



Analysis of holding period for young artists since the 1980s



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ABOUT Tutela Capital

Tutela Capital delivers outstanding art advisory and investment services based on a combination of advanced and unique quantitative art valuation models and historical, academic and market research.

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Lately, attention has been given to art flipping in the media. The current study about the phenomenon is based on the artworks by artists whose works were bought and resold before their 40th birthday between 1985 and 2014. On average, it came out that artworks were kept by their owners for 5 years.

Figure 1 shows the evolution of holding period of art between acquisition and resale at auction for artists who were younger than 40 years old at the time of the resale.

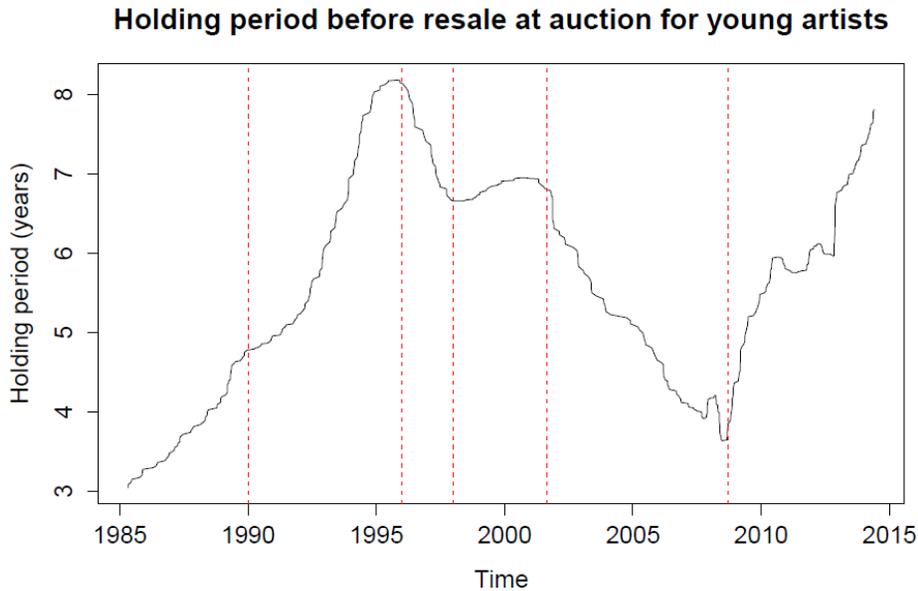


Figure 1. Average holding period before resale at auction for young artists who were aged 40 years old or less at the time of the resale. Smoothing by cubic splines. Source: TUTELA CAPITAL SA

First, before 1990, a particularly fast rotation of the artworks is seen. It coincides with a real bubble on the global art market, partly due to Japanese investors benefiting from an optimistic economic growth and a strong currency.

Then, between 1990 and 1996, the market had a tendency to slow down, leading to longer durations of rotations with artworks kept for more than 8 years sometimes.

The market starts up again from 1996 before stumbling on the global economic uncertainty around the turn of the millennium. We suspect the 1997 financial Asian crisis, the Ruble crisis of 1998, the dot-com bubble and the 9/11 tragedy to bear a part of responsibility in this uncertainty. The low confidence level of collectors apparently led them to patiently hold their collectibles.

Confidence in the art trade seems to grow again around 2002 up to the recent economic and financial crisis initiated by the fall of Lehman Brothers. Indeed, the holding period reaches a 20-year low suggesting a buoyant period for market in the year prior to the recession.

From 2009 to 2011, there is a clear slow-down due to the financial crisis. It is observed in the increasing duration of the years the artworks are kept for, as the owners did not



expect to sell well at auction during these difficult times.

There is a stabilisation observed between 2011 and 2012 which is quickly surpassed by a new decrease in artworks rolling up to today. In 2014, artworks of young artists hitting the market have been kept on average a record 8 years, close to 1995's all-time average high.

Several hypotheses may explain these variations in the past few years.

During the crisis period of 2009-2011, there was a short supply of new young artists in the art market. The young artists of the time did not have the time to build their market at auction as the crisis led to fewer sales and thus less exposure. The owners, who are generally loss-averse, kept the young artists acquired prior to the crisis in their collection/portfolio. As a consequence, the pool of young artists was not renewed during the crisis years because of lack of liquidity and poor market circumstances.

Therefore the perceived "art flipping" phenomenon may not be interpreted as such, but be understood more as a compensation effect from the crisis period's lack of renewal. The short supply of young artists and the willingness of owners and need to renew art portfolios after abnormally long holding periods may be seen as contributing to this form of recent fast market activity. In fact, the perceived increased liquidity at auction corresponds to rotation of stock held before the crisis in an environment of low supply because of the crisis' damages to supply's renewal.

We may expect to observe new young artists within two years at auction, which would in return lead to a decrease in the average holding periods and a return to normal.

Furthermore, with the development of access to information about the art market with the Internet, owners have also had the opportunity and power to decide by themselves when and where to best sell their artworks. They will still approach auction houses to resell, however with more information about the expected price their artworks may fetch according to the past results achieved.

Finally, the recent numerous articles and comments about art flipping may also be a cause to the increase in the holding period: the more it has been talked about, the less the phenomenon has been observed, with people not willing to contribute to it because of the bad reputation associated.