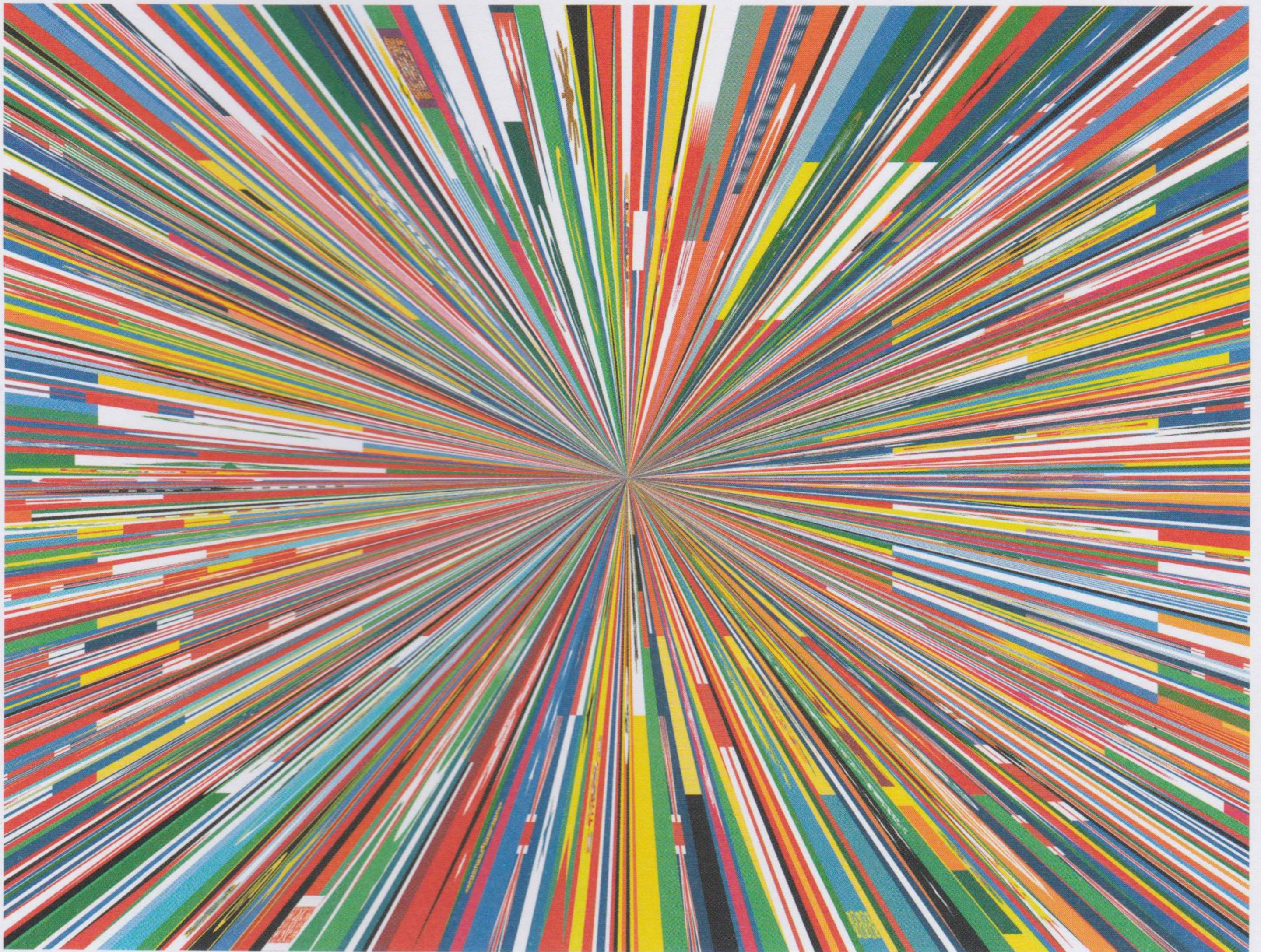


DIALOGUE

SPRING 2015



MARKET COMMENTARY AND OUTLOOK

The globalised art market

The pension squeezing budget

Modern Will drafting

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Welcome

Despite a long list of potential worries, 2015 has started with a more positive mood in equity markets – in part a response to Europe finally joining the quantitative easing (QE) party. Having been discussed at length, QE was hardly a surprise to investors, but because it coincides with a number of other stimuli, such as a falling oil price and a depreciating euro, the ECB may get the chance to claim it has worked! The good news continued with economic momentum picking up in the West and the UK topping the G7 growth league in 2014.

The recent Budget contained a strong political statement but relatively little of substance from a personal tax perspective. In this issue of Dialogue James Gladstone, from our wealth planning team, looks at the major change, the reduction in the pension LTA, and how to protect against the politicians' squeeze on your pension.

In March we hosted our annual Private Client Investment Seminar at The Savoy. We have provided a summary of the speakers' views on the current landscape and what lies ahead. Our guest speakers included Bill Ackman of Pershing Square Capital Management, Ben Rogoff who manages the Polar Capital Technology Trust plc and Lord Digby Jones, former Director General of the CBI and former Minister of State for UK Trade & Investment.

Other features in this quarter's edition include an article by Forsters LLP on Will planning, some measures on cyber security from Salamanca Group, a look at the globalised art market by Paul Frank McCabe and an insight into life on an English vineyard.

Cover image: Meschac Gaba

Citoyen du Monde

2012

Inkjet print on synthetic canvas

300 x 500cm

© Meschac Gaba

Courtesy Stevenson, Cape Town/Johannesburg.

