

## **Criteria for Investing In the Market of Visual Arts**

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**Summary:** *The market for visual arts develops a complex activity requiring the identification of many key variables to establish valid investment criteria, as to obtain reasonable profits. This makes it necessary to differentiate the intention of the purchase between investment and collection. Then, setting as the central axes of analysis the piece and the artist, the trajectory of iconic and emerging elements are investigated and compared, to identify the criteria that the buyer should consider when purchasing a piece of visual art, due to the way this economic activity is segmented, precise parameters are required to make an investment.*

**Keywords:** *art market, artwork (piece), artist, investor, profits.*

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### **I. Introduction**

Like any market, the visual arts market is attractive and complex. It seduces us by means of two major dimensions: the sensory impression, based on the pleasure and enjoyment by the contemplation of the piece itself and that other pleasure tranquility grants for obtaining financial returns that will serve to solve future problems, typical of everyday life. But financial success is difficult and elusive. It is not easy to combine taste, time, risk and profits. The artistic offer aggravates the problem further. Trends, proposals, styles, classifications, themes, sizes, authors, ages, life and death, emerging artists and established artists and capital limitations are some of the variables that must be combined to select that really "obscure object of desire" of the investor. Unknowns, to which perhaps, an experienced dealer will respond to quickly; just by intuition, finding the result of the equation "contemporary art and market", "beauty and investment." That is why this article aims to identify many key variables to establish valid investment criteria, as to obtain reasonable profits through parameters that facilitate the purchase of visual art pieces. To achieve the above objective, concerning a visual art piece, questions should be answered, such as: Which is the purpose of acquiring a specific piece? What to buy? Collecting or investing? Which type of asset to invest in? How the purchase should be done? When to sell or disinvest? What kinds of risks are assumed at acquiring a piece of art? Is it possible to measure these risks? Or are there other more profitable markets, other optional markets? Therefore, and due to the importance of this economic activity, an analysis is necessary to increase knowledge, both qualitative and quantitative, about the behavior of the various agents and the market itself, in order to recognize feasible business opportunities and take advantage of them. However, as in other markets, it is imperative to gamble. Venture trying to minimize the risks, which imposes focus on a specific group of artists and pieces that allow the acquisition of the asset and satisfactory returns on each transaction.

### **II. Some preliminary considerations.**

Often, when analyzing a financial event such as an investment in visual arts, it is useful to consider a portrait of the origins of the problem and questions such as the reason of the financial deed, as part of the phenomenological discussion of the problem, which will allow to find an approximation to the solution. This requires defining what is wealth, why accumulate it, what is an investment and why do we invest, since it is entirely appropriate. Historically humanity, by different means, has accumulated financial resources in order to use them for their survival. Thus, there have been wars, invasions, inventions, discoveries, great trips like Columbus', Magellan's and the trip to the moon, crusades and outreaches. These accumulated resources constitute what is now known by the name of wealth. Accumulations that will be used to meet future needs.

Furthermore, investing is simply the use (application) of financial resources to take any asset, which can be home appliances, buildings, vehicles, bonds of national public debt, shares of a company, certificates of deposit, savings accounts or pieces of visual art, temporarily, in order to, overcome a given term (short or long) recover the invested amount (capital) and gain profit corresponding to the risks assumed (utility).

This requires that the investor be willing to disinvest, as the end point of this process, to obtain the expected profit on the transaction. We can say that every investment has a temporary quality, previously defined or not, but essential to materialize the set objective. As it is expected to gain a profit, it is mandatory to choose between different types of assets, different investment instrument, which produce different dividends. It is to compare dissimilar assets and make a decision on which is the most profitable, less risky and gives us greater personal satisfaction.

When choosing any investment instrument, for a given time and capital, we must first identify, the markets in which we will operate: local in bolivars or international in foreign currency; either way the business details including: available capital for the operation, forms of exchanges, types of assets to be acquired, whether they are perishable or are long-lasting (ripening or expiration), tradable or non-tradable, mobile or static, utilitarian or artistic, of common or specialized use.

An asset can be acquired to satisfy personal needs or to sell it later and obtain a financial return. Both decisions presuppose a profit. The first will be measured in terms of satisfying needs and the second in terms of money. Then, capital, income, risk, internal rate of return, volatility, portfolio diversification, trends, bubbles or hedges are terms that we must identify in the development of this particular form of investment, which is not always easy due to how complex and segmented this economic activity is.

This is an important part of the challenge of making the decision to invest, for which we need to have as much information as possible to do so wisely.

