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THE FAMED ARCHITECT LETS LOOSE
BY BRENDON MCQUEEN

EXCLUSIVE!
SOPHIE BARTHES
YOUNG HOLLYWOOD
AT ITS FINEST

FLAVIO ALVES
GAY RIGHTS
ACTIVIST

HOW JOHN BEATTY KEEPS IT HOPPIN'



CAROLE PINTO

lets us in on the usually secretive world of high brow art dealing. In the process, details behind the high prices and high competition behind this worldwide phenomenon become sharply apparent. *The Observer's* resident Editor-at-large Flavio Alves recently caught up with Ms. Pinto at Christie's Auction House in New York City for some photographic reflections.

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In the early 1970's, panic swept through the financial markets. Inflation, soaring interest rates, and the fear of recession were materializing. Political, financial and economic uncertainty was leading people to invest in tangibles. In the mid 1970's, a number of art investment programs were established to satisfy consumer needs.

With the advice of Sotheby's London, The British Railway Pension Fund was created in 1974, to invest in paintings from Old Masters and Impressionists. The Pension Fund later branched out into Chinese porcelain and antiquities. The initial outlay was \$100 million, and when the Fund liquidated its assets in the early 1980's, it had almost tripled its initial investment. Although less than 1% of the Pension Fund's total assets had been invested in art, the Fund chose to liquidate given that the board feared a lack of liquidity in the art market, combined with the difficulty of assessing the true market value of works of art at a particular point in time would be too great a risk.

The fund nonetheless succeeded in turning a profit. Although only one third of the art works earned revenue, most of them were Impressionist paintings. Fortunately, the market for Impressionist paintings was about to boom, thanks to a huge influx of cash from Japanese buyers. As there were at this time no

1989 and 1991, spent about \$13.2 million on a collection that included twenty eight French paintings and drawings, including works by Cezanne and Courbet, and about \$8.8 million on sixty Italian drawings by masters such as Canaletto and Barocci. Shares in the two collections were sold to hundreds of clients. These clients would eventually split up the profits from auction.

When the BNP fund dispersed the collections in several sales at Christie's between November 1998 and January 1999, the result was a net loss reported at around \$8 million. According to the advisors, the main cause for the loss was the rigidity of the system. The contract between the BNP and the investors was 10 years, which was too short a time frame. At the time of the sale, the market for Old Masters was poor, even though it was at the time recovering. Had the fund held on for another two years, the experts assess the fund would have become profitable. This lack of flexibility forced the Fund to sell at the wrong time, and it therefore led to a miserable return.

The most essential factors underlying success in the art market are fluidity, the ability to time different sectors of the market properly, and the ability to gauge trends. Because of the inverse relationship between the stock market and the art market, when stock prices go down, people tend to invest in hard assets, i.e.

**“IT IS NEARLY IMPOSSIBLE TO MEASURE TWO IDENTICAL UNITS
IN THE ART WORLD BECAUSE THEY SIMPLY DO NOT EXIST.”**

set limits as to when to get into and out of the market, advisors for the fund held much flexibility in deciding when to purchase or unload works of art, which assisted the fund to earn profits. Luckily for the Fund, most of its assets were liquidated before the crash of 1990.

In 1978, a partnership was created between Citibank and Sotheby's in order to assemble art and antique portfolios for Citibank's upper crust clientele in the "Private Banking" division. Conflicts of interest soon became apparent as clients were inclined to purchase works of art that would come up at auction at Sotheby's, and the partnership rapidly unravelled. Artemis International, founded in 1979 by the Director of the Art Dealers Association, Eugene Thaw, and the now notorious Klaus Von Bulow, counselled wealthy clients around the world. Artemis consisted of a consortium of art and antique dealers who would provide details on the provenance, authenticity, and condition of the art to their clients. Artemis also secured advice on conservation, insurance, restoration, and taxation. It would charge a 10% commission on works purchased and provide the guarantee of authenticity and clear title of art. Conflicts of interest arose once again as clients feared dealers would unload unwanted artwork into their hands. Artemis, too, disbanded a few years after its creation.

One of the biggest failures in investing in art was that of the Banque National de Paris which created a fund that, between

real estate and artwork. This creates an upward pressure on prices which will cause the art market to eventually succumb if there are no signs of a rapid recovery.

