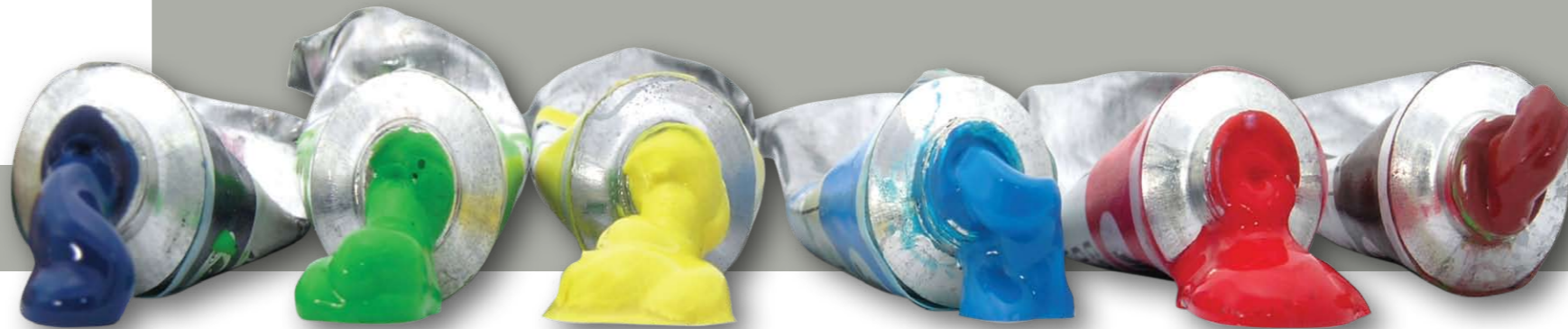


THE SQUARE

With the sharemarket on a roller-coaster ride and some property values falling, it's a great time to diversify your investment portfolio and consider different asset classes. Stevie Newbegin and Joanne McCulloch take a look at some of the more popular - and lucrative - alternatives.



FINE ART

ART continues to be a sound alternative investment, with top pieces pushing the \$1m mark. There is also a growing art rental market, where investors can generate annual income from their pieces by lending them to large corporations. This strategy can be implemented and managed by a range of art investment firms, which take a cut of the earnings in return for their efforts. This option is popular for those wishing to buy art as a long-term investment - particularly as part of their self-managed super fund.

Art Equity chief executive and director Raj Nanda explains: "Akin to a fund manager, we also create portfolios for our clients. We manage the portfolios and provide a return - which varies at between 6.5 to 11 per cent per annum at the moment - for around two years. We then rent the art out to the corporate market, and that's how we make our return. It suits corporations who want to rent art for business purposes. They can have a \$200,000 piece hanging on their wall for a fraction of the total purchase price."

The advantage of this option is that it allows an investor to make money from their artwork while they retain ownership. At the end of the lease period - which can range from say five

to ten years - they can decide whether to sell the piece or hang it on their own wall.

Dominic Clover, director of Art Index, agreed that renting was an ideal option for long-term traders: "The benefit is that not only are you investing in an appreciating asset, but also getting a return on your investment. Like a fixed term account, we offer a fixed return as the asset appreciates."

What's more, the global economic dip caused by the credit squeeze - a factor that has forced some Australian banking shares to 20-year lows - and the US sub-prime disaster could actually benefit the art rental market. When times get tough for large corporations, often the first thing to go is their art collections. This has certainly been the trend in recent months, with the likes of Qantas and Fosters selling off their major art collections. This move is stimulating the rental market, particularly with companies willing to spend around \$5000 or more for a single painting for their foyer or boardroom.

So what should you look for in a piece of art? The artist's career stage, awards or recognition and galleries in which they have showcased their work are a few key factors,

Clover says. "These things give an indication of where they are going and what the demand will be for their work in the future. Demand dictates capital appreciation."

There are potential downsides and risks involved in art investment, however, particularly in terms of a lack of liquidity. If you are forced to sell your piece, you will be subject to the whims of the market and investor appetite on the day. Art is very much about personal taste as well as the potential for capital appreciation. Art Equity art director Ralph Hobbs says it pays to do your research about the artist. "We categorise artists into emerging, mid-career and blue-chip. That gives the investor a certain level of confidence when looking at a work. With an artist such as John Olsen, we have a solid indication about what a watercolour or a major painting is worth. With an emerging artist it's much more speculative. It's a bit like buying a speculative share - you buy at a much lower price and it has the potential to go up but it may not."

However, with such a low correlation to the performance of your share or property holdings, art is indeed a beneficial diversifier for your portfolio. It's a niche that will remain

relatively untouched by the credit crunch or US recession, with the market continuing to grow in value during the past decade. The average return has traditionally been around 7 per cent a year, according to Nanda, with the market hitting record highs last year.

In 1997 the domestic art auction market was worth \$33.5m. Last year it was worth \$175.6m. "Last year was really spectacular," says Hobbs. "We didn't think that would be sustainable. Interestingly enough, if you compare the auction result now to last year it's tracking by dollar value around the same - even given what's going on around the world. We still don't think it's going to perform as well as it did last year because there are only a certain amount of major paintings that can be unearthed in Australia, but it will be right up there with the better years from an auction market perspective."

Regardless of the market, with alternative investments it is essential to do your research and seek advice before handing over your money. "It makes for a sensible medium to long-term investment over five to ten years, rather than for those wanting to make a quick buck," says Clover. "You need to receive expert advice before you commit."

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As traditional asset classes demonstrate their volatility on a global scale, investors are being drawn to the stability, growth and longevity of the art market as an alternative investment that compliments their existing investment portfolio. The Australian Art Market is experiencing a boom, with a 75% increase in funds invested annually over the last 5 years.

Art Index offers a specialist service dedicated to structuring art investment portfolios to compliment your existing investments. Our strategy is to provide not only potential capital appreciation, but also guarantee annual returns of between 7 - 10.25% through renting your artwork to established corporate organisations. Art Index can guide you to works from as little as \$3,000 to the top of the market.

Contact us for more information on investment opportunities & you could WIN a \$10,000 Art Investment Portfolio

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