

Skate's Art Stocks: June 2009

The Art Creditors of J. Ezra Merkin (Bernard Madoff's Feeder) Get Priority Treatment

- Artprice Comes under Computer Attack Siege, Sotheby's and Artnet Surge
- Skate's Top 1000 Repeat Art Sales Generate Positive Returns, Warhol's *Tunafish Disaster* Turns into 19% ERR over 14 Years Holding Period
- Skate's Art Stocks Index reaches Target Level of 90
- Collectors Universe stays silent on its share buyback program as deadline arrived
- Second half of June brought just eight changes to Skate's Top 1000 list

Rothko Mystery Sale by Merkin Showcases Gaps in Art Market Transparency

When the news broke on the hair-raising Madoff collapse and the subsequent Merkin coup de grace, there were all kinds of interested readers. Along with deceived Madoff investors and Merkin clients, there were also the creditors that financed Merkin's Rothko art buying bonanza who suddenly learned of tens of millions of loans (deferred payments) extended to Merkin to help him pay for his Rothko collecting purchases.

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.

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Ben Heller, a veteran art dealer who advised Merkin on his Rothko collection effort (leading to the purchase of over US\$300 million worth of single artist artworks), and Arne Glimcher, the founder and CEO of PaceWildenstein gallery that represents the Rothko estate and facilitated a few direct purchases by Merkin, definitely paid attention to the news. Ben Heller even went on record in an interview to Bloomberg on Jan 8, 2009 saying that while the paintings were not for sale at that time “everything has a price.”

Fast forward to June 2009 and, indeed, the paintings are sold off-auction market for a reported price of US\$310 million with no disclosure given on the valuation of each painting, who was the buyer, was the process competitive and what, if any, commissions were paid and, if so, to whom.

One could say “a typical private sale” and will be right – over 50% of the art market trade is handled this way, leaving in its wake no price records and little reliable information that the art market trade could use. However, wait a minute – as the proceeds are supposed to be locked by the New York Attorney General’s office to be used in the future to settle claims from the Merkin fraud victims, isn’t it fair to question this time if the price received and the sale process were actually fair in this given private sale?

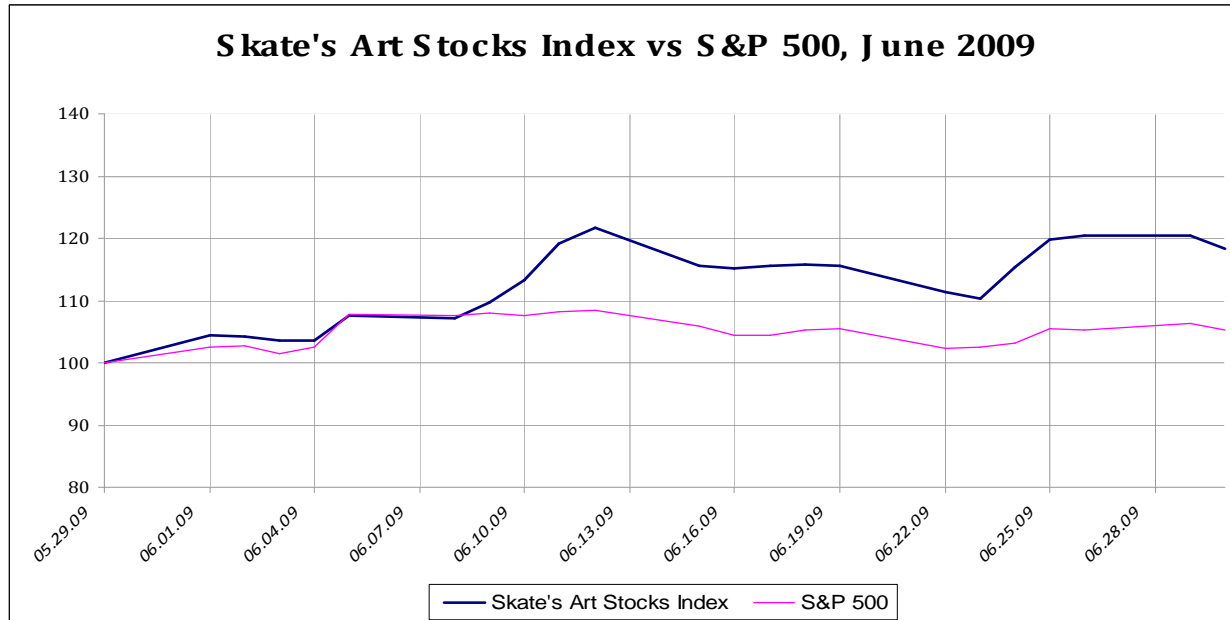
Fair or not, but a stunning difference exists between the price reported and the proceeds received to the Attorney General’s “lock box” – just about US\$191 million is now available to distribute to potential victims with the striking difference of US\$119 million (or over a third of sale value) removed to pay “back loans and taxes,” as the media reported.