Today, low interest rates combined with worldwide political and economic instability have once again fuelled a strong interest in art as an alternate investment. Many cash rich investors are competing for an increasingly diminishing supply of art, pushing the upper tier of the market, but also the middle and lower tiers. It is critical to understand that during an economic slowdown, only the finest works of art manage to retain their value. In addition, wealthy Russian and Chinese investors have recently entered the art market, often buying from their own cultural heritage, pushing up prices to stratospheric levels and fueling the production of reproductions and forgeries.

The soaring prices in the art market have once again spawned a number of art funds. Philip Hoffman, CEO of the Fine Art Fund in England, attracted capital from family offices and institutional investors with a three to ten year outlook. To date, the largest single investment has been \$10 million, with a minimum investment of \$1/4 million. According to Hoffman, the fund invests on average \$1 million a week. Hoffman claims that the fund does not invest more than 2% of the value of the market in any category of art in order to avoid market shifts. He also states that the average return, cash-on-cash within the past twelve months, has exceeded 35%. The trick, he says, is to buy

selectively, to avoid buying works of artists that he considers to be overvalued - such as Damien Hirst, and to choose sectors of the market that appear to be undervalued - such as the Old Masters paintings. He may be right when it comes to the Old Masters, but investing in contemporary artists can be a gamble, since there is no way to predict which artists will be successful in the future. The Hoffman fund charges an annual management fee of 2% and takes a 20% cut from profits once the fund clears a set minimum hurdle.

The American Fernwood Fund soon plans to make a private offering through investment banks and other private wealth managers. The fund exclusively targets qualified purchasers with at least \$5 million in investment assets, although the average purchaser will put up a few thousand dollars. Fernwood has identified eight sectors of the market: Impressionism, Old Masters, XIX century European, Modern, American, Post-war, Post-modern and Emerging markets. He has given each sector a varied level of volatility. The firm would start by offering a couple of funds, and expand as it builds a client base. A single fund could offer investors exposure to all eight sectors, or just to a single one, allowing investors to choose how much risk they want to take on.

ABN AMRO, which started a fund in 2005 to purchase sculpture and paintings, has presently given up on art funds. The China Fund is run by Julian Thompson, a former chairman of Sotheby's International and specialist in Chinese porcelain. This fund focuses on the purchase of Chinese art - it is interesting to note that the recent economic boom has created new wealth in China, pushing prices up not only in archaeological artefacts and ancient porcelain, but in the contemporary art market as well.

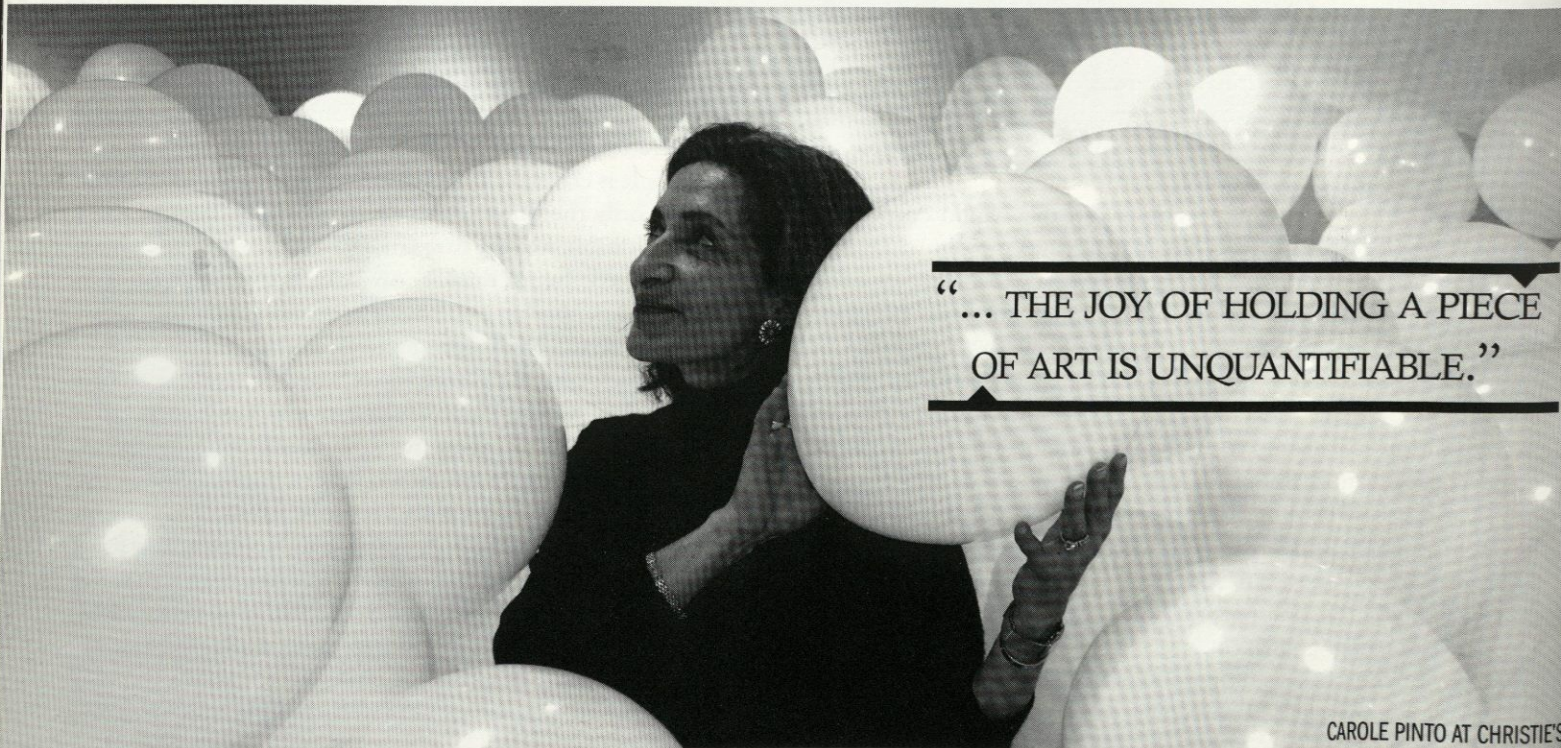
Several factors have prevented meaningful shifts in investment capital from the pockets of investors interested in art to these funds, notably a lack of transparency in the industry, high