Created by elongating individual flags from every country in the world into narrow triangles that converge at a central point.

Andrew Ross

Chief Executive

Navigating the high seas and the high stakes of the

Globalised art market

By Paul Frank McCabe, Art Adviser, McCabe Fine Art

The contemporary and modern art market has received lots of media attention in recent years and has transformed and grown with incredible haste and energy. The current market grows and changes so fast that it can be rather intimidating even for seasoned players.

For example Paul Gauguin's Nafea Faa Ipoipo (When Will You Marry?) sold this February 2015 to the Qatar Museums for a rumored US\$300m, making it the most expensive painting ever sold. This sum was far greater than the headline grabbing auction results for Gerhard Richter's Abstraktes Bild, which broke records when it sold for more than US\$46m this February in London (after selling for US\$607,500 in a Sotheby's, New York, May 1999 auction, which was, at that time, a big number). Quality is always expensive.

The numbers are staggering. Last November, Christie's New York sold a record US\$852.9m worth of postwar and contemporary art and established new auction records for artists such as Georg Baselitz, Ed Ruscha, Cy Twombly and Cindy Sherman. In 2014 alone, Post War and Contemporary Evening sales in London and New York (represented by Christie's, Sotheby's and Phillips) grossed more than US\$4.54bn. And the

recent February sales in London sold a total of £222.9m: a new record for London's evening sales. The strong result is driven by the top end of the market, an estimated 51% of this total amount came from the top ten works sold by the three auction houses.

Recently the art world has become very event driven with purchasing becoming increasingly concentrated around Art Fairs (of which there is a seemingly expanding list) and the main evening auctions. These are held in London in February, June/July, and now October during the Frieze Art Fair. The biggest and boldest evening sales are in New York during May and November. Many new buyers to the market have become a market of their own. This new breed of collector never visits galleries and does not develop personal relationships with artists, but rather quietly and discreetly competes for trophy-artworks by phone or through an adviser at the auctions. These are the mega wealthy art buyers, which some galleries will never meet.

The increasingly polarised art world has seen the rise of the 'global mega gallery.' Gagosian Gallery for example has spread worldwide, and now boasts glamorous exhibition spaces in Paris, London, New York, Hong Kong, Rome, Geneva and Athens. And David Zwirner, hot on the

heels of the great Larry Gagosian, 'Go Go' as he is known, has expanded into two vast spaces in New York and London and taken into his fold a bevy of talented smaller gallery owners who would rather work with Zwirner (a brand name at this point) than pursue their own smaller galleries. The brand and event seem to rule the art world.

So just how can we make sense of it all? The art market is far from an exact science.

As Jeff Koons says:

"The media, the galleries, the collectors – it's all very chaotic actually. The artworld doesn't have this defined corporate structure that people imagine."

Part and parcel with all of the hype and too much talk of money, an influx of 'flippers' has invaded the art market. These are art buyers with pure profit in mind who speculate on the 'next big thing'—buying up young artists, fueling the hype, and then selling for a quick profit. The victims of these get rich quick schemes are typically young artists with no museum representation, critical support, or real track record of which to speak. This type of activity has part been fueled by the grueling art fair schedule. With so many art fairs around the world, galleries need a

"If the choice is between buying another building or a Pollock, I'd go for the Pollock every time."

Damien Hirst

Joseph Kosuth

Quoted (art as idea as idea) #9

1968

Mounted photograph

48 x 48 in

(121.92 x 121.92 cm)

The lighting is bad, the camera work is bad, the projection is bad, but the people are beautiful.

Ljussättningen är dålig, kameraarbetet är dåligt, projektionen är dålig, men människorna är vackra.

constant booth full of material to sell. Established artists are often not able to produce enough quality work to satisfy the high demand. Thus a population of less known (many times, sub par) artists squeeze into the market, often fetching higher prices than established, historically significant artists. The auction houses have become an integral part of fueling this hype when they validate a new artist by offering the work at a prominent sale, sometimes almost directly from the studio. In this scenario new buyers are given a false sense of security and can get caught up in a bidding frenzy, paying more for an unproven talent than what they would pay for an artist with an established pedigree. As a result, many historically significant artists are overlooked by a hyped market. However, when the

market corrects itself, which it always eventually does, savvy collectors find it is much better to ride things out with a piece of art history rather than a "flash in the pan" artwork that looks bad without its price tag.

As the art market expands, the territory becomes more dangerous for artists, dealers and collectors. For the market to remain healthy, there need to be more serious buyers, meaning those who are buying to add to a collection, rather than those who hope to sell for a profit later. Not only can a sudden sell-off destroy a promising artist's career, but they can also ruin a collector's reputation. Given the current climate, having a clear idea of why you are collecting and what you want to collect is of the utmost importance. This may seem simple, but when there is so much art for sale, it can

be difficult to judge what is quality work. It is therefore vital to see as much art as you can; attend art fairs, go to auction previews, and visit gallery exhibitions. A successful collector is a diligent one, always looking and seeking expert opinions. It is essential to get advice from a neutral adviser, a professional who is part of the art world and can navigate its stratosphere. Behind the scenes information and word-of-mouth scoops are how many deals get started and are a key aspect of the marketplace. Simply because there is so much to see and so much background to understand, an advisor can focus your aesthetic and intellectual criteria. There is a lot of pressure to close deals, but you should never feel put upon to buy until you feel ready. Do your homework, narrow your list, and only then follow the age-old advice: buy what you like!