A THOUGHTFUL APPROACH TO PURSUING YOUR PASSION FOR ART

Best Practices for Collectors

For many collectors, acquiring art and other collectibles becomes a way of life. Each piece has personal appeal, sentimental value or both. Whether you are a new collector learning how to approach the process, or an experienced collector interested in making sure your investment is in order, the fundamentals remain the same. Like any investment, acquiring and maintaining a collection involves educating oneself about the nuances, evaluating short- and long-term objectives, keeping accurate records, budgeting, and anticipating liquidity concerns involved with maintaining the works. Although collectors need to take a thoughtful approach to the process, they should remember that, above all, collecting is a passion meant to be enjoyed.

THE PROCESS OF COLLECTING

Part of the enjoyment of collecting involves learning about artists and their work. However, it is important to understand the acquisition process in general. Acquisitions may be made in either primary or secondary markets. Primary markets entail acquiring a work directly from a contemporary artist, although more likely through a gallery that represents an artist or at auction. Once a piece enters the marketplace, galleries and auction houses also act as secondary markets for works. Collectors wishing to sell pieces from their collection usually involve gallerists, auction houses or an agent to facilitate the sales process.

As with any investment, collectors should ask questions about potential acquisitions to obtain the necessary information to make an educated purchase. Working with reputable dealers as well as attorneys and other advisors familiar with collecting and the art market will help collectors navigate the process. Collecting, like any other form of investing, involves a certain degree of risk. Therefore, learning the process and knowing what questions to ask will allow collectors to alleviate uncertainties.

RECORDKEEPING

Obtaining and maintaining the correct information regarding a work of art remains foundational at all stages of the process, regardless of the size and value of a collection. Careful recordkeeping is important when acquiring works, maintaining a collection, selling, exchanging, gifting or transferring to organizations or individuals. Collectors should keep receipts and consider obtaining valuations, condition reports and authenticating documents. Additionally, collectors should make sure to understand the associated intellectual property rights for a work of art.

Authenticating Documents

Obtaining the correct, and complete, authentication records cannot be overemphasized. Although various experts may have differing opinions regarding the authenticity of certain works, maintaining the proper documentation will help protect the integrity of the investment. Buying contemporary works from a gallery involves a relatively straightforward process of receiving a catalogued description of the work and including a picture, sales receipt and agreement in collection records. For other, older works from secondary markets, obtaining complete provenance information regarding the history of a piece becomes important to trace its history from the moment it left the artist’s studio.
Additionally, certain foundations established to preserve and promote the legacy of an artist issue statements of authenticity for qualifying works. Collectors should also determine if a *catalogue raisonné* exists for the artist whose work they are collecting. A *catalogue raisonné* is a definitive catalogue of all known, authenticated works by a particular artist.

**Intellectual Property Rights**
Collectors should work with an experienced, trusted advisor familiar with intellectual property rights to determine what rights they may acquire and what rights are owned by other organizations or individuals. For example, when acquiring a contemporary work at a gallery, collectors might consider acquiring the reproduction rights to the work. Collectors may also consider whether or not the artist and/or gallery will be able to use an image of the work without obtaining prior approval.

**Appraisals**
Valuing art and collectibles is, in and of itself, an art. No two pieces are exactly alike and numerous factors come into the equation. Obtaining a valuation is an important part of insuring works, evaluating liquidity concerns, and larger discussions involving managing a collection and wealth transfer planning.

There are different types of valuations. A listed price at a gallery may be different from either an auction estimate, insurance valuation or estimate for gift or estate tax purposes. After identifying the reason for the valuation, the collector should find a qualified appraiser able to provide a valuation for the specific purpose for which it is requested. Because valuations may be different depending on their purpose, a qualified appraiser will be able to discern the parameters required for a valuation, market factors, as well as how the artistic value, condition and provenance of a work come into play.

For example, a painting may be appraised for insurance purposes at $20,000 but, for auction purposes, that same painting may be estimated at $18,000 to $20,000. Although there may be numerous reasons for the lower auction estimate, the auction house may hope the lower estimate will attract more bidders, with the goal of ultimately achieving a final bid of at least $20,000 at auction. However, if the painting were assigned an auction estimate of $20,000 to $22,000, fewer bidders may partake in the auction and the painting may not sell for the low estimate of $20,000.

**Other Considerations**
Although numerous other considerations exist throughout the collecting lifecycle, collectors should take into account the costs associated with ownership. It is important to anticipate the price of insurance, the potential need for restoration, as well as the funds needed to display or store works in an environment that will not harm them, such as the correct light, temperature and humidity.

Collectors should also consider how they title assets, including the possibility of holding a collection in a trust or limited liability company for centralized management, asset protection or wealth transfer purposes. Experienced collectors considering their legacy, including transfers to younger generations or gifts to museums, should evaluate whether or not the children or museums will be able to afford the pieces. Therefore, consideration should also be given to making an additional gift to help fund maintenance and upkeep.

**BEST PRACTICES**
Collectors may mitigate risk and protect their investment by approaching collecting as they would any business matter—thoughtfully and with the assistance of knowledgeable, trusted advisors. Ultimately, collectors should acquire works they enjoy. Understanding one’s appetite for risk is important, as is having the courage to make the occasional mistake when learning how to collect. However, it is equally important to be happy owning the work despite market fluctuations.
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