



THE IMPOSSIBILITY OF A TWO DIGIT DROP (IN AS MANY DAYS) IN THE ART MARKET

August 26, 2015

Recent stock market volatility has seen the S&P drop 10% in the last three sessions and the VIX Volatility Index go up 250%. Such abrupt corrections would require investors, by one metric, to go back 75 years to find a similar event. However, by other metrics, comparable events can be recalled as 2011, 2008 and 1998. The S&P and Nasdaq were on Monday at their lowest since October 2014 and the Dow Jones Index at its lowest since February 2014 (nearly down 600 points).

In just the past three days, the fall in the S&P Index wiped out the growth of the last ten-months. When interviewed by Bloomberg on August 24th and asked to compare the current situation with 1998 and 2008, Mohamed A. El-Erian pointed out that the fall on this past “Black Monday” was, as opposed to such other past events, due to growth being much slower and policies being much less effective than anticipated. El-Erian explained that what happened this Monday was a “very unpleasant repricing” and that the valuation multiples would be “much lower” if such reflected fundamentals. Pimco’s chief investor went on to add that the kind of volatility seen so far this week reduces the chances of a September interest rate hike.¹

Marc Faber, publisher of the Gloom, Boom & Doom Report, and Jeff Degraff -reputed to be one of Wall Street’s best technical analysts- were also (separately) interviewed by Bloomberg. When Faber was asked what would make him put his money to work, he answered “much lower valuations” and said that stock prices today are expensive after a six-year-long bull market. Degraff underlined the very notable change in trend for the first time in four years that is now the breaking point of an “interior deterioration” which has been going on for 6 months now. “Our trend model has changed from bullish to neutral-bearish” said Degraff, adding that we are not out of the woods yet and that there will be more volatility to be endured.²

1 www.bloomberg.com/news/videos/2015-08-24/el-erian-market-now-is-not-like-1998-or-2008

2 www.bloomberg.com/news/videos/2015-08-24/faber-the-selloff-is-a-signal-something-is-very-wrong

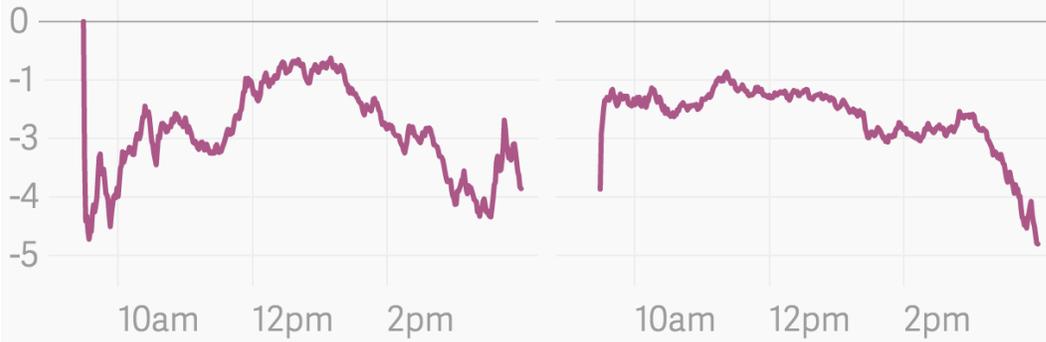
www.bloomberg.com/news/videos/2015-08-25/a-technical-perspective-of-the-global-market-selloff



S&P 500 index, August 2015

Aug. 24

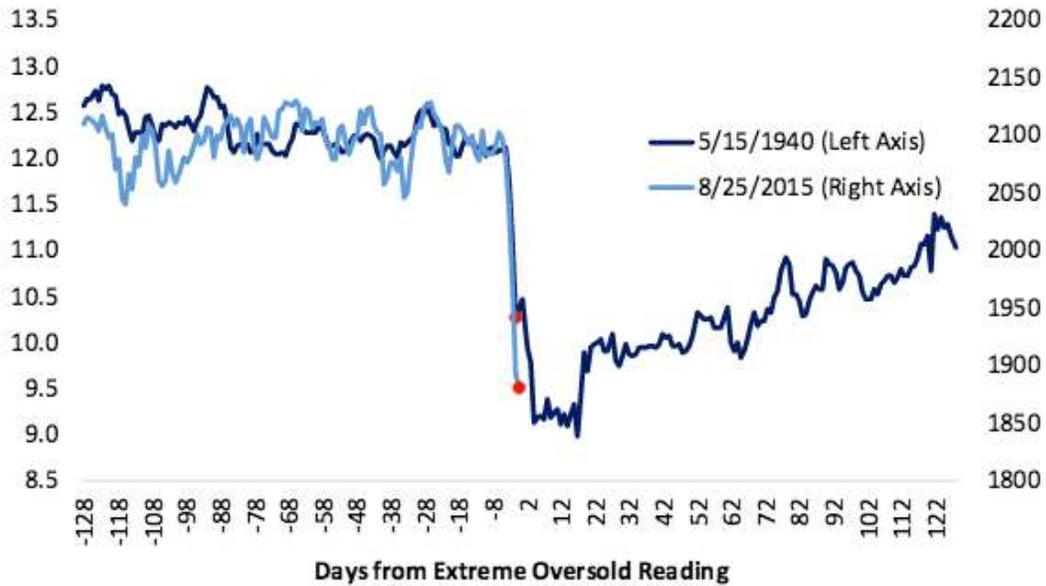
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1940 Redux? S&P 500 1940 Analogue vs Prior Extreme Oversold Reading