This is where it actually gets very interesting – apparently by endorsing the scheme, the Attorney General agreed that the tax authorities and Merkin’s lenders on the original Rothko purchases had or deserved priority over claims from the Merkin investors. Perhaps, there was a legitimate reason for this arrangement, i.e. that the art could be collected and sold by the creditors on the defaulted loans anyway and the scheme generated at least some proceeds for the lock box. Sure, but this is exactly where more disclosure on the private sale would be required. Otherwise, it sounds like a typical cozy art market deal, but this time completed under very delicate circumstances.

Skate’s Art Stocks Index Hits Our Target – Now What?

When the stock market was all doom and gloom and auctioneers were nervously getting ready for the spring auction season working on thinner catalogues and lower reserve prices, Skate’s Art Stock Index hit the all-time low of 47.9 points on Mar 9, 2009, and we thought this would be the time to buy, if not art then some of the art stocks for sure. In our March newsletter, we put a target price of 90 for Skate’s Art Stock Index and have kept it unchanged since then. The index closed at 87.7 on Jun 30, 2009. It outperformed the S&P 500 throughout Q2 and in Jun 09, largely driven by Sotheby’s massive rebound of 51% YTD capital gain (Sotheby’s is the largest company in terms of market capitalization in Skate’s Art Stocks market cap weighted index).

With where the global economy and the art market stand right now, we would reiterate 90 as the target price for Skate’s Art Stocks Index for this summer and will review it in the September issue of our newsletter when and if a better sense of direction for the global art trade volume and earnings emerges.



Source: www.skatepress.com

Art Stocks News: Artnet and Sotheby's Surge, CLCT Buyback, Artprice Computer Attack

Sotheby's and Artnet were the top performing starts in June, while Artprice was the worst performing stock in Skate's Art Stocks universe.

Name	Listing/Currency	June 2009 Performance	YTD 2009 Performance	Price as of Jun 30, 2009 USD	Market Cap as of Jun 30, 2009 USD mln	Skate's Target Price (in local currency)
Sotheby's	NYSE/USD	33.1%	51.4%	14.11	950	USD 18
Artprice	Paris/EUR	-12.9%	20.0%	8.12	51	EUR 6
Artnet	Frankfurt/EUR	45.9%	17.4%	8.22	46	EUR 9
Collectors' Universe	NASDAQ/USD	8.2%	84.8%	4.88	41	USD 8
Mallett	London/GBP	2.8%	41.7%	101.60	14	none
Finarte Casa d'Aste	Milan/EUR	-4.1%	0.5%	0.25	13	EUR 0.5
Gruppo FMR	Milan/EUR	-2.0%	20.4%	6.80	24	EUR 6
Camera Work	Frankfurt/EUR	1.2%	-7.9%	7 726.00	309	EUR 1000
Art Vivant	Tokyo/JPY	9.4%	-1.8%	2.72	42	JPY 270
Seoul Auctions	Seoul/WON	-7.5%	62.7%	2.93	48	WON 2500
Shinwa Art Auction	Tokyo/JPY	-2.1%	20.2%	302.53	18	JPY 50000
Stanley Gibbons	London/GBP	-0.1%	2.3%	198.24	50	GBP 160
Skate's Art Stocks Index		18.4%	25.9%	87.70	1 607	90

Source: www.skatepress.com

As spectacular as Artnet's 46% share price surge in June can be, it has nothing to do with any significant changes in the firm. Rather, as is the case with all illiquid small caps, the stock responded with a significant lag to the mild improvement in the capital markets / art market environment and reached par with its direct peer Artprice that had experienced a share price correction earlier in the year. The Artnet stock trading remains predominantly domestic German-based, which is where the firm was established and where its founder resides. As Artnet recently expanded into the auction business (see our extensive profile on Artnet in the May newsletter), it received noteworthy coverage for the June photography auction in the local German press, led by Welt am Sonntag article "Art and Stuff" in early June. That brought some attention to the stock and helped it recover the lost balance with Artprice. After the Jun 25, 2009 auction yielded a meager US\$135,000 in "stuff" sales, no further stock rally has been observed.

Sotheby's 33% single month capital gain came on the back of the world's capital markets change of sentiment to the luxury goods segment justified by the 2008 results from the sector's largest companies and upbeat outlook shares by industry captains at the FT Luxury Forum. Also, Sotheby's unexpectedly managed to pull-off a very strong Russian art auction in June, and this added spark to its share price. Unlike Skate's Art Stock Index, Sotheby's share price still remains well below our target price – we maintain it at US\$18 and take particular comfort in that Sotheby's has almost completely eliminated its guarantee business with just US\$1.1 million in net guarantee exposure as of Feb 2009. We'll of course watch for the updated number when 1H 2009 financials are filed by Sotheby's and report respectively.

