain their personal / family financial dreams; enjoy a financially secure debt free future; advance their legacy. Valentino can be reached at V.Sabuco@TheFinancialAwarenessFoundation.org or (707) 586-8620, www.thefinancialawarenessfoundation.org
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Laurence C. Zale, MA, is the president of Laurence C. Zale Associates, Inc., an independent visual arts advisory firm. Laurence is a noted author and speaker on the topic of collecting fine art, collectibles and other tangible property. His expertise will be useful to those who want to start, build, manage, sell or donate a collection during their lifetimes or as part of their estates. Articles he has written, co-written, or for which he was interviewed have appeared in *Business Week*, *Chubb Collectors Newsletter*, *Fine Art Connoisseur* magazine, *Journal of Financial Planning*, *Canvas: The Arts*, *Council on Foundations* and *ARTINFO*, among others. His clients include collectors, universities, hospitals and other charitable organizations. If you have any questions you can direct them to Laurence at Laurence C. Zale Associates, Inc., 340 East 80th Street, Suite 18H, New York, NY 10075. Laurence can be reached at lczale@visualartsadvisory.com or (212) 772-2673. Website: www.visualartsadvisory.com