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When stocks fall, can an art boom be far behind?

By Gideon Long

LONDON, Oct 27 (Reuters) - The Sotheby's auctioneer brings down the hammer on "The Massacre of the Innocents," a long-lost painting by Flemish Old Master Peter Paul Rubens.

The sale price is \$76.7 million - eight times more than expected - making the Massacre the third-most expensive painting in the world.

On the other side of town, dazed stock market traders emerge from their offices at the end of another punishing day. They have just watched London's blue-chip FTSE 100 index shed another 120 points to slide toward its lowest level in five years.

The day was July 10 this year and the contrasting fortunes of the stock and art markets could not have been more marked.

The London market has fallen even further since then, while the art market remains robust, lending support to the theory that when wealthy investors take flight from equities, they often plow their cash into pricey paintings.

"The most spectacular example of this was the period immediately after 'Black Monday' in 1987, a period which saw the greatest art boom of the 20th century," London-based art writer Godfrey Barker said.

The value of stocks in London plunged 11 percent on Monday, Oct 19, 1987, and another 12 percent the following day - the biggest falls ever seen on the London exchange.

Within weeks, one of the most lavish spending sprees on fine art was under way, with investors - led by the Japanese and a handful of Wall Street speculators - buying up virtually any work they could lay their hands on.

Things reached a crescendo in May 1990 when, within three days, Vincent Van Gogh's "Portrait of Doctor Gachet" sold for \$82.5 million and Pierre-Auguste Renoir's "Au Moulin de la Galette" went for \$78.1 million.

Twelve years later, the two remain the world's most expensive paintings in dollar terms.

A similar if shorter-lived art boom can be traced following the dot-com debacle of late 1999 and early 2000.

For months, investors plowed billions of dollars into companies on Wall Street's Nasdaq index, lured by promises of ever increasing profits fueled by a technological revolution.

When the bubble burst in the beginning of 2000, the fine art market was one of the main beneficiaries.

According to figures compiled by London-based company Art Market Research Index, the price of contemporary art works rose nearly 70 percent in the first nine months of 2000 while the Nasdaq slumped.

French Impressionist paintings gained 52 percent over the same period while Old Masters added 47 percent.

"The reason the art market shot up like a rocket between January and September 2000 was that people were subtracting their money from dot-com investment and parking it elsewhere," Barker said.

And they are still doing just that.

The world's major stock markets, widely expected to recover their poise in 2002, have instead lost nearly a third of their value since the start of the year.

In contrast, the fine art market is buoyant.

"For the top end of the market things are fine," said Richard Green, Britain's leading art dealer by sales. "People are still collecting. We're buying, we're selling and I expect that to continue."

History suggests, however, there is one factor that would seriously undermine confidence in the art market - a Middle East war and a resulting rise in the price of oil.

In the mid-1970s, when producer countries strangled supply and pushed up oil prices, and in 1990, when Iraq invaded Kuwait, the art market suffered badly.

"It's oil which explains the terrific art market recession of August 1990 through to 1995," Barker said. "A rise in the oil price sabotages company profits. That sabotages the money which rich men have for luxury goods and therefore sabotages the art market."

The trick, as with any investment, is to get out of a peaking market at the right time.

"Those people who were clever enough to sell shares near to the top of the market in 2000, and to buy fine quality paintings and objects of art, have done themselves a big favor," said Green, whose family business turns over nearly \$155 million in fine art sales each year.

"There are plenty of people who did just that."

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