On the negative side, we watch three companies and have sudden news on another one, Artprice.

The Artprice bad news came out of the blue – the firm reported on Jun 2, 2009 that it became a victim of a computer attack, and then delivered an additional announcement on Jun 9, 2009 on its progress with fighting the virus. Whether it was a swine flu, computer vulnerability or "*une attaque unique dans les annales françaises*"¹ in the as usual colorful language of Artprice's announcements, it did irritate some of Artprice paid subscribers and perhaps was the principal reason for the stock underperformance in June (it lost 13% in share price value).

Three of our other negatives were well expected and we should continue to monitor them throughout the rest of summer:

- Collectors Universe launched a share buyback on Jun 2, 2009 at the US\$5 to US\$5.4 range, and the share price remained suspiciously below that range for most of June. CLCT had a deadline of the Jul 2, 2009 for completing (or extending) the program but remained silent, posting no announcement on neither Jul 2 nor Jul 3 for the buyback initiative. We do not like this and will continue to watch CLCT for further developments, finding CLCT 85% YTD performance now more an oddity than a justified increase.
- Mallett, the London based art dealer, is on our watch as a going concern – so far, the firm has survived, but we remain skeptical of its ability to continue independent operations and be able to remain self-financed/access new loans.
- Camerawork, a German bank of photography and related image rights, is a strange company with no clear business model and no corporate governance to speak of. We believe its current indicative valuation at the German stock exchange is misleading and will experience significant decline if any of the limited number free float shareholders are tempted to sell.

¹ Attack unique for French history, quote from Artprice press release at http://serveur.serveur.com/Press_Release/pressreleasefr.htm#20090609

June Brings Eight New Artworks and a New Artist to Skate's Top 1000, Returns on Repeat Sales Remain Positive

June brought eight new entrants to Skate's top 1000, and three of them were made by Picasso, further increasing Pablo's towering presence in the rating of the world's most valuable art. There is also a new artist in Skate's Top 1000 and this is Franz Marc, one of the best known names in the German expressionist movement.

New Entrants to Skate's Top 1000, June 2009

Rank in Top 1000	Artist	Artwork Title	Purchase Price, USD
355	Pablo Picasso	Homme à l'épée	11,524,964
418	Claude Monet	Au Parc Monceau	10,360,044
482	Pablo Picasso	Homme à l'épée	9,441,084
748	Pablo Picasso	Nu debout	7,090,033
851	Joan Miró	Peinture (Femme se poudrant)	6,500,412
872	Claude Monet	Route de Giverny en hiver	6,350,878
915	Franz Marc	Springende Pferde	6,132,828
916	Andy Warhol	Mrs. McCarthy and Mrs. Brown (Tunafish Disaster)	6,130,585

Source: www.skatepress.com

The eight artworks leaving the rating are:

Artist	Artwork Title	Year of make	Purchase price, USD
Joan Miró	Tête de paysan catalan	1924 - 1925	5,729,500
Henry Moore	Draped Reclining Mother and Baby	1983	5,728,000
Lucian Freud	Naked Girl Perched on a Chair	1994	5,728,000
Willem de Kooning	Two Women (Study for Clamdigger)	1961 - 1962	5,728,000
Pierre-Auguste Renoir	Jeune fille assise en costume orientale	1905	5,726,000
Fernand Léger	Les quatre constructeurs sur fond jaune	1950	5,726,000
Claude Monet	Matinée sur la Seine	1896	5,725,750
René Magritte	Le tombeau des lutteurs	1960	5,722,500

Source: www.skatepress.com

Interestingly, all three of Skate's Top 1000 repeat sales observed in June (i.e. sales of the same artworks returning to auction market) generated positive effective rate of return (before ownership cost and taxes). Specifically, the annualized return of 19.15% over 14 years of holding period on Warhol's *Tunafish Disaster* seems at odds with long term returns on major asset classes today.

Repeat Sales of Skate's Top 1000 Art

Rank in Top 1000	Artist	Artwork Title	Year of make	Initial purchase price, USD	Holding period, Years	Hammer price, USD	Repeat sale ERR
418	Claude Monet	Au Parc Monceau	1878	5,289,671	8	9,200,800	6,96%
872	Claude Monet	Route de Giverny en hiver	1885	3,114,680	20	5,554,580	2,92%
916	Andy Warhol	Mrs. McCarthy and Mrs. Brown (Tunafish Disaster)	1963	460,683	14	5,440,050	19,15%

Source: www.skatepress.com