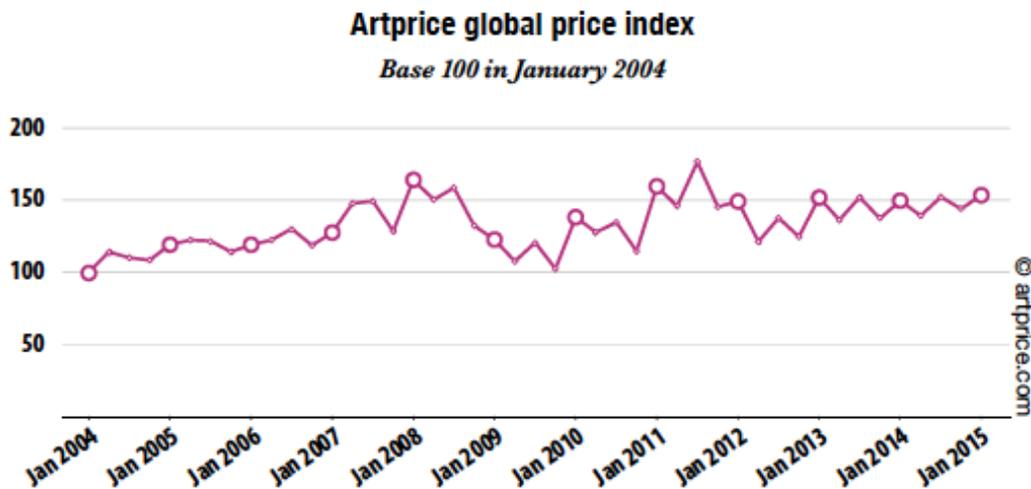
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3 <http://atlas.qz.com/charts/N15rH2H3>

4 <http://www.bloomberg.com/news/articles/2015-08-26/the-stock-market-hasn-t-had-a-selloff-like-this-one-in-over-75-years>



A situation such as this is impossible in the art market.⁵ Given the illiquid nature of the asset class, a diversified art investment becomes a good hedge against these dramatic fluctuations. The high volatility of the stock market and the impossibility of a sudden two-digit value percentage drop in the art market might justify that we take a second look today at the historical performance of the Art Price Index.



The low volatility of art was also accurately demonstrated before, during the 2008 recession, when art indexes only dropped 4.5%, while the S&P Index dropped approximately 37.5%. Subsequently, in 2010, the All Art Index grew to 22.6% and 10.2% in 2011, compared with the stock market's 9.1%.

Art has been mostly known as a valuable asset for its long-term appreciation and estate planning advantages. But there are others: portability, low maintenance costs, and the intellectual, emotional and social prestige components that no other investments have. For example, the lack of regulation in the art market presents arbitrage opportunities and its global nature offers different currencies in which to operate. And again, one of its most commonly alleged disadvantages -its lack of liquidity- is (together with the uniqueness of each picture), commensurate and necessary to the maintenance of its value in the vast majority of cases.

⁵ See: Lumberras, Javier. *El Arte De Coleccionar Arte*. Fomento Cultural Banamex, Barcelona, 2011. P. 193



At these unstable moments, investing in art can shield the investor against collective panic affecting the stock market. Art investment funds like Artemundi Global Fund (AGF), feature considerable investment returns within a reliable institutional vehicle. AGF-1 offered 96.71% Gross Return, 85.36% Net Return and 17.07% Average Annual Net Return. Simply stated AGF-1 doubled its investors' gross money within a 5-year term. No double digit-losses in single sessions guaranteed.