



Collectibles:

Alternative Investing Beyond Private Equity and Hedge Funds

When most people think of alternative investments, their minds go to hedge funds, private equity, and other structured financial products. However, collectible items are also a type of alternative investment — and, like all the others — come with their own rules and considerations.

The range of collectible items is ever expanding. Most people consider fine art and jewelry as collectibles, but there are many more items that qualify. Historical documents, automobiles and watches may also be included in this category.

Though there are some differences in the mechanics, purchasing and owning collectibles requires specialist involvement with regards to provenance and authenticity, conservation and storage, and security and insurance.

Provenance and Authenticity

Provenance provides documentary evidence of the ownership, location and conservation of the collectible from the time it was created until the present. Without this, or with an incomplete “life history” of the item, due diligence of the buyer becomes a far more complicated and time consuming process. What could possibly be the concerns? To mention just a few: clear title, improper conservation processes, creditor claims, reclamation issues and of course, authenticity. Gone are the days when contemporary art could be authenticated by the artist-endowed foundation. As a result, the quality of the provenance is of prime importance, and interpreting the quality of the provenance is best left to an independent expert.

Conservation and Storage

Conservation is an ongoing process during the lifetime of a collectible. The amount of conservation work to be performed is affected by the storage and handling of the item, as well as the type of collectible. In all cases, temperature and humidity controlled environments are important factors. Certain collectibles are simply more fragile than others—historical documents being one type that typically requires more care than others. In some cases (an example being watches and automobiles), reconditioning can actually decrease the value of the item. So once again, the use of an expert is of paramount importance.

Security and Insurance

Other ongoing costs of building a valuables collection are security and insurance. The use of third party storage facilities is popular due to cost, space and security concerns. Insurers may require valuations on a regular basis, and will typically have to be satisfied that all of the factors discussed above are addressed. If some or part of the collection is to be kept in the client’s home, the insurance company will want to inspect the home’s adequacy for protecting the item.

Tax considerations are always part of investment planning, and collectibles require an understanding of sales and use taxes, capital gains taxes, and estate planning and liquidity. Anchin's Art Specialty Group draws upon the resources of the firm's tax department specialists in these areas to provide an understanding of the relevant tax costs. For more detailed insight or guidance with regards to your unique collection, contact your Anchin relationship partner or Gary Castle, a Principal in Anchin's Art Specialty Group at 212.840.3456 or info@anchin.com.



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