

Art Industry Investment Report

October 2009

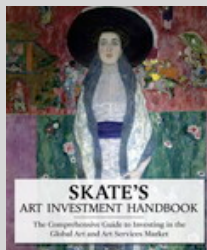
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Since the publication of our last Art Industry Investment Report in early July, a number of anniversaries in the financial and business worlds have come upon us. In July we marked the one-year anniversary of the highest ever oil price at USD 147.29. Just two weeks ago we marked the one-year anniversary of Lehman Brothers' collapse. As we enter October, despite tepid signs that recovery might be underway, the effects of the financial meltdown following Lehman's collapse continue to be felt across virtually all sectors of the economy.

This summer and early fall has been a quiet time for the art market. Aside from one major sale in Zurich last month, the auction rooms showed

little in the way of major activity. Following the general rise in global stock markets, Skate's Art Stocks Index finished the third quarter at 98.0. As we enter the fall auction season, we focus on the trends market participants should follow in the busy months of November and December ahead, which could again see several big entries into Skate's Top 1000.

For Skate's, this fall also represents a period of exciting growth. Along with the publication of the next edition of Skate's Art Investment Handbook in November, we are also pleased to announce a new blog and Twitter site to provide our readers with greater real-time and interactive news and commentary.



MCGRAW-HILL TO PUBLISH SKATE'S ART INVESTMENT HANDBOOK: The Comprehensive Guide to Investing in the Global Art and Art Services Market in Fall 2009

Skate's Art Market Research is pleased to announce that a second English edition of *Skate's Art Investment Handbook* will be published by McGraw-Hill in Fall 2009.

Written by **Skate's Art Market Research** Founder and Chairman Sergey Skaterschikov, the original *Skate's Art Investment Handbook* was first published in Russia in 2006 and was written as a guide for Russia's newly wealthy. Due to popular demand (the Russian edition sold out in six months), the book was printed in English. It has since become a standard resource for international art investors.

Skate's Art Investment Handbook: the Comprehensive Guide to Investing in the Global Art and Art Services Market will expand upon its predecessors with additional sections, new data and input from special contributors. Using a combination of proprietary editorial and aggregated statistical data, Skaterschikov will explain a rational approach to investing in art, including valuation drivers, market statistics and an analysis of how the art market compares to other investment markets. A special supplement will feature a complete listing of Skate's Top 1000.

Strengths and Weaknesses in the Chinese Art Market

Several news reports in recent weeks focusing on the market for Chinese artworks have highlighted the degree to which that market has seen various strengths and weaknesses emerge, especially in light of the global financial crisis and the softening of demand for fine art worldwide.

On September 24, *The Wall Street Journal* ran a story by Alexandra Peers (see ["The Sale of Chinese Antiquities Remains Recession Proof"](#)) highlighting strong sales of Chinese antiquities at Sotheby's and Christie's in mid-September. In total, approximately USD 56 million in sales were made during the auctions, which, according to Peers, were well ahead of expectations this year but considerably behind what similar sales would have brought a year ago before the global art boom began to fizzle.

Contemporary Chinese art, however, is a different story altogether. On October 2, *The Wall Street Journal* published a piece by Ian Johnson and Sky Canaves (see ["Artists Test Limits as China Lets \(a Few\) Flowers Bloom"](#)) which focuses on the political freedoms of contemporary Chinese artists and what the Chinese government's willingness to allow artists a greater range of expression means for the future of Chinese contemporary art. The deflating bubble of Chinese contemporary art may actually bode well for the sector in the years ahead, as less pressure for artists to conform to market demands today could have the effect of encouraging greater diversity in creativity, thus setting the stage for a stronger and more mature market in the future.

October's auctions of Asian art in Hong Kong will be a major test not only for the greater regional market but the market for Chinese works in particular. None of these auctions is promising prices that could come anywhere close to the prices fetched at the height of the boom from 2006-2008, but failure to approach mid-range estimates or better for the majority of the works would give us a good indication as to how strong the market

is and, some might argue, how robust the region's economic revival this year has really been.

