



February 20, 2019

Verifying the “V” in “LTV”

By Alan Snyder

Purchasing or lending against any hard asset demands a steely-eyed assessment of what is the true value in the loan-to-value (LTV) calculation. Many assert that establishing the “V” for art is no easy task. We agree and note that the issues for art lending are similar to other hard-asset alternatives. However, “fine” art offers some unique opportunities for the price discovery process.

The art market has the benefit of auctions to establish more visible valuations than solely relying on private sales between collectors, dealers and museums. An auction brings together art collectors of all stripes in an open forum to bid for a particular piece. Often, a collectible artwork has been through multiple auctions over the years which provides additional insights. The “big four” auction houses (Christie’s, Sotheby’s, Bonhams and Phillips) conduct frequent auctions of fine art and have been doing so for many, many years. Sotheby’s, for example, has been holding auctions for over 275 years!

An auction may be the best price discovery mechanism for any hard asset - either it sells or it doesn’t at a market-clearing price. Many of the artworks Shinnecock has loaned against have been through a recent auction. Yet, a skeptic noted that some pieces may be “bought” by a guaranteed minimum bid at the low end of the anticipated price range, either through a “house guarantee” by the auction house or a “third party” guarantee from a well-heeled investor. True, this does happen occasionally, but does this then disqualify the price? Not really. While the price may be lower than what the owner had hoped for, the guarantor was willing to part with their money to purchase the artwork at the guaranteed price, providing an acid test for pricing the “V.” On the other hand, any winning bid with multiple bidders is always the second highest bid, i.e., the winning bidder only had to exceed the next lowest bidder to prevail and might have been willing to pay more if pushed.

Not all artworks have been through timely price discovery from a recent auction. In such cases, establishing value takes more work, damnation. Think of real estate by analogy, whether a house or a commercial office building. An art appraiser, an expert in the particular artist and genre, is engaged to establish value by reviewing “comps.” Other sale prices for similar works from the same artist and genre, recent price trends and condition are all part of this comparative effort.

In addition, provenance and chain of ownership are considered by both the appraiser and the auction house. Self-preservation enters the picture because both the appraiser and the auction house seek to maintain their reputations for probity. Shinnecock undertakes several additional steps:

- Stolen-art database searches
- Price comparison from the Artprice database, the world's largest
- Review of any certificate of authenticity and available catalogue raisonné
- History of display in museums (another source of extensive third-party due diligence)
- Related sales documents including any export permits if applicable

Sodium Pentothal and Scopolamine, Rigorously Applied

After too many spy movies, all of us know that these two drugs are truth serums. Our truth serum:

- Most loans are against artworks owned by a dealer or gallerist who risks extreme reputational harm to their entire business for any untoward activities
- Personal or financial guarantee from the borrower
- Inspection of the art when onboarded to the art warehouse where the collateral is held under our control

Nothing is Perfect

After more than 40 years in the financial business, we have yet to find a zero-risk investment offering attractive returns. Rigorous due diligence is critical in all cases.

Nevertheless, there are additional safeguards for our art portfolio:

- Position limit guidelines – in our case, no more than 15% to any artist or borrower
- Constant search for further diversification
- Modest loan-to-value ratio
- Possession of the collateral

In sum, we will be significant investors in our upcoming art fund thereby putting our pickle on the proverbial fork.

Lighter but On-Point Fare:

You will never reach your destination if you stop and throw stones at every dog that barks. –
Winston Churchill

I am never satisfied that I have handled a subject properly till I have contradicted myself at least three times. — *John Ruskin*

Upcoming Events

See attached schedule of industry related events at which Shinnecock will be sharing more in-depth information and let us know if you'll be attending so we can look for you!



Upcoming Events

Shinnecock will be in attendance and/or speaking at the following events. We'd be happy to have you join us!

March 11 – Austin

IvyFON SXSW Family Office Forum

Foley Gardere

One American Center, 600 Congress Avenue, #3000, Austin, TX 78701

For information and registration: <http://www.ivyfon.com/>

Note that pre-registration is required as they will not accept day-of registrations. The audience is limited to about 100 people, so it will be an intimate setting both to gain insight as well as to network with other family offices. The rates are: family offices, \$100; multi-family offices \$400, and outside advisors, \$900 (note that there are less than a handful of seats remaining for members of the latter). Several family offices are registered already.

As my invitee, your single-family office may attend without charge by emailing the organizer, Marty Secada, at martysecada2008@gmail.com and copying me at asnyder@shinnecock.com. (There are other discounts for Multi-Family Offices). Marty then will email you a special registration code.