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BEAUTIFUL ASSET ADVISORS® LLC

IMPRESSIONIST AND MODERN ART CONTINUES TO OUTPERFORM THE S&P 500 TOTAL RETURN INDEX©

STRONG AVERAGE COMPOUND ANNUAL RETURNS OF OVER 11% ACHIEVED AT EVENING SALES AND ABOVE AVERAGE RETURNS OF 9.2% AT DAY SALES CAP VERY SUCCESSFUL SOTHEBY'S AND CHRISTIE'S JUNE 2011 IMPRESSIONIST AND MODERN WEEK IN LONDON©

AN ANALYSIS BASED ON THE MEI MOSES® REPEAT SALE DATABASE

The two June evening sales have been reported in the press as being quite successful with strong total sales and with an impressive 90% of the lots sold. From a financial returns perspective of the holders of the art that sold the results were also quite strong. We have repeat sale data on 1/4 of the lots that sold and the average of their compound annual returns (CAR) of these 29 lots was a strong 11.1% with an average holding period of 17.2 years. This strength is documented when these returns are compared to the returns that would have been achieved if the art purchasers had invested instead in the S&P 500 Total Return index (where dividends are reinvested tax free) for the identical holding periods as the art. The average CAR for the S&P investments would have been only 6.8%.

At Sotheby's May 2011 impressionist and modern evening sale 15 lots sold that had a prior auction price that we could find. The average of the compound annual returns (CAR) of these lots was 11 % and the average time between auctions was about 16 years.

In June 2011 there were 13 such lots with an average CAR of 10.7% and an average time between auction sales of 19.8 years. It is also interesting to note that none of these lots had a negative return.

The highest priced lot for which we had a prior auction price, Alberto Giacometti TROIS HOMMES QUI MARCHENT II, sold for almost $17.2 million. It had also sold in 1988 and yielded a CAR, before transaction costs, of 9.4% over the 23 year holding period. However the highest CAR for the evening was the 24.9% achieved by Tamara de Lempicka LA DORMEUSE which sold for almost $6.6 million and had appeared on the market 14 years earlier when it was purchased for $291,500.

At Christie's May 2011 evening sale of impressionist and modern paintings 16 lots sold that had a prior auction price that we could find. The average of the CAR of these lots was 11.3 % and the average time between auctions was about 15 years. In June 2011 there were 15 such lots, with an average CAR of 11.4% and an average time between auction sales of 15 years. It is also interesting to note that only two of these lots had negative returns (CAR of -0.6 and -5.4%).

The highest priced lot of the sale that had a prior auction sale price that we could find, Max Ernst La chute de l'ange, had a sale price of $4.4 million. It had sold in 1973 and yielded a CAR, before transaction costs, of 9.8% over the 38 year holding period. However the highest CAR for the evening was the 27.7% achieved by the Paul Klee Gelände des Übermutes which sold for $879,055 and had appeared on the market 4 years earlier when it was purchased for $330,000.

There were two Picasso lots that sold for over $20 million that had previously appeared at auction but for which no price could be found in any art market transaction on line database. We thus presume they did not sell and we thus cannot include them in our calculations. However using the $28.9 million Pablo Picasso Femme assise, robe bleue as an example we can compute its return based on the highest and lowest price paid at auction for a Picasso oil in 1966 as possible purchase prices. There is data for 9 such paintings in 1966 the highest purchase price being $44,000 the lowest being $3,600. These prices would imply CAR of 15.5% and 22.1% respectively over the 45 years. These are clearly wonderful returns but not exceptional given the returns achieved by other items in these sales.

It is also interesting to analyze the works that failed to sell in these auctions. Given the high success rate at these auctions there were only 4 works that did not sell for which we had prior auction results. Why a work does not sell is an open question in the art market. Reasons vary from changes in condition or authorship, overly aggressive expectations by the auction house or owner, the prior purchase was consummated at a price far in excess of the prior high presale price estimate and there is currently no buyer willing to continue the mispricing of this trophy item etc. Three of these works fall into the latter category.

In addition our research shows that the single best predictor of the current auction price of a work that had sold at auction sometime earlier is that price inflated to the current time period by changes in our appropriate collecting category index over the time period from purchase to sale. In financial circles this is know as “Marking to Market”.

It is interesting to note that 3 of the 4 lots that did not sell had a low presale price estimate greater than or equal to the index increased prior purchase price. As an example consider the failure of a significant work in the sale, Kees van Dongen Le lévrier bleu. It had a presale low estimate of $4.59 million and had sold in 1991 for $651,000. If the work had appreciated at the same rate as the new Mei Moses® world impressionist index from 1991 until the end of the first quarter of 2011 its value would be $1.56 million. This value is way below the presale low estimate of $4.59 million and reveals that the owner or auction house had return expectation far above those produced by the impressionist market over that time period. It would be interesting to hear the explanation as to why this work warranted such a dramatic above market presale low estimate for 2011.

