



# Book Collectible Investments for the High Net Worth Investor

Stephen Satchell  
Academic Press, 2009

---

## Recommendation

Financial advisers and money managers are comfortable with traditional investment vehicles, such as stocks and bonds and, perhaps, real estate. However, an increasing number of wealthy individuals are exploring alternative avenues for profitable investing, including collectibles. Consequently, investment houses and wealth managers need to familiarize themselves with art, stamps, wine, books, classic cars, and the like, to be qualified to advise clients who want to know if their acquisitions will bring in a pretty penny or not. Editor Stephen Satchell's compilation of scholarly essays from a variety of experts on different collectibles – and on the psychology that motivates purchasers – is not a casual read, but it sure is a useful one for money managers whose clients want to cash in Grandma's stamp collection. Much of the material deals with sophisticated economic and business theory, including mathematical formulas and detailed charts and graphs. Still, *BooksInShort* believes that most financial advisers (and collectors) will emerge with a greater understanding of collectible investments – and maybe a hankering for a cherry red and white 1957 Chevrolet.

## Take-Aways

- Enjoyment – not profit – motivates many people who invest in collectibles: art, wine, books, stamps, maps and even vintage cars.
- Collectible assets are difficult for money managers to include in clients' portfolios.
- Those who are interested in art determine its price, unlike real estate or other investment vehicles, where specific market conditions set the value.
- Supply and demand is the biggest influence on price fluctuation in collectibles.
- Collecting as an investment strategy is fraught with uncertainty.
- In some people, buying behavior morphs into a compulsive need to amass items.
- Competing messages in your brain influence purchasing decisions.
- Wine, book, stamp and map collectors are usually specialists with a narrow focus.
- Educate yourself before venturing into collectibles. Lack of knowledge is hazardous.
- Classic car collectors, in particular, should know a lot about the models they purchase.

## Summary

### Collecting Knowledge

Wealthy investors who are interested in collectibles pose a challenge for investment firms and wealth managers. Individuals who want to allocate money for potentially valuable collectibles expect their investment managers to be able to offer educated, sensible advice. Managers must try to determine the value of a collectible and whether its acquisition will benefit the client financially in the short term or, much more often, in the long term. Like other collectibles, art can fluctuate between impressive gains and precipitous downturns. However, many investors are not looking only for sizeable profits. They also enjoy the prestige, satisfaction and social benefits of investing in art. Some relish the pursuit of rare pieces or the challenge of building a reputable collection. Others like to broaden their intellectual horizons and achieve expertise of sorts in a particular genre.

“Collectibles allow the investor the benefits of status and enjoyment.”

Scientific studies show that several areas of the brain influence a collector's decisions and behavior. For instance, the prospect of acquisition or financial gain excites the “nucleus accumbens,” or “pleasure center.” The “amygdala,” on the other hand, is more careful and sometimes even fearful. The “anterior insula” is sensitive to price. Ultimately, the “prefrontal cortex” shapes collecting decisions as it carefully weighs all the information and, typically, leans toward a commonsense resolution.

“Since the pursuit of reward is the stimulus that drives human activities, it too is what inspires us to collect.”

Some collectors like the status of finding rare pieces. They relish their peers’ admiration and recognition. They may also derive a special thrill from pursuing objects that others find desirable. Another segment of collectors enjoys acquiring unusual items for very reasonable prices, because bargains make them feel good. Sometimes, though, collecting becomes obsessive and unhealthy, and that can create insurmountable difficulties, including hoarding. One couple who enjoyed amassing furniture and Chinese porcelain bought an adjacent house so they could store their collectibles. Eventually, both houses overflowed with their possessions. Experts believe that people who cannot control their urge to collect suffer from obsessive-compulsive disorder, the same mental condition that drives compulsive shoppers. However, some collectors actually invest in art just to make money. They see collectibles only in the context of their portfolios.

## **The Art of the Deal**

Art is distinctly different from other commodities in that “its value is solely a function of supply and demand.” Art’s value is strictly subjective; objective guidelines for assigning dollar amounts to artwork do not exist. In fact, often only a handful of buyers will want particular pieces. Record prices at high-profile Christie’s and Sotheby’s auctions often are the result of a “bidding war” between two individuals. Certain pieces can be on the market for years before a buyer surfaces.

