Art Investor by D. Stephen Pepper

End of speculative bubble

The latest London auctions showed the effects of financial shakeout. Here are the future implications.

Recent headlines in New York and London newspapers declared that the Old Master painting market had crashed as a consequence of the bad performances at the recent auctions in London. This shows again how useless newspaper accounts of activity in the real world are.

What actually happened was the bankrupting of a phase of painting speculation as a consequence of the worldwide credit squeeze. In the coming crunch, the only assets that will remain viable will be those that have substantial value, that is, serious works of art.

The bloodbath at the auctions resulted in over half of the lots at Sotheby Parke Bernet being bought in, and over 60 percent at Christie's remaining unsold.

On the whole, this reflected the mediocre quality of the offerings, although the buyer malaise extended to a signed and dated portrait by Goya that was unsold at a price of £900,000 ($1.7 million).

However, the proof that there are still substantial amounts of money available to put into solid assets was the strong sales of Old Master drawings held by both of the auction houses during the same week.

Here, quality items were offered, led by a Rembrandt pen study that was bought at a record price for an Old Master drawing of £300,000 by the Getty Museum.

The drop in prices of Old Masters in the short term is easy enough to explain.

First, interest rates have cut into the willingness of buyers to part with cash easily, since one can find such hefty returns through lending on the Eurodollar market or elsewhere.

Second, Europeans were feeling the loss of value of their currencies, while the lots that were being offered were not on the whole strong enough to attract American buying activity.

Third, the auctions were flooded with second-rate (or worse) Dutch paintings offered by London and continental dealers who were dumping pictures in hopes of picking up cash to overcome their own liquidity problems.

These paintings had been purchased in the easy optimism of balmier days; now, when money is expensive and each buyer thinks two or three times before committing funds, such "good buys" as attractive Dutch or Impressionist paintings have tendency to lose their appeal.

There is a lesson here that goes beyond the Old Master market. The world economy is heading for a crash.

The only way it can be avoided is by an international political combination, one that can frighten the monetarist international.

If it cannot be avoided, the depth and consequences of the crash can be affected by political planning. The premise of this column is that readers of this publication are by inclination those individuals most susceptible to the pull of reality.

This attitude toward reality extends to management of assets as part of a political process. There is no reason why we should allow the monetarists to bankrupt us before we can bankrupt them. Let the wild-eyed speculator, the willfully credulous reader of the *Wall Street Journal,* and the London finance manager go before us.

Easier said than done? Not at all.

The principle that applies to politics applies to assets as well. Take a long-term position that emphasizes the essential growth quality of the asset and then fight like hell in the short term to wreck the monetarists.

Certainly at this time of expensive money, no one should be overextended in collectables. But all this airplane-magazine wisdom of jumping in and out of various exotic investments is so much hot air. Well-bought Old Masters will increase in value against most (or all) currencies in the medium term. They will represent a real hedge against inflation.

In this column, I have stressed the idea that selection of art works is not a guessing game as to where the next quick buck might be found, but a reflection in financial values of assets which are treasures in historic and aesthetic terms.

The recent London massacre demonstrates that the credit crunch wiped out easy, speculative values of commonplace objects. The London *Times* and *New York Times* notwithstanding, real works of art properly selected will prosper.