

COMMENTS ON THE ART MARKET

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The Renovations

I am happy to report that on Saturday, September 13, we moved our books, files and paintings back into the gallery. Most of the following week was spent putting things back in their proper places, but the gallery is looking good. I must add that we are still not 100% complete -- two of the larger storage cabinets are still being installed, but we are back in business and look forward to your visit.

Photos can be seen in the PDF version of this newsletter on our web site.

The Internal Revenue Service's Art Advisory Panel

Many of you may have heard of secretive groups like the Illuminati, Freemasonry or the Fenian Brotherhood, but how many of you have heard about the IRS' Art Advisory Panel? Most individuals will never come in contact with this group, however, if you ever list an expensive work of art on an income, gift, or estate tax return then you probably will hear from them. According to the IRS, *the Panel assists the Internal Revenue Service by reviewing and evaluating the acceptability of property appraisals submitted by taxpayers in support of the fair market value claimed on works of art involved in Federal Income, Estate or Gift taxes in accordance with sections 170, 2031, and 2512 of the Internal Revenue Code of 1986.*

In order for the Panel to perform this function, Panel records and discussions must include tax return information. Therefore, the Panel meetings will be closed to the public since all portions of the meetings will concern matters that are exempted from disclosure under the provisions of section 552b(c)(3), (4), (6) and (7) of Title 5 of the U.S. Code. This determination, which is in accordance with section 10(d) of the Federal Advisory Committee Act, is necessary to protect the confidentiality of tax returns and return information as required by section 6103 of the Internal Revenue code.

The membership of the Panel is balanced between museum directors and curators, art dealers and auction representatives to afford differing points of view in determining fair market value.

Being invited to serve on this panel is a rather prestigious honor and this past summer I was asked by a member of IRS's in-house Art Appraisal Service if I would, pending approval of an application, serve on the painting and sculpture panel – an offer I gladly accepted.

While none of the information discussed in the meeting can be disclosed, the procedure is rather interesting. At this point I can only tell you the following --- about 10 days before each meeting a large box is sent to each member. Inside that box are photographs and back-up information for every work that will be discussed (no taxpayer information is included and the works are broken down in alphabetical order). Once the box arrives (mine weighed in at 10 lbs) members are expected to review each work, make notations about the values, do additional research if necessary, and then ship the box back to Washington before the meeting. I have been told that once I arrive there, my box will be returned to me so I can review my notes during the discussions.

This should be a very interesting and educational experience. I will let you know how it goes --- the meeting is scheduled for October 1. If I can, I will even let you know if they have a secret handshake or some weird initiation rituals!

Just in case you are interested, each year an annual summary report is published. A direct link to the 2007 report can be found in the PDF version on our web site (<http://www.irs.gov/pub/irs-utl/annrep07.pdf>).

AmericanWay Magazine

A few months ago I was interviewed by Tracy Stanton, a freelance writer, for an article she was preparing for AmericanWay Magazine. Well, if you happened to be flying on American Airlines during the first two weeks of August you may have seen the article: [Art Buying 101](#). Tracy spoke with a number of professionals in the industry and wrote a nice introductory piece on buying art. For those of you who may have missed it, a direct link to the article is provided in our online versions of this newsletter (<http://www.americanwaymag.com/tabid/2855/taxid/4060/default.aspx>)

Art Market Update

What about that those financial markets this month? All I can say is that the whole thing is sickening – my head is still spinning; and having a bout of vertigo did not help! We all watched the stock market move thousands of points in a single week; and a number of well known financial firms either bit the dust or merged with other companies to avoid a similar fate. I was trying to think of a rollercoaster ride that could bring you as much excitement and sickness, but I do not think they have built one like that – and if they did, it would be interesting to see if anyone could/would ride it!