### **III. Having a look at the visuals arts market.**

Economy's growth over the last century and a half has allowed the use of resources in areas that were marginal or had not been exploited or discovered. Sports, technology, the space career, music, fashion and the arts in general are examples. They represent new forms of business, other than wars or territory conquest. They are other means for generating wealth. Wealth obtained through the difference between the original value (capital) and a final value that includes the desired utility. An added value that makes a specific activity attractive (lucratively speaking).

Throughout these more than a hundred and fifty years there have been times of bonanzas and countless economic and financial crisis, which has forced investors to seek new options, safe havens that allow them to survive, earn higher returns and preserve capital. Preserve capital as an objective of vital importance. That is one of the reasons that have led to the rise of emerging markets. Faced with this new reality, the visual arts, as an object of financial investment have shown a singular attraction, becoming a viable business opportunity.

The analysis of this market involves not only financial factors, but also aesthetic factors, so it is essential to have full understanding of these, to properly give it value and assign a price. And, as noted above, both concepts: finance and aesthetics presuppose the same need: accurate and timely information.

Since the 60's, and especially in the 70's, visual arts became a refuge from the crisis of traditional market such as oil. The likes of a thriving area of investment was appearing, which currently consists of many actors and asset transactions that go through different periods and styles of pictorial expression, scattered across the planet.

### **IV. Visual arts as an investment problem.**

The sales process of visual arts is activated by two market players with different interests and expectations: the collector and the investor, so to address the issue, the key variables must be identified to establish valid criteria that determine and make possible a profitable investment in the market of visual arts, which is the overall objective of this article. To this end we must:

- Differentiate and conceptualize the reasons for the intention of the acquisition.
- Identify key variables according to market participants and their influence.
- Define the most important features of the visual arts market.

#### **Intention of the acquisition.**

It is essential to determine the reasons behind the trader to buy or sell a piece of visual art, for which the following questions must be answered:

- What does art collecting mean?
- Who does the collecting?
- What does investing in art mean?
- Who does the investing?
- And then, what to buy?

This is how the problem of precising evaluation criteria and determining variables in the decision-making when investing in visual arts emerges. To purchase is not always to invest. We can buy to keep (collect) or to obtain revenue (to invest).

Although a collector obtains a social or personal benefit, by satisfying more sublime needs than that of the material and concrete money, we cannot consider this value as profit or financial wealth. The personal (or social) satisfaction of sensorial enjoyment cannot be transferred or used to pay for other assets or to meet other needs, since we would be bartering as a means of exchange, a practice that is outside the field of finance and this article. Therefore, to maintain a position, which represents a portion of our capital, in artworks can have two main intentions:

- Collecting or

□ Investment.

De La Poza Plaza, E. (2008) expressed regarding this, the following:

... a piece of art apart from its artistic, historical and cultural appreciation, can also be considered as an economic asset, and therefore as an investment. In fact, in recent years, an important part of society, mainly professionals, invest their surplus or part of them in pieces of art, some as a hobby and others as investment, hoping to obtain a capital gain over a relatively long period of time. This increases the value of the artistic object, regarding that the features of any art object add to its value as a haven from inflation, or to generating strong capital gains. (P. 27).

Then, collecting visual art means freezing huge amounts of money in order to obtain a personal or social benefit; an individual satisfaction of the senses without monetary compensation.

This activity is performed by museums, foundations, governments, corporations or individuals with sufficient availability of funds.

On the other hand to invest in art implies acquiring pieces that can be sold in a given time. Freeze limited amounts of capital in order to obtain a real profit in economic and financial terms.

Who does this? Investors: economic entities with funds available to acquire assets for the purpose of obtaining a financial return.

Then, and again, what to buy?

Because the subject of this article is set within a financial phenomenon, we will only consider the acquisition for investment.

### **Determining variables to invest in the arts market.**

Despite being a complex market, where, for its analysis, many variables converge, there are two that stand out for their impact and influence on the investor: the piece of art itself and the artist. Each of these variables has its particular characteristics; which however, are closely related.

### **The piece**

It represents the end product of the intellectual and physical effort of the artist. It is the actual object being traded on the market, being materialized and allowing its existence. Without a piece there is no market of visual arts. That is why, with the death of the artist, the possibility of obtaining new negotiable specimens from the same source ceases. This fact becomes one of the essential characteristics of the activity, reflected on limited supply.

From the point of view of the piece of art, this is a highly segmented market, where you can find a great amount of niches such as painting, sculpture, printmaking, drawing, ceramics, metalwork, lithography, video installation, performance (body art) and net art.