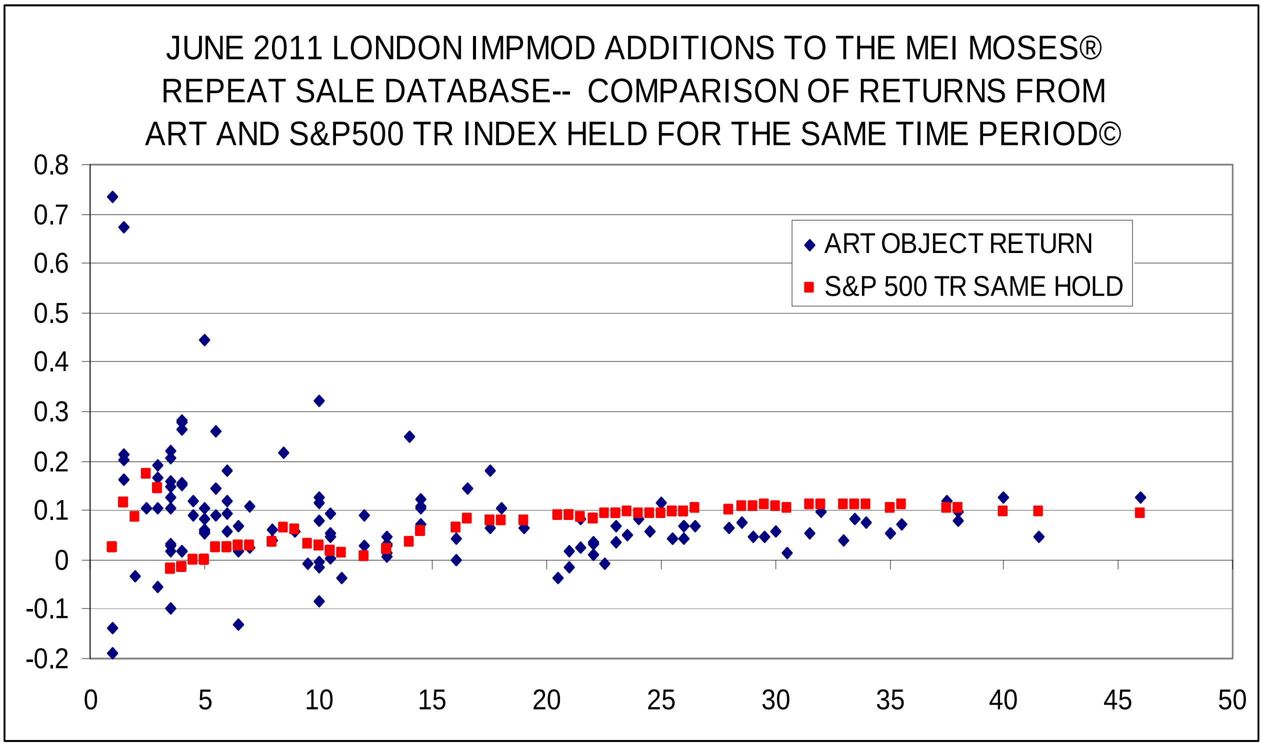
The day sales for each auction house produced very good results but were not quite as strong as the evening sales. However the mean CAR for the day sales was 20% higher than the overall mean return on our entire repeat sale database for this collecting category. There were 98 lots with repeat sale results across the four daytime auctions of the two auction houses. The average CAR for the 98 pairs was 9.4% with an average holding period of 13.2 years. The average CAR for our world wide IMPMOD data base of 7,230 pairs is 7.8% with a holding period of 16.6 years. The average CAR for investment in the S&P 500 TR index for the same holding periods as the 98 art pairs was only 4.9%. This result shows again the relative strength of the art market for this collecting category over the equity market for this current time period.