“Like fellow believers in a religion, fellow collectors share a faith that what they are doing is important.”

The qualities and characteristics of fine art are impossible to delineate. If enough people in a particular segment of society label a work “art,” then it is. Quantifying “investible art” is even more daunting. Intangible factors make a precise definition impractical, but investible art generally hits these standards:

- Christie’s, Sotheby’s and other top auction houses would deem it worthy to sell.
- Museums on the “university” level would consider acquiring it to display.
- Buyers and sellers would be able to recognize it.
- Multiple dealers would want to represent it.
- Its “transaction, transportation and storage” costs are proportional to its value.

“Perhaps the most sophisticated of all personal attitudes to...collecting is to be cognizant at all times of the competing rational and psychological motivations at work.”

Other factors that influence the price of a piece of art include its condition, its availability, its history and previous ownership (“provenance”), its size, its authenticity and the artist’s prestige. Art market participants include passionate collectors, museums, less serious buyers, professional dealers, auction houses and art fairs, notably Art Basel and Art Basel-Miami.

## **Reading into the Value of Books**

Serious book collectors, like many of those who invest in art, are not motivated primarily by profit. Although rarity can inflate the price of a particular edition over time, books are valuable because of their importance to the collector. First editions are most prized, though determining the authenticity of first editions of books published “in the 19th century and earlier” is often difficult because of relatively minor alterations, such as a different binding or word changes on a title page. Collectors also covet limited editions, which are released with first editions but are usually autographed, numbered, specially packaged and more expensive. A book is more valuable if it includes the author’s inscription, particularly if that author rarely signs his or her works. The physical condition of a book also greatly affects its worth, particularly with older or antique books. Still, evaluating a book’s condition is quite subjective. Even so-called experts may have different opinions about the same book. The International League of Antiquarian Booksellers uses a grading system from “mint” condition to “poor.” But no universal system has evolved, so a first edition worth \$50,000 to one expert may be worth only \$35,000 to another. “Rare books have increased in value steadily...although short-term risk has been high.”

“Collectors and sometimes dealers...bid strongly on an item to which their intellectual pride is somehow attached.”

Book buyers and sellers work primarily through auction houses, bookstores, book fairs and websites. Auction houses tend to focus on private clients, especially sellers who can supply the quality editions that seem to be disappearing from the market in increasing numbers. The internet enables booksellers to reach millions of potential customers. But, depending on the seller, prices can fluctuate significantly for the same book, creating an environment where buyers mostly window shop for prices and data. As a long-term investment, book collecting appears to be a potentially profitable vehicle – particularly if your collection includes rare, desirable volumes.

## **Maps as an Investment**

Dealers who sell rare books often sell maps as well. The market includes a huge assortment of maps in every size and shape, including maps of the oceans and stars; maps of countries, streets and regions; and maps of ancient civilizations. Antique maps can provide snapshots of notable historic periods and may especially interest those who feel connected to a certain locale.

“The market is now, thanks to the Internet, quite transparent, and purchase price comparison is easy. Having said that, the price that can be realized on a sale could be very different.”

Dealers and auction houses control the market because they typically have the connections and financial resources to traffic in coveted, scarce old maps. Like rare first editions, one-of-a-kind maps command the highest prices. With maps, you can amass a respectable collection while spending significantly less than it costs to build a library. The challenge is compiling sufficient data to identify the financial variables in map collecting. Scarcity will typically raise a map’s value, although experts may disagree on what constitutes a rare map and rarity alone does not necessarily make a map valuable. Some sell for thousands even though copies may be plentiful.

“In the case of rare books, each transaction is largely independent of others and depends on both the characteristics of the individual book and the preferences and knowledge of the collector.”

Not surprisingly, collectors, auction specialists and dealers place a high premium on authenticity. Forgeries can occur in the marketplace, although they’re not a widespread problem. Stolen maps are a bigger concern. Theft becomes a more serious threat when the price of a particular map increases. However, most experts steer clear of maps with questionable histories. In general, collectors should not regard maps as a potential source of profit. Those who collect maps for their intrinsic value often aren’t really interested in buying and selling, anyway.