In Venezuela, for example, the classification would include pre-Hispanic, colonial, republican, modern and contemporary art.

Internationally, surely this list will expand to the Chinese, medieval, Roman, Greek, Renaissance, Gothic, Baroque and Cubist art, among others.

Moreover, Mei Moses Index (2013) established nine categories which include Impressionist and Modern (IMPMOD), Post War and Contemporary (PWC), Traditional Chinese works of art (TSWA), old master and nineteenth century (OLM19C) American Painting (AMP) and Latin America Painting (LAP), British art, Swiss art and Italian.

This reveals the variety of the visual arts market, so acquiring a piece with investment intentions becomes complex.

At the time in which a specific piece of an artist is sold for the first time it is said that the transaction was perfected in the primary market, while for subsequent sales the transaction takes place in the secondary, a kind of flea market, if the term can be used, which is the one to maintain most economic activity.

Again De la Poza Plaza, E. (2008) offers a clear view of the matter:

Within the art market, the primary market corresponds to art galleries or any direct sale performed by the artist, while the secondary market is the market for auction rooms. Auction houses provide the market with liquidity, limiting the importance of the galleries. Likewise, in turn, they reduce transaction costs of the pieces in the market, generating lower commissions than those of the art galleries. An important difference between the primary and secondary market, is the lack of transparency that exists in the galleries, making the secondary market a reliable source of information. (P.15)

On the other hand, when a piece is highly valued, or appreciated, among the buyers, then one speaks of a very liquid product, because it is easy to sell and buy. An important index that emerges from this sales process is the relation, for each artist, existing between lots of pieces placed for sale and those lots actually sold.

### **The artist**

He is the producer of the piece, the one that begins the process within the art market. He constitutes one of the two major groups into which, in this study, the universe of the arts market has been divided in order to make the analysis easier. He corresponds to one of the independent variables in the problem statement, to which are subject the rest of the parameters to be considered and will be explained throughout the present text, for this reason two artist categories have been created: the consecrated and the emerging.

Many times the artist and his piece are confused, which is why questions arise such as: which is really the piece, the artist or the piece itself? What is the underlying asset? What does the buyer acquire, a few strokes on a canvas, really extraordinary, or the famous signature of a famous artist? Following the two categories of artists will be explained.

#### **□ □The Consecrated Artist.**

The established (consecrated) artist has an important number of pieces in the secondary market, the costs of promotion and dissemination of the piece were covered during the years before his consecration, the sale periods are shorter therefore the piece is more liquid with more output lots sold that rejected, with much higher prices and, depending on the segment in which he is located, the artist can be a leader of the corresponding niche, also with very high profits, in shorter-periods, this means he has an ascending relationship between sales volumes and unit prices, generating profits and higher returns than the market average. Jean Michel Basquiat, Andy Warhol, Pablo Picasso, Paul Cezanne, Vincent van Gogh, Salvador Dali and Jesus Soto, are examples of consecrated artists in their respective market niches.

The case of Pablo Picasso and George Braque serves as a basis for defining validation criteria. Both were the founders of Cubism, however, there is a huge difference between them in terms of fame and the price of their pieces: Reviewing the work and careers of both we must specify: What is the added value that Pablo Picasso printed in his pieces, what allowed him to achieve higher prices, in comparison to the pieces of George Braque?, Why is the market not willing to pay such figures for a Braque, whereas it does for a Picasso?, What made the difference: quality, technology, age, experience, innovation, better promotion or fashion, location or formats used? How were Pablo Picasso's pieces legitimized and how were George Braque's?

Another illustrative example is that of Venezuelan painters, specifically at Valencia, Oswaldo Vigas and Vladimir Zavaleta. With approximately 20 years of difference in age, although both were winners of the Salon Michelena, their paths were totally different; first Oswaldo Vigas gained some international reputation, with significant sales in dollars and on the other hand Vladimir Zavaleta, was comfortably positioned in the local market, almost unknown outside the country borders and his sales were in bolivars. The immediate question would be: is the international exposure the key to success?

#### **□ □The Emerging Artist.**

This would be the young artist, not older than 40, with increasing production, with some participation in local or regional halls, without significant sales in the secondary market; that is, in great need of promotion, so the sale of his pieces require longer exposition time (the time required to achieve maturity) so it becomes a salable product, starting with low or very low prices, which is known in the media as "workshop prices". In these cases the investor must wait a longer period to obtain satisfactory earnings. The great ally here is time. They are low liquid pieces (not easily sold), as they are waiting for the market's reaction being acceptance or rejection of the piece, which represents the legitimacy of the artist. In this group the returns can be very large if enough time is waited for the artist to display his full potential.