transaction costs, and a reliance on auction records for market data. Moreover, it is impossible to tabulate art market data in order to create a true price performance index for works of art, unlike stocks or bonds, which are not fungible assets. For instance, two paintings by the same artist of identical size and similar subject matter can differ drastically in price given the varied factors pertaining to their condition, provenance, date of execution, and placement on the market. It is nearly impossible to measure two identical units in the art world because they simply do not exist.

The shrinking supply of quality artwork and the desire to acquire "trophy art" is adversely affecting the art market, creating multiple sales records which, far from being a healthy sign from an investor's point of view, reduce the chances of making a profit on a work of art. Investors usually target top quality when purchasing art, but as the top tiers become more scarce, prices soar, increasing the risk of the art's inability to possess a resale value. Fashion trends also determine a value of the art piece at a specific point in time, but their cyclical nature adds to the difficulty of determining which will retain value over the long haul.

The promise of stellar performances from art work is stalled from long holding periods required for works of art—a minimum of ten years is considered standard, combined with the difficulty of assessing the value of a work of art at any given point in time. The creation of artificial markets instilled by a handful of dealers hoping to push up the value of works in their inventory, and the lack of liquidity in the market effectively work against the objective of high returns. A less tangible factor also plays a major role in the potential buyer's selection of a work of art. The special relationship created between a buyer and seller that is often based on trust takes years to build. The confidence art collectors have in their dealer goes a long way in convincing

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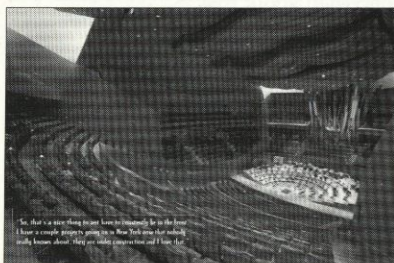


“... THE JOY OF HOLDING A PIECE OF ART IS UNQUANTIFIABLE.”

CAROLE PINTO AT CHRISTIE'S

We need people challenging laws and reaching out allies in the straight world. When Rosa Parks sat in the front of the bus, she said "I won't move, I'm gonna sit right here," The argument against her in those days was that the bus would have taken her to the same place, so then what does it matter if you're in the front or the back? Well, if it doesn't matter, then why are some put in the back and others in the front? I usually use it as an analogy against those who think that by allowing civil union it would give all the benefits offered to the real marriage except the name. The straight people want to be "nice" with us by giving us a seat - but in the back. If there's no difference, why do you need to create a different category? No one would admit to supporting racial segregation nowadays. In the same way, 30 years from now, people will look back at same-sex marriage and say: "of course, gay people should have the right to marry."