## Stamps of Approval

Philately, or stamp collecting, began in the mid-1800s and steadily grew in popularity, peaking in the 1960s and ’70s before the younger generation turned to other pursuits. Stamp enthusiasts, similar to their book- and map-collecting compatriots, derive pleasure and happiness from their hobby. While the benefits of owning rare, valuable stamps are undeniable, most collectors could not put a price on the enjoyment they receive from assembling their collections.

“Ironically, rare or scarce objects might be highly liquid as they are sought after and a sale will generate interest...this might apply only to the top-quality items of a genre.”

Three primary factors determine stamp prices: catalogs, auctions and dealers’ buy and sell lists. Rare stamps are best purchased from reputable sources that typically can provide proof of authenticity. Collectors expect dealers to verify the legitimacy of high-priced stamps. Stamp condition, or “eye appeal,” is crucial. The exception is stamped envelopes salvaged from airplane crashes. Then, water or fire damage increases, rather than diminishes, the stamp’s worth.

“Most areas of popular collecting are dominated by middle income categories, including stamps, baseball cards, model airplanes, beer cans and ‘instant collectibles’ such as limited edition plates.”

Many collectors mistakenly believe that purchasing the latest issues from their country’s postal service will ultimately deliver handsome dividends. In fact, with the exception of a run that includes a rare mistake, most such stamps will not dramatically increase in value since thousands – or millions – of collectors purchase them. Excessive transaction costs also make stamp collecting a questionable investment. Collectors need a high degree of expertise to evaluate the merchandise and determine the legitimacy of a stamp’s price. Those who have assembled valuable collections tend to focus on stamps from a specific country or region.

## Wine Is Not a Sure Thing

At first glance, vintage wine appears to be an attractive investment. After all, the supply is usually limited and it dwindles as time passes. Both scarcity and high quality generate top prices, which are rising. Between 2001 and 2008, the Liv-ex 100 Fine Wine Index “reported an average annual increase of 16.3%.” But that doesn’t include transaction costs as high as 15%, or the cost of storing and insuring a wine collection. Any particular wine’s price can fluctuate wildly, depending on the conditions in a vineyard and the long-term outlook for a particular vintage. Weather that experts deem favorable for a crop is likely to contribute to higher prices. Reputation, growing zone and evaluations from wine writers all influence how investors perceive a vintage and if they buy. Wine producers typically raise their prices for smaller crops; no correlation has been established between quality and quantity, but scarcity has value.

## In the Driver’s Seat

Classic automobiles are often unique, so many collectors find them highly desirable. Classic car enthusiasts tend to be passionate fans who feel a connection to a certain make or model. They may collect cars like the ones their grandfathers owned, or they may simply find a particular automobile irresistible. Car collecting is an expensive hobby, considering storage and maintenance. Major restoration is costly. Theoretically, vintage automobiles will continue to increase in value, since they are no longer manufactured and only a limited number exist.

“In my nonrepresentative sample of collectors, men are much more likely than women to collect automobiles, guns, stamps, antiques, books, beer cans, wine and sports-related objects.”

Classic cars offer several options to investors, depending on their financial resources. Wealthy buyers can purchase immaculate vehicles that require only routine maintenance. Those with less money can buy autos that need restoration. Some individuals have the expertise to do much of the work themselves, making the project a labor of love. For many collectors, just finding a classic car is half the fun. Although websites, magazines and catalogs from auction houses are solid sources, uncovering a car that’s been locked in a barn or old building is particularly thrilling. Some collectors spend years searching for a car rumored to have been stored out of sight for decades. You can find classic cars at auctions if you are armed with the right information. You need to know how much a vehicle is selling for, what it’ll cost to restore, and whether you can turn it around and make a profit. It helps to bring someone along who has the skill and knowledge to assess a car’s condition accurately.

“Women are much more likely to collect jewelry, housewares such as dishes and silver, and animal replicas.”

If you’re looking at classic cars strictly as potentially profitable investments, you want to learn which models traditionally increase in value over time. Ferrari leads the way in generating the best prices. Austin-Healey and Porsche, among others, are also prized, but car-buying decisions involve multiple factors, including whether you plan to drive the car or just leave it in your garage until you can sell it – perhaps for a handsome profit.

## About the Author

**Stephen Satchell** is a Fellow of Trinity College, the Reader in Financial Econometrics at the University of Cambridge, and visiting professor at Birbeck College, City University Business School and University of Technology, Sydney.

---

---