At this stage the artist's qualities, activities and processes to be developed, in order to evolve into a consecrated or emerging artist must be determined. As for the factors that affect the formation of a classic artist, or consecrated artist, the 2013 Annual Art Price Report mentions:

... The evolution of an artist's market rate also depends on many other specific factors of the art world. The backup of a powerful gallery, the purchase of a piece by a renowned collector, achieving a certain price level or the announcement of an exhibition at a major institution set the projection of an artist. As a general rule the more the artist is known, the more expensive he becomes. In the same way as the information flows quickly, contemporary art is subject to the effects of fashion and buyers tend to purchase the same things. The milestones of the market rate are reflected on the curriculum vitae of an artist, and the age factor, obviously, is taken quite into account.

The classics of contemporary art are those that already have reputation and have been exhibited in art galleries for fifteen, twenty or thirty years. Their presence in large sales catalogs has become an event that cannot be missed: their pieces are coveted trophies and the incomes they generate are a blessing to the auction houses. Jeff Koons, Takashi Murakami, Damien Hirst, Cindy Sherman and Jean-Michel Basquiat are included in this group. Currently their prices challenge those of ancient, impressionist and modern masters. (P.29)

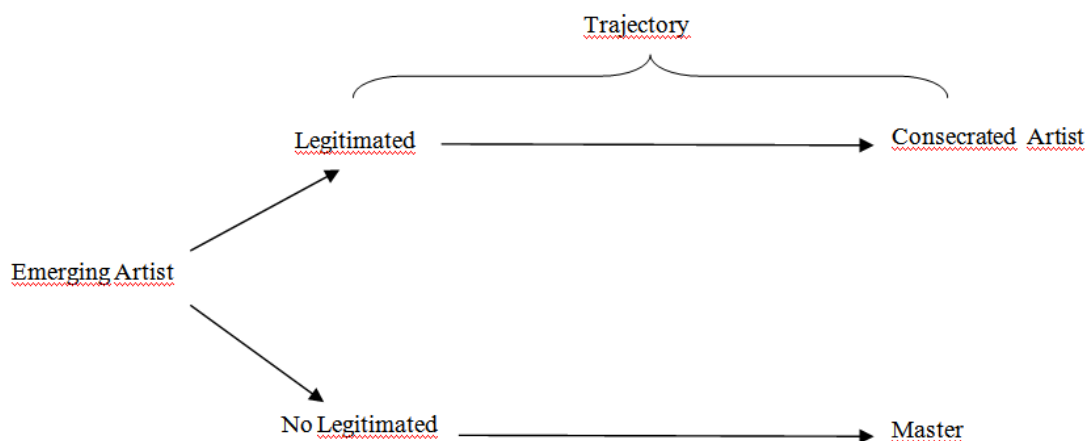
Additionally, regarding young and emerging artists Artprice (2013) comments:

As for the younger artists, the stages of their market rate is reflected on their resume, in which the age factor is of obvious importance. However, the races for novelty, speculation and the accelerating pace of auctions have altered the market rules. Since the nineties of the twentieth century, the art market assimilates at a fast growing rate novice artists (sometimes just 20 years of age) provided they have the right pedigree and manage to raise their prices to 100% or 200% fast, sometimes after two or three years. (P.29)

On the issue of promotion and past performance of the emerging artist, as a decisive factor, the example Halim Badawi (2013) shows us is useful, when he says:

On last June 26, Christie’s auction house (London) auctioned a piece by Colombian artist Oscar Murillo for the amount of \$391 thousand or 756 million pesos. With this magical marketing exercise, Murillo, only 28 years old, became one of the five most expensive artists of Colombian art, outrivaling Alejandro Obregon, Andres de Santa Maria and Alipio Jaramillo, and placing the price of one of his pieces at the same level of Fernando Botero and Doris Salcedo, who are renowned artists. For many in the art world, Murillo is a stranger. And indeed he is: his work does not appear in permanent or temporary exhibitions of any museum, there are no papers on his work and very few have heard his name in Colombia.

By choosing the piece of an emerging artist as an investment, over time the asset will be legitimized, recognized and approved by the art market, defining his path to become consecrated. This process will allow to perceive the expected utility when acquiring the piece. On the other hand, if the emerging artist is not legitimized, recognized or approved, he will become a teacher, but earnings of the initial investment will not meet expectations. Fig. # 1 shows the trajectory and evolution of an emerging artist.