GEHRY'S UNIQUE VISION



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and you know. It's interesting in Abu Dhabi, where we are doing a building with Guggenheim, we discovered that the population there seems to be more comfortable outdoors, you know they just came from a tent culture not very long ago, so the idea of using methods to remove hot air, just natural...like the Indians did. These wind towers that they have in the Emirates are very interesting to us and we've been exploring things like that. I don't think you can make a fetish out of it. I think some of our colleagues make a fetish out of it and replace design, or the idea of making beauty or form or something, they replace it with that kind of a fetish and they skew their priorities, I mean your still responsible for making a beautiful building, and I think you should, they aren't mutually exclusive, I think you should address both issues.

OB- What is the hardest thing you've ever done?

FG- Oh brother I don't know... [long pause]... getting old I suppose [laughs].

OB- What is something you've done that you are the most proud of?

FG- That's easy, my family [laughs], by a long shot, that's the most important thing.

HIGH ART



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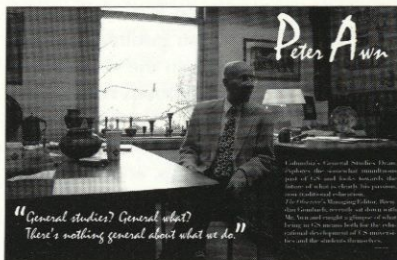
years, at a time when the art market seems to be at its peak. The emergence of art investment funds has added much buying capital to the marketplace, artificially increasing prices and placing a negative trait on the market. When people start to steamroll into the market and buy heavily, much can go wrong. Institutional buying turns the

there is such a thing as people screwing up the environment ... especially the automobile, I would guess. In my own work I try to be responsible. We're now working on projects where we are trying to get to zero carbon stuff, that's kinda hard to do but it's easier to do in Europe I guess. And we are exploring all the solar and wind, all that stuff

investors that a work of art is worth its price, not only as an investment but with their emotional attachment which bears no price as the joy of holding a piece of art is unquantifiable. Today's art funds' performance is questionable. Many funds have been set up within the past five

art market. It is no longer for the sake of buying art for art's sake, but rather about turning a profit. Contrary to the speculative buyer, who is variably sensitive, the serious collector is in the market for the long haul. Given the historical performance of the art market, this investor is most likely to achieve the best return.

TRADITION MEETS AWN



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and we expect you to do the same with us. Other programs around the country designed for working students or students who have interrupted their education, segregate these students off from the traditional college population and frequently use adjuncts rather than the full time faculty as the instructors. It's as if somehow age is contagious and older students need to be segregated from the traditionally aged students. Or worse, the presumption is that by the time you hit your mid-20s, half of your brain cells are dead.

What we have done at Columbia is unique for an Ivy League University and runs counter to the old approach towards the education of more mature, working, students - many of whom have interrupted their education. If we accept you at GS, the presumption is that you are as talented as any other undergraduate on this campus. I don't care if you're 70; I don't care if you're 15. If you fit the GS profile and if you have the intellectual goods, then you should be mainstreamed into the Columbia academic program and you should be taking the same courses, with the same faculty, and earning the same degree as all other undergraduates.

OB- But doesn't half of the Ivy League have similar programs?

PA- We spent 60 years educating our faculty that what we do at GS is really cutting edge education. We've succeeded at Columbia where no other Ivy really has. I don't want to overstate the case - why are we unique? Because we actually have a college that fully integrates students academically. Yale has a very small program called the Eli Whitney program, which fully integrates the students. Brown uses some non-traditional students for its transfer population. But these are small programs that are attached to traditional colleges. What I would argue is that it is important to have an independent college like GS that caters to the particular needs of students who fit the GS profile, especially when it comes to admissions and advising.

There are different divisions within GS - there's the undergrad college there is also the dual degree program with the Jewish Theological Seminary, and there is the post-bac premed program. These are obviously very different programs - with different student types - so how do you keep the GS community together?

When I started as Dean, the presumption was that it was impossible to create community at GS because students had such different lives. We would offer lots of opportunities for students to interact, but the events were not well attended. You would be surprised how many alums tell me that their academic experience was extraordinary but that they never built relationships with other GS students.

That's changed over the last decade since we've separated from Continuing Ed, and you do begin to see a level of cohesion developing. This is a fragile and imperfect ideal simply because you cannot expect this kind of population to have both the time and interest to do a lot of things together. The postbac premeds are being worked into the ground doing a lot of volunteer work, many undergraduates and postbacs work, people have families, etc. Whether one gets involved or not is a very individual decision and not something that we can predict easily.

OB- How important are modern communication tools like the internet and email in creating a sense of community at GS?