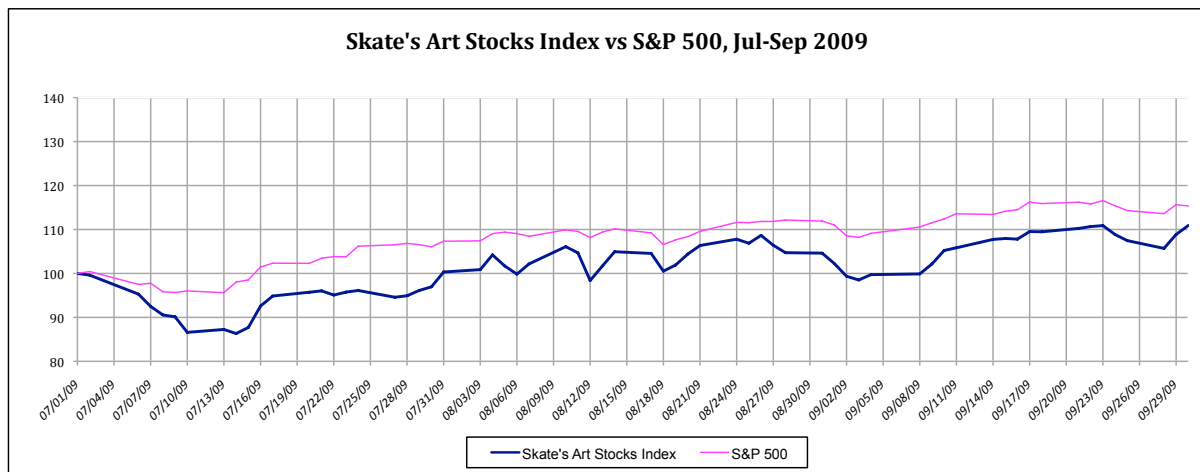
A recent article by Le-Min Lim of Bloomberg (see ["Chinese Collectors Set to Boost \\$100 Million Hong Kong Auction"](#)) highlights some of the major sales taking place at Sotheby's over the next week. The five-day event in Hong Kong starts on Monday, October 5 with an auction devoted to Fine Chinese Paintings. Although the estimates for these paintings are low compared to the sales Skate's normally follows - the highest valued work, Wu Guanzhong's *Placid Mountain Village*, has been assigned a pre-auction estimate of USD 451,612 to 645,161 - the results should provide a good indication of how higher valued works will perform later this week and throughout the rest of the auction season.

One higher valued work to pay close attention to is Sanyu's (Chang Yu) *Lotus et poissons rouges (Lotus and Red Fish)*, which will be sold at Sotheby's 20th Century Chinese Art Auction in Hong Kong on Tuesday, October 6. Sotheby's has assigned a pre-auction estimate range for the painting at USD 1,935,602 to 3,225,764. Earlier this year, the sale of Sanyu's *Cats and Birds* for just over USD 5.4 million at Christie's Hong Kong tested Skate's Top 1000, and in November 2006, just as the boom in Chinese art was underway, the artist's *Potted chrysanthemum in a blue and white jardiniere* fetched a respectable USD 3,758,354, which was well above Christie's high estimate at the time of USD 899,742. We are not in the midst of the 2006 market boom, however, and barring a miracle, neither *Lotus et poissons rouges* nor any of the other artworks being auctioned this week at Sotheby's will come anywhere close to approaching Skate's Top 1000 threshold price of USD 5.73 million.

In our next issue of Skate's Art Industry Investment Report, we will continue to follow important sales of Chinese art and will focus on several high-profile auctions to be held by Christie's Hong Kong at the end of November.

Regardless of what happens this week at Sotheby's in Hong Kong, Skate's believes that the Chinese and greater Asian art markets still hold potential for considerable growth in the years to come. Once the

regional and global economies begin to see even greater and more sustained growth, we would not be surprised at all to see more works from this part of the world enter Skate's Top 1000.



Source: www.skatepress.com

Ferdinand Hodler Tests Strength of Skate's Top 1000

About a dozen of the artists present in Skate's Top 1000 are represented by just a single work priced above the threshold price, which currently stands at USD 5,730,951. Given that these artists periodically enter and drop out of the ranking as a result of changing market dynamics, we refer to them as "Littoral Artists."

Ferdinand Hodler was one such Littoral Artist who was present in Skate's Top 1000 as late as April 30, 2008, with *Eiger, Monch und Jungfrau uber dem Nebelmeer* (1908) occupying the 996th position in the ranking. As is often the case with the Littoral Artists, Hodler was washed away by the auctions in the second quarter of 2009 when *Eiger, Monch und Jungfrau uber dem Nebelmeer*, which sold for USD 5,702,830 (including buyer's premium) in November 2005, left the ranking last spring.

On September 21, Christie's brought a highly comparable painting to the market - *Eiger, Mönch und Jungfrau von Beatenberg aus* - at its auction in Zurich. Prior to the auction, this work was assigned an estimate range of USD 3,855,730 to 5,783,595. As Skate's predicted

in its pre-auction analysis, Hodler's painting sold very near the low end of Christie's estimate range, fetching USD 3,911,412, including buyer's premium.

Although the sale of *Eiger, Mönch und Jungfrau von Beatenberg aus* was not as strong as Christie's would have hoped, it should be viewed less as an indication of Hodler's strength and more as a sign that the art market still has considerable progress to make before it enjoys prices reminiscent of the recent boom years.

Sotheby's Enters New Credit Agreement / Credit Rating Cut / Dividend

Despite the lack of news concerning major auction sales over the past several months, [Sotheby's](http://www.sothebys.com) - the only auction house present in Skate's Art Stocks Index - was busy making corporate news.

On August 4, Sotheby's declared that it would pay a per-share dividend of USD 0.05 on September 15. Sotheby's thus maintains its position as one of the few dividend payers among the twelve international art industry companies included in Skate's Art Stocks Index (see news on Stanley Gibbons below).