Oh, I do want to give a loud shout-out of thanks to my financial adviser who never told me to buy Lehman Brothers (some of you might remember that I was lamenting about the fact that when Lehman hit \$20 a share some months ago my broker never advised me to buy it --- it made a quick run up to \$40 just after that). Guess he made the right call! However, like the rest of us lambs, I did watch my portfolio drop to a whopping 26% yearly loss at one point this past month, only to see it roar back to a measly minus 19%. And I am feeling okay that I am only down 19%. I guess Wall Street really knows how to make us feel good about a loss --- create an even bigger one and then give some of it back. And let's not forget about the many guru predictions that with the ever increasing demand for oil we would never see it go below \$100 a barrel and that the high prices reflect the true price and not a manipulated one? Guess they were full of you know what! And if I was paying upwards of \$4.75 a gallon when it was at \$140 + a barrel, why am I paying \$4.10 a gallon when it is now hovering near \$100 a barrel?

Now, I am sure you are all wondering about the art market? Well, if you read any of the papers this month you probably know what happened with the Damien Hirst sale in London; and if not, here is a synopsis. One of the main auction rooms teamed up with the artist, cutting out his primary dealers, to offer more than 220 new works in a single artist sale (it had both evening and day sessions) and the results were blistering hot.

The evening sale took place on September 15th --- you all remember that day when the stock market was down about 500 points and we all thought the world was going to end. Well, the art buyers who traveled to London seemed to have a different idea --- they wanted to spend, and spend they did. The saleroom was filled to capacity and of the 56 works offered for sale 54 found buyers during the sale (the last two sold that same evening in a private deal). Taking top honors was *The Golden Calf* at £10.3 million (\$18.6 million), now in case you are not familiar with Hirst's work, this piece consisted of a calf (once alive) preserved in a tank of formaldehyde – there was some gold and marble as well. Number two on the hit list was *The*

Kingdom, a once live tiger shark suspended in formaldehyde that brought £9.5 million (\$17.2 million) – I guess the price difference was due to the lack of gold and marble in this work! And number three was *Fragments of Paradise* (a work constructed of stainless steel, glass, and manufactured diamonds) that brought £5.2 million (\$9.3 million) – just imagine if he used real diamonds!! In the end, the evening sale brought in a total of £70.5 million (\$127 million). So while we all watched the horrors of Wall Street unfold, the contemporary art market appeared to have shrugged it off and continued its amazing climb.

The next morning every art market eye was glued to the day sale while stock market eyes, and stomachs, were ready for another wild ride – and neither disappointed its spectators. The auction was another blockbuster with all but 3 of the works finding new owners for a total of £40.9 million (about \$73 million); and the two day total: over 220 works sold for £111.4 million (about \$200 million). As for the stock market --- we all know what happened there!

Of course many of us in the real art world are wondering if this was all just a bunch of smoke and mirrors. In Volumes 80 and 82 of my newsletter I reported on Hirst's diamond encrusted skull that supposedly sold for \$100 million to an investment group. It was later revealed that the artist was one of the members of that investment group. Well, after this sale it was reported that the auction room was offering potential buyers up to 6 months to pay for their purchases and that during the sale Hirst's dealers were among the many buyers --- so I guess they were supporting the market, which is not a bad thing. I even saw one TV report stating that White Cube, the artist's London gallery, bought 5 works and bid on another 10 --- and while I cannot confirm this information, it gives some food for thought.

Regardless of how it happened, it is good to know that people still feel art is a somewhat safe place to park some of their assets.

Howard L. Rehs
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Our thoughts and prayers go out to all our friends affected by Gustav, Hanna and Ike.

Gallery Updates: Since our return, works by the following artists have made their way through the gallery: Edouard Cortes, Antoine Blanchard, Sally Swatland and Katie Swatland.

Web Site Updates: We continue to update our biographies (Alfred de Breanski, Sr. and Jr., Henry Jutsum, George Lance and Arthur von Ferraris) and have added, or will be adding, works by the following artists to our site: Girardet, Cortes, Blanchard, Swatland, Banks, and Harris.

Next Month: More market updates.