

# COMMENTS ON THE ART MARKET

## VOLUME 99

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Rehs Galleries, Inc. – 5 East 57<sup>th</sup> Street, New York, N.Y. 10022 – (212) 355-5710  
www.rehs.com

### One Reader Was Paying Attention – Thanks A Lot!

Jim R. sent the following email: *In your recent newsletter, you stated that after losing 34.9% on your stocks in 2008, you had some temporary euphoria because the market went up 3.5% one day early in 2009, and you figured that 10 more days like that would put you in the black. At first blush, that would certainly seem not only mathematically correct, but fair and just. However, the reality is both less intuitively obvious and far more cruel, because, sadly, the math doesn't work that way. To get your \$651,100 back to \$1 million, you would need to earn not 34.9% but 53.65%!*

*Assume you started with \$1 million at the beginning of 2008. That became worth \$651,000 at the end of that year as a result of the 34.9% loss. If your portfolio recovered 34.9% in 2009, it would only increase in value to \$878,199. (In all of this I have ignored compounding for ease of exposition. However, compounding would not materially change the point that I am making.)*

*Sorry to be the bearer of bad news. I really do enjoy your newsletter!*

Well Jim, thanks for the lesson – guess I should have taken finance instead of accounting at NYU. It's either time for night classes or I will continue living in my own mathematical wonder-world – and to be honest, the latter seems like a better place these days.

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### Stock Market Comments

Now, I would love to tell you that our attentive reader's mathematical correction did not matter because I am on my way to a big recovery, but as I started writing this segment (after being away for 6 days at the Palm Beach Show with record crowds and strong sales) I noticed that my portfolio as down 9% for the year ... and it is only the middle of February (2 days later it was down 11.5%). Are you kidding me!? Do they really think that once all of this settles down people are going to be comfortable 'investing', or should I say gambling with, their money in the stock market? I am now even more convinced that the art market is going to see a big influx of money at some point. Like I have said before, the art you own is not only beautiful to look at, but there is little worry that it will vanish in the blink of an eye – something our money has been doing. On the 20<sup>th</sup> of February my RIMM stock was at \$39.15 (a week earlier it was \$60) and my total profit is nonexistent ... I am actually down \$1400; my Citi stock hit \$1.95 ... and I am sure

you can guess that investment/gamble is now deeply in the RED! Capitalism & Investing in America – aren't these great concepts!?

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### Auction House Stories – Closings, Chapter 11 & Are You Kidding?

Closings - this was one press release many of us missed ... even me! Late last month, Christie's closed its 19<sup>th</sup> Century painting departments (general paintings, sporting, marine, etc.) in New York and is rolling them into their Old Master department. Are they kidding? They are now going to offer everything created from 1300 to 1900 in one set of sales. I think they may have lost their marbles. It is going to be interesting to see a Ridgway Knight, Corot or Cortes hanging next to a Rubens, Ruysdael or Canaletto!!!

Chapter 11, New York - Tim Conroy, of T.W. Conroy & Associates, filed for Chapter 11 at the end of January. Mr. Conroy was arrested in late November (2008) and charged with felony grand larceny – stemming from his failure to pay his consignors. There are between 100 – 199 creditors involved and the estimated liabilities are in excess of \$1 million.

Are You Kidding!? – it was reported in the Maine Antique Digest that Mooney's Auction Services, New York, sent a proposal to its active buyers offering a 0% buyer's premium and \$7 snack bar credit. So, what's the catch? You have to prepay for your purchases! Yes, put up to \$125,000 on account and future purchases will be deducted from your balance; in exchange, you will not be charged a buyer's premium. So, what happens if the auction room goes belly-up before you use your balance? Hum ... interesting question. Seems like a financial mess (or lawsuit) waiting to happen.

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### Madoff's Ripple Effect

This did not take long. Last month I did say that Madoff would have a ripple effect throughout the art world and at the end of January it was reported that the Rose Art Museum (part of Brandeis University) plans on selling its entire 7180 piece Contemporary art collection. While all the reasons for this move have yet to surface, it has been reported in numerous papers (The Wall Street Journal, The New York Times, etc.) that their endowment was hit hard by the overall financial crisis and the trustees who could normally be counted on to make up the shortfall were hit hard by good old Bernie Madoff.

Their decision to sell the entire collection has sent shock waves throughout the art world ... especially with the individuals who donated works to the museum. Many of them assumed that their donations would be part of an important collection and would not return to the market.