Source: Author

Figure # 1: Trajectory of the emerging artist

**Evaluation criteria**

To establish valid investment criteria, as to obtain reasonable profit, it is necessary to evaluate the artist, his career and, therefore his pieces, such parameters to be considered at the time of invest will be grouped into four different categories, but all related:

- Those attributed to the artist.
- Those attributed to the piece.
- Those inherent to the market (either the primary or secondary).
- Those of the Investor.

The above classification facilitates the analysis and structure of a guide for decision -making. It is important to note that some parameters or attributes can converge into two or more categories.

**Criteria attributed to the artist**

- a) Age: an artist generally achieves consecration at although there are luminous exceptions such as Jean Michel Basquiat.
- b) Experience: whether he has exhibited in galleries, has sold pieces for significant amounts of money and, in general, his career must be evaluated.

- c) Death: This event has a sensible impact on the price of piece of visual art, perhaps because it increases the quality of being unique and an unrepeatably thing, due to the permanent absence of the producer of the asset.
- d) Style: taprooms, still life, impressionism and surrealism; prices depend on market requirements. An attentive artist with a growing spirit will be watching the trends in demand.
- e) Location: an artist, and therefore his work can have local, regional, national, international or universal importance. The site and city where the artist developed his work also has an influence on the price.

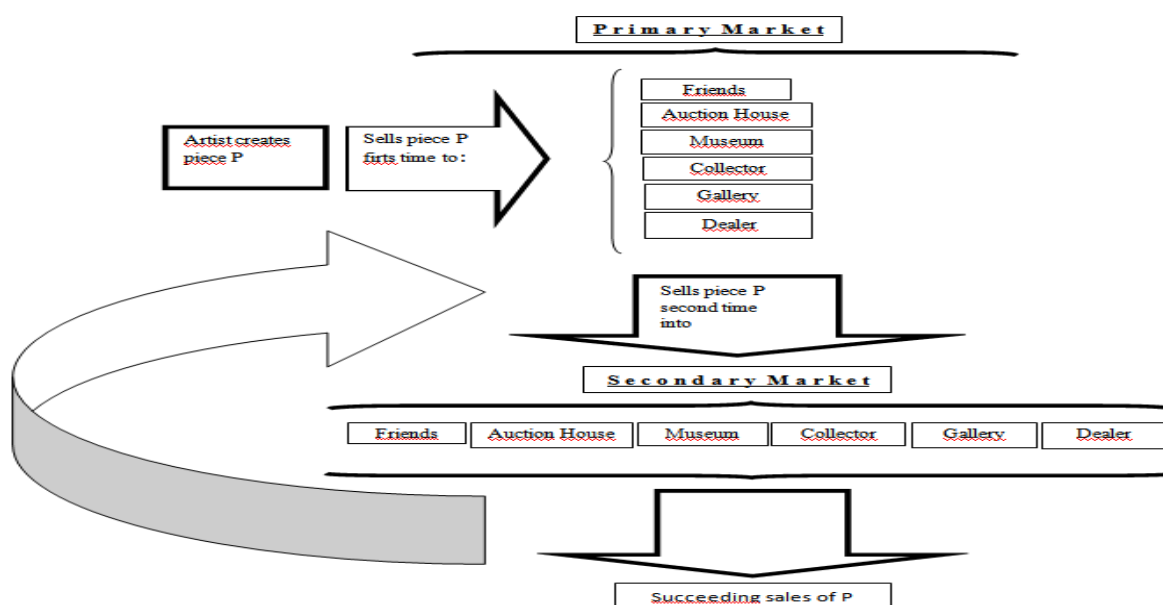
**Criteria attributed to the piece**

- a) Single piece: This parameter gives the piece its quality of rarity, of scarcity, uniqueness, so the price will be affected by this condition. When the asset lacks such attributes most likely the price will drop.
- b) Conservation: a piece of art in perfect conditions will have a higher price, and more trade possibilities compared to others in need of restoration and maintenance.
- c) Price: the importance of the price is that through it, we get the expected return at the moment of the investment and it is assigned to the piece.
- d) Style: This is one of the parameters found in different categories. In this case its nature is the same as that of the plastic artist category.
- e) Authenticity: it represents the link between the piece and the artist. It's the signature, the certificate of authenticity or an expert's opinion through a technical study. Avoids scams, because what is priced, and what is sold are original pieces, unique pieces, so the market should ensure this quality.
- f) Format: the size of the piece affects the price. The trend is that the public prefers formats of 1 m<sup>2</sup> on average to make their purchases.
- g) Location: geographic location of the piece, a suitable environment to protect and preserve its conservation in time impacts the price and possible future sale. Additionally, depending on the importance of the piece, it defines the possibility of exporting it or not, a fact that restricts its commercialization. For example: In Spain when a piece is declared as national heritage it cannot leave the country without 'state permission'. The location also gives the work its capacity to mobilize, thus affecting its facility to be sold or not. In response to this concept, The Last Supper by Leonardo Da Vinci, for example, would be more difficult to sell than the Mona Lisa from the same author, in the hypothetical event that they could be purchased by a buyer.