On September 1, the company announced that it was entering into a senior secured credit agreement with an international syndicate of lenders arranged by GE Capital and HSBC Bank, PLC. According to Sotheby's press release, "the 2009 Credit Agreement is available through August 31, 2012 and provides for borrowings of up to \$200 million."

The next day, Bloomberg reported that Moody's Investors Service, perhaps coincidentally, had cut Sotheby's corporate credit rating from Ba2 to Ba3 (see ["Sotheby's Corporate Credit Rating Is Cut One Level by Moody's"](#)), which, in the words of Maggie Taylor, Moody's vice president and senior credit officer, was due to the agency's belief

that the auction house's "credit metrics [would be] very weak over an extended period." Taylor did state that Sotheby's "good liquidity, strong market position, and balanced financial policies provide us with the comfort that it will successfully weather the current downturn in the auction market."

Given continued confidence in Sotheby's by investors (as evidenced by the company's 84.4% YTD share price improvement), as well as greater financial discipline through much needed cost-cutting efforts and more conservative price guarantee policies lead us at Skate's to concur with Moody's that Sotheby's should have little trouble weathering the current downturn.

Name	Listing/ Currency	September 2009 Performance	YTD 2009 Performance	Price as of September 30, 2009, USD	Market Cap as of September 30 2009, USD mln	Skate's Target Price (in local currency)
Sotheby's	NYSE/ USD	8.6%	84.4%	17.23	1,160	USD 18
Artprice	Paris/EUR	12.0%	42.8%	9.66	61	EUR 6
Artnet	Frankfurt/ EUR	-7.5%	-16.9%	5.82	33	EUR 9
Collectors' Universe	NASDAQ/ USD	20.1%	112.9%	5.62	47	USD 8
Mallett	London/ GBX	22.1%	89.9%	136.13	19	none
Finarte Casa d'Aste	Milan/ EUR	75.6%	79.8%	0.45	23	EUR 0.5
Gruppo FMR	Milan/ EUR	2.8%	28.2%	7.24	26	EUR 6
Camera Work	Frankfurt/ EUR	11.0%	-20.5%	6,670.00	267	EUR 1000
Art Vivant	Tokyo/JPY	6.9%	6.9%	2.97	46	JPY 270
Seoul Auctions	Seoul/ WON	12.2%	41.1%	2.54	42	WON 2500
Shinwa Art Auction	Tokyo/JPY	-13.3%	8.2%	272.32	16	JPY 50000
Stanley Gibbons	London/ GBX	8.8%	18.3%	229.28	58	GBP 160
Skate's Art Stocks Index		9.4%	40.8%	98.00	1,796	90

Source: www.skatepress.com

Stanley Gibbons: Swimming Confidently Against the Tide

On Monday, September 28, [Stanley Gibbons](#), a UK-based philatelic trading and collectibles company, paid an interim dividend of GBX 2 per share (the current share price is approximately GBX 143), which is unchanged with respect to the dividend for the same period last year and equivalent to about 40% of the dividend payout ratio.

When Stanley Gibbons recently announced its half-year results, the company completely met our expectations by achieving 18% top line growth over the same period of 2008 and a 13% increase in profit before tax. Following a share price appreciation of 45% over the last six months, Stanley Gibbons shares traded at more than GBX 143 on September 30, 2009, edging very close to the GBX 160 share price target set by Skate's at the beginning of the year.

For more analysis on Stanley Gibbon's performance YTD, as well as on the company's market position, please refer to the September 24 issue of [Skate's Market Notes](#).

Skate's Art Stocks Index Reaches 98 - Wide Decoupling Between Artnet and Artprice

The twelve international art industry companies included in Skate's Art Stocks Index reached 98.0 as of September 30, which represents a 9.4% improvement from for the month and a 40.8% improvement for the year. Thanks to the extraordinarily strong performance of several companies, our index has far exceeded the target of 90.0 that we set at the beginning of 2009.

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Although we will have to wait for the companies' publication of their full-year financial results to make a more detailed analysis, one very interesting trend has been the wide discrepancy in the performance of two competing firms - Artnet and Artprice - which normally share similar market dynamics. The former has seen its share price decline by 16.9% YTD, while Artprice's share price performance has generally matched that of Skate's Art Stocks Index as a whole.

As we enter the final quarter of 2009, which many analysts expect to bring more mild gains and indeed corrections for overvalued stocks, a number of the companies in our index are worth paying close attention to, especially those like Mallet and Camera Work which received generally pessimistic prognoses in our annual report for 2008.

Art Forum Berlin Concludes with Lackluster Results

According to a recent Bloomberg report (see ["Berlin's Trendy Art Fairs Draw Wary Collectors as Crisis Hits"](#)), Art Forum Berlin finished its four-day run from September 24-27 with mixed results. Despite the large number of buyers and galleries present for the event, sales were generally weak in comparison to past years.

Although this year's event was definitely much more of a buyer's market than in years past, the events' organizers are optimistic that the market for the kind of contemporary art sold at Art Forum Berlin will recover. The article quotes Eva-Maria Haeusler, co-director of Art Forum, as saying that "it's just a question of when."