It will be interesting to see how this all plays out. I am sure that this process will take a long time to unfold and hopefully another solution will be found.

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## Collectors, Collections & Traders

During the past few months I have been bombarded by advertising representatives looking for us to place ads in their magazines. Invariably the conversation turns to their use of the word 'collector' – Our readers are collectors..., our collector base..., blah blah blah. I think it is time we determine the true meaning of a collector and start to understand that a majority of the people buying art, and those reading magazines, are just people looking to buy a few works to decorate their home and are not 'collectors' – at least in my definition of the word.

Now for my definition of a 'collector' – this is an individual who not only has a passion to buy art, but a continuous need to do so (an addiction). They buy on a regular basis and add to their growing collection even when there are no physical spaces left to display them; some even have gallery style storage closets in their homes and rotate the paintings on display. It is their desire to acquire specific works that motivates them, not the potential financial rewards. Most have a deep appreciation for the art they are buying – unlike some of the trophy hunters we all read about. In the end, they are art addicts and in need of a constant 'fix'.

In all my years in the art world, I have only met a handful of people who fit this description. One was a gentleman by the name of John J. McMullen (see Volume 58) --- a true collector of, among other things, maritime art. I remember visiting him at his offices in lower Manhattan with a work by Antonio Jacobsen we wanted him to consider. He would welcome me into his office and ask me to place the new work on a sofa that sat across from his desk. Not only was every free space in both his office and private conference room filled, but there were paintings stacked 3 or 4 deep on the floor. I would leave the painting I brought and waited a few days for his decision. In all the years we showed him paintings, I could count on one hand the times I had to go back to get one. Mr. McMullen had a passion and need to buy art and over the course of many decades created an amazing collection of Maritime art.

I also know a collector in the Los Angeles area who, when I last visited him, informed me that his collection now consisted of more than 1100 19<sup>th</sup> century European paintings. Yes, 1100! And I can tell you that every single open space had a painting on it ... not only were the walls filled from floor to ceiling but every interior door had paintings hanging on them (front and back). He even has a very large room where the paintings are stacked 5 – 7 deep and there were hundreds of paintings there!

Do not get me wrong, these collectors do sell works from time to time -- especially when a better, or more interesting, example of an artist's work comes along – but they are not motivated by profit. They are truly motivated by the hunt ... always striving to create an important and comprehensive 'collection' of art.

This then leads us to those individuals who I classify as 'traders'. These are individuals who fancy themselves as collectors, but are continuously buying and selling paintings – when the price is right, they sell off what they can and come back into the market to buy more. They attempt to be market movers and shakers – and some are very successful at it. I equate these people with day traders in the stock market. And while some, over the course of time, create great collections, they really are not collectors in the true sense of the word since most are motivated by profit and if the price is right, they will sell it all. You read about these people when the newspapers review the auction sales ... Mr. Smith is selling a few works from his collection (and often it is pointed out that he bought them a few years earlier for a fraction of the current estimates) ... then after the sale you hear that Mr. Smith also bought 3 or 4 works --- sort of a revolving door; these people should be classified as quasi-dealers.

Now we come to what most people who are buying works of art should be classified as – 'people looking to buy art to decorate their home'. There is no negative connotation here, just a statement of fact. A majority of people traveling through the art world fall into this classification and most of the other people probably started out this way. These 'art buyers' are, in my opinion, closer to the true collector because their motivation is to buy works that they want to own and enjoy for an extended period of time. They are less concerned about how much they will make, and more interested in how the painting will look in their home or office. Along the way, many of these individuals do assemble wonderful collections, but they are not collectors in my definition of the word since once all the 'normal' available spaces in their home or office are filled, they no longer buy. They are satisfied with the fact that they love each and every work they own and most would not part with them for a quick profit.

Howard L. Rehs  
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**Gallery Updates:** We will be exhibiting at the **D.C. Spring Antiques Show, Walter E. Washington Convention Center, Washington, D.C., March 6 – 9, 2009 – Booth 100. In addition, RehsCo Diamonds (a wholesale diamond and jewelry manufacturer) will be sharing our booth and exhibiting and dazzling selection of diamond jewelry. Hope you can stop by for a visit.**

**Web Site Updates:** Works by Bouguereau, Dupré, Valtat, Cortes, Breanski, Banks and Swatland made their way through the gallery this month. And look for new works by Moret, Ridgway & Aston Knight, Bergamini, Harris, Banks, and Sally & Katie Swatland to be added to our site.

**Next Month:** Auction room insurance charges and market updates.