**Criteria inherent to the market**

- a) Primary market: when the artist sells his piece for the first time, either to a gallery or a dealer.
- b) Secondary market: when the piece has been sold in galleries, by art dealers or any other distribution channel and the artist no longer holds the property.

Fig. # 2 shows both markets



Source: Author

Figure # 2: Primary and secondary market

Auction: sale of an art piece to the highest bidder. In the art market those pieces sold at Sotheby's or Christie's, have a better market price than those sold in less formal markets, this is because of the guarantee of authenticity that these companies grant the asset, giving the author legitimacy, prestige and a better reputation. It is an organized and formal market that dominates the largest number of transactions worldwide and covers the broadest spectrum of supply and demand for pieces of art, not only paintings but other genres such as antiques. Aspects such as legal origin, authorship or authentication certificates, insurance, custody, transports, commissions and taxes are important elements in the negotiations materialized in this business model, which helps to minimize transaction risks. It is a secondary market, similar to a stock exchange. In this case art stock. Due to their high specialization they act as a cartelized group that set the price to the pieces and, therefore, the image of the artist.

- c) Art Dealer: is an independent negotiator of art pieces and an important element in the market of visual arts. An artist concerned for his career should have a good art dealer as a consultant.
- d) Informal market: the one that lacks rules and regulations with legal foundation. A less structured market where art pieces are sold without legal rigidities, but attached to the origin and authenticity of the asset. Mostly it operates locally among small groups with few participants, often only buyer and seller. Sales can be carried out in local currency or foreign currency, but the legal formality is not always appropriate or its nonexistent.
- e) Black Market: Where famous pieces are marketed, usually stolen, or with certain doubts to its origin. It is of high-risk due to the frequency of fakes and forgeries of signatures and author names.
- f) Price: the parameter that defines the price of the art piece on the market, representing the value at which the vendor is willing to deliver the asset and the buyer to purchase it, this way carrying out the purchase agreement and materializing the two earnings involved: the aesthetic needs and financial profits.
- g) Liquidity: the capacity of the art piece to be sold in successive transactions and the quickness (short waiting times) in which it is done.
- h) Land market: London, New York, Miami, Beijing and Caracas.
- i) Speculation: Like any market, the arts market is susceptible of manipulations, allowing to profit from changes in the variables involved. An example of this are the financial bubbles, or real estate bubbles and, of course, the bubbles in the market for visual art.
- j) Bubbles in the art market: in terms of money a bubble is when the price of any financial instrument increases its real value excessively, rapidly and for a relatively long time, with no apparent logical reason, until, by the same force of the market, "the bubble bursts" and the price falls to very low levels, causing losses and economic crisis. Often "the causes of the bubble" are purely speculative.

A sample of a bubble in contemporary art can be seen in the Chinese market, which, according to ArtPrice (p.13) slowed sharply in 2012 due to the cooling of world economy, liquidity problems, bulging prices that affected the market and the reduction of funds and participations of speculative investments, which caused most of the offered lots to remain without being sold.

For example, according to Sophie Song (2013) the disproportionate increase in sales of Chinese plastic artist Zhang Daqian's pieces (May 10, 1899 - 2 of April 1983), which reached \$506.7 MM, surpassing considerably painters such as Pablo Picasso, with sales of \$360 MM in the same period, suggesting possible price manipulation. In addition, auctions are another source of market disruption, providing loans to buyers or manipulating the prices with bids for their own lots, which is reflected in the statements made by art critic Jason Edward Kaufman in the Universal (2013) when he says: But what is the role of the auctions in this apparent bubble? While it is estimated that higher prices are reached in private sales, -the most expensive painting ever sold is believed to be that of "The Card Players" by Cézanne, acquired by the Royal House of Qatar costing between \$250 and \$300 million (185 and 222 million Euros)-auctions have a different function.

In an unregulated market, auctions are the only public appraisal of art. Aware of this function, traps and cheats are inevitable. "If the owners of that painting want to give a public value to that work, they can agree and buy it for a high price to revalue the pieces they still possess." Once the distortions are corrected the respective loss in the investment should occur, because no market participant will be willing to pay hefty values for a piece by a national artist.