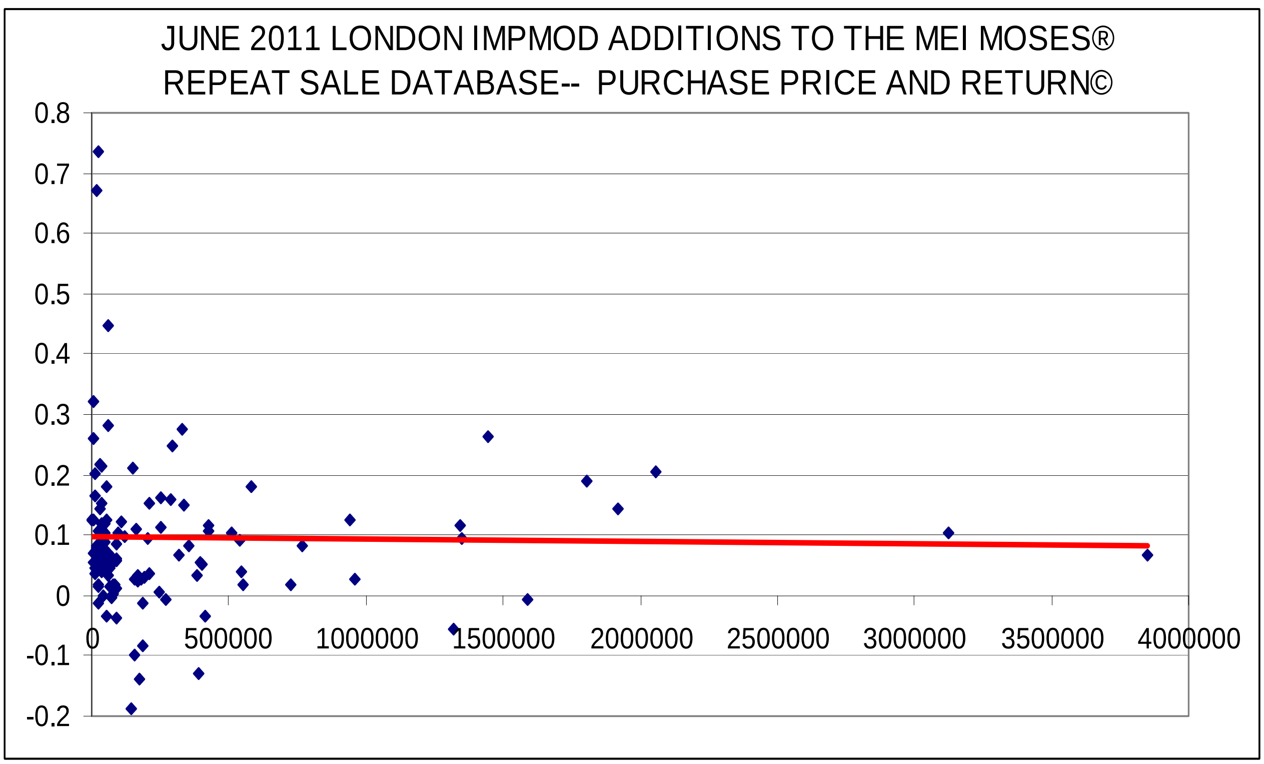
Sotheby's results were somewhat stronger, from a return perspective, than Christie's this season. Sotheby's day sale had 44 lots that sold and had a prior auction sale price which we could find and yielded an average CAR of 10.5% and an average holding period of 13.3 years. The three day sales at Christies' produced a combined 52 lots that sold that had a prior auction sale. They yielded an average CAR of 8.2% and an average holding period of 13.1 years. The four sales had a combined 11 lots with negative returns (average CAR -6.5%, average auction interval 8.8 years).

When taken together these six impressionist and modern sales produced very good returns. Given the strength of the major May sales in New York and these sales in London we think our mid year world index for this collecting category might exceed its prior all time year end high achieved in 2008.

The effect of auction interval and purchase price on return is always interesting and these results do not differ substantially from our findings for our complete repeat sale database of 27,000 pairs. As the graphs below for the combined day and night sales indicate, even in these small samples, longer holding periods do not substantially diminish average returns but do reduce return variability and allow the amortization of transaction costs over a longer time frame. In addition there is no consistent return advantage to buying high priced art over more modestly priced art. However in this small sample the volatility of those returns is somewhat less for purchases over $500,000.

On the first graph we also plot the return of the S&P 500 TR index for the same holding period as the art. It is clear that the equity index returns are much less volatile. This is to be expected since it is an index not individual stock returns. If we plotted random stock returns rather than the index they to would be more volatile. In addition it is also clear that the art returns of the most recent 20 years are superior to the equity index but for the earlier twenty years the equity index is superior. This is especially true for art objects purchased during the IMPMOD bubble of 1985-1990.


JUNE 2011 LONDON IMPMOD ADDITIONS TO THE MEI MOSES®
REPEAT SALE DATABASE-- COMPARISON OF RETURNS FROM
ART AND S&P500 TR INDEX HELD FOR THE SAME TIME PERIOD©
ART OBJECT RETURN
S&P 500 TR SAME HOLD
0.8
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0
-0.1
-0.2
0
5
10
15
20
25
30
35
40
45
50


JUNE 2011 LONDON IMPMOD ADDITIONS TO THE MEI MOSES®
REPEAT SALE DATABASE-- PURCHASE PRICE AND RETURN©
0.8
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0
-0.1
-0.2
0
500000
1000000
1500000
2000000
2500000
3000000
3500000
4000000

Please note that prior performance of our repeat sale data and indexes does not guarantee future results. In addition, there is no guarantee that random collections of individual works of art or stocks will yield index returns. We are not financial advisors and we are not in the business of recommending art as an investment. Investment decisions should be based on the risk return tolerance and time horizon of the investor with, if desired the support of a licensed financial advisor. This information is provided "as is" and with no representations or warranties either express or implied of accuracy, merchantability, fitness for a particular purpose or of any other nature are made with respect to this information or to any expressed views presented in this information.