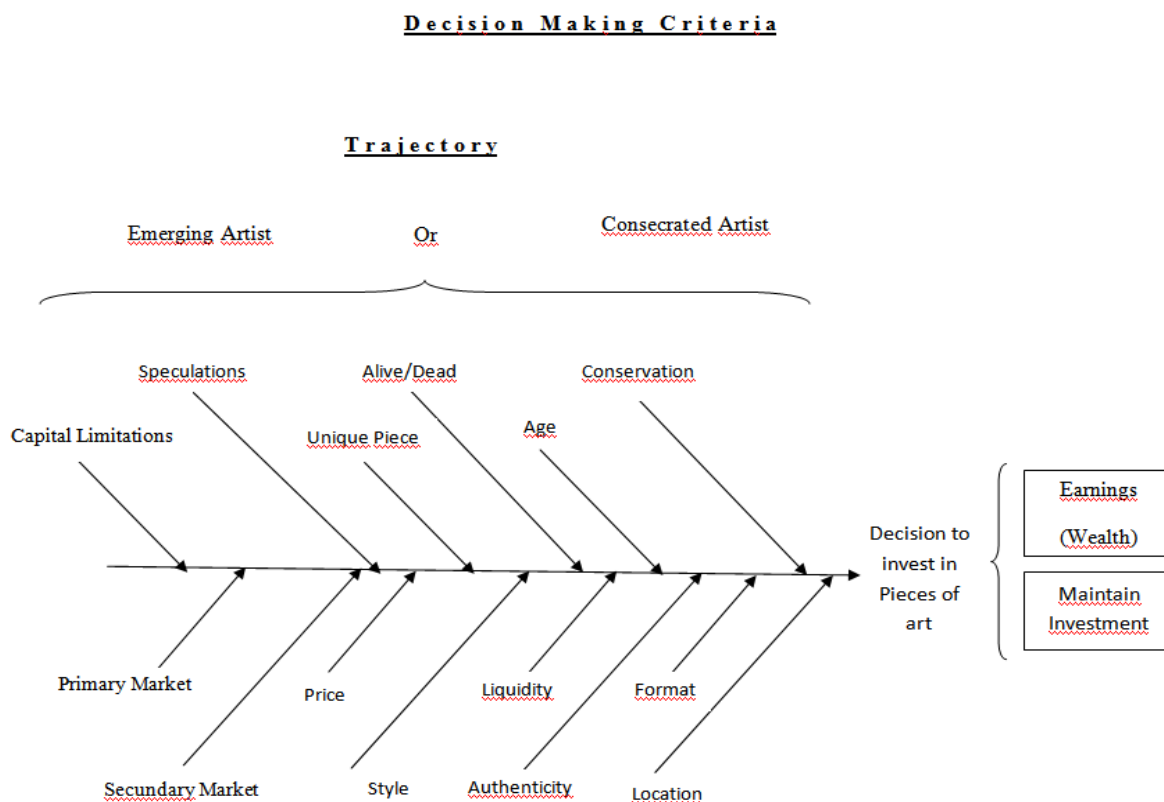
### **Investor Criteria**

- a) Capital limitations: no funds are infinite, forcing efficient distribution of the money available to be invested. This is a strong limiting factor when purchasing a piece of art.
- b) Profitability expectations: are the expected returns for the investor in a unit of time.
- c) At the auctions: the frenzy at the time of the bidding.
- d) Aversion to risk (higher or lower): the propensity to take risks on behalf of the investor. This is a personal factor that varies from one person to another and limits the investment.

e) Knowledge of the art market (expertise): according to the extent to which the investor knows the art market, he will be successful obtaining wealth through the acquisition of a piece of visual art in the same proportion.

f) Low degree of correlation: within an art investment portfolio. For example, if you own a Picasso, Degas and Soto. The reasons why the prices of each of these pieces of art prevail are different, that is, if for some reason the Picasso price drops, this should not necessarily affect the price of the other two pieces, thus diversifying the investment risk. It would be ideal to diversify with investments in other market assets of other nature, to balance the portfolio.

Fig. # 3 shows a summary of these investment criteria



Source: Author

Figure # 3: summary of investment criteria

### Who is the investor?

It is who acquires pieces of art to obtain a financial advantage in a given period of time. That is, one who buys and sells, exposing the capital intended for that purpose to the risks inherent to the transaction. This is why some principles or rules of the investor should be considered.

### Investor principles

- Prudence.
- Consult with an expert evaluator to ensure the market price.
- Know the difference when a piece is a national heritage or when it is simply an asset (piece of art) that can be bought and sold.
- Possible price components: quality, psychological factor, market factor, crises in other sectors and search of the art sector as a refuge.

### Features of the Visual Arts Market

Some of the most important characteristics of this market are:

- a) It is a small market, not too deep. Comparing agents of the art market and the banking market, for example, we have according to Nasdaq (2014) for the closing as of September 30, 2014, Sotheby's auction house presented an income (from all departments) of \$587 million, while according to Bank of America (2014), for the same date (and only the global banking segment) the bank showed an income of 2 billion 249 dollars.
- b) Very specialized.



- c) Very segmented.
- d) Few participants, both suppliers and buyers.
- e) The object of negotiation (the piece of art) has deep subjective conditions that can come to determine its trading price, therefore, their value in the market.
- f) The object of negotiation is scarce and unrepeatable, which directly affects the price. That is, they are not standardized units issued in large quantities, for example, national debt or oil production.
- g) Not of massive consumption.
- h) Sometimes, especially in the pricing, the producer or manufacturer (artist)
- i) and the product (the piece of art) are confused among themselves. Such is the case of Pablo Picasso, with his signature, and the work itself.
- j) The art market behaves as a supply monopoly: few producing suppliers (artists) with limited pieces and many buyers: investors and collectors.
- k) It is necessary to define which is the added value that, as a product, a piece brings? That is, what needs does it meet?

### **Art market participants**

When studying the market of capital we usually use a common phrase: market and financial institutions. Every place where buyers and sellers come together to exchange goods and services is a market, and not necessarily a specific physical location. Other economic agents, institutions, regulations, transactions, prices and trends are also involved. The same happens in the visual arts.

In the present case other aspects involved are: a) the auction houses, b) the galleries, c) the curators, d) commissioners, e) dealers, f) conservers, g) fairs, h) patrons, i) agents, j) art critics, k) government, l) the regulating laws, m) the public. Each of them, and all together, make up the site (physically or not) where artworks are bought and sold, regardless of the intention. Each and every one of them influence and affect the market.

### **Economic, financial and accounting in the art market aspects**

- a) Like any object under market sales forces, the piece of art presents economic, financial, accounting and tax issues.
- b) From a financial and accounting point of view, the art pieces are non-monetary assets, which are protected from inflation, that is, their value increases and they do not allow capital erosion of the investor or the collector.
- c) Therefore, they provide a haven in times of purchasing power deterioration of the currency, depending on the economy trend, according to Deloitte and Artactic. (2014) (p.42).
- d) They are affected by financial events, such as the bubble effect.
- e) Low degree of correlation within an art investment portfolio.
- f) In Venezuela, within the law of income tax, Article 173, second paragraph, it is allowed to update the acquisition cost with reference to inflation.
- g) According to the provisions of the Law of Added Value, Article 4, paragraph 2, being movable assets, art pieces are liable to be taxed with AVT.
- h) As economic objects it is difficult to determine the reasons by which they add value to the economy, which needs do they meet. That is to say, why would a painting by Pablo Picasso be worth 104 million Euros and another by the same author worth 60 million?

## **V. Conclusions**

1. The investor must have available capital intended exclusively for the acquisition of pieces of visual art.
2. The investor must be properly informed about the Venezuelan contemporary art market.
3. The art market to which the investor has more and better access is that of contemporary art.
4. There are limitations and restrictions in the segment of the great masters and classics.
5. The plastic arts artists and their pieces are divided into four levels:
  - International.
  - National.
  - Regional.
  - Local.
6. For pricing purposes, investment and profitability there is an inverse relationship regarding the levels of the previous point.
7. The most important markets of contemporary art are New York and London, with China (Hong Kong and Beijing) as an emerging market. These cities represent the highest international level. Artprice (2013).
8. Emerging artists, and their work throughout their career, must transcend these different levels in order to become consecrated within the discipline.

9. If an artist dies without having ascended to the top level, it is very difficult to achieve it, unless a bubble effect or special events such as in the case of Vincent van Gogh occurs.
10. If a bubble effect occurs to a piece or a particular segment, the risk of loss for the investor is high.
11. There is a huge difference between being "local" in Paris to being "local" in Valencia, Venezuela, which must be evaluated.
12. There is a relationship between the chronological evolution of the artist and their value in the market.
13. Except for the limited capital, prediction or betting when considering investing in an emerging artist it is more uncertain than doing so with an established artist.
14. There are unending variables and parameters within the art market that have not been studied which affect the price and investment.

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