

Collectibles Could Diversify Your Portfolio as They Bring You Joy



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Do collectibles belong in your investment portfolio? Investing in something you are passionate about can be as emotionally satisfying as portfolio diversifying. Who would argue the gratification associated with running through the gears of an antique sports car or studying the beautiful strokes in a master painting? But investing in your passion does come with some considerations.

1. One good rule of thumb is to stay away from a collectible class of assets as an investment unless you are certain you can get a decent return on the investment. If you collect what you love, you benefit from a deep connection with your pursuit and will likely enjoy the journey that the collecting process takes you on. But if you approach a collection from purely an investment perspective, you are creating an inventory for sale as opposed to pure enjoyment. A good point to remember is that it is always easier to buy a collectible than to sell it. So consider that absent a sale, you need to be satisfied with enjoying the object for many years or generations to come.
2. The collecting journey might add a healthy component to your life balance as you explore and indulge your creative side. It could introduce you to enriching experiences such as meeting other collectors, enthusiasts, gallery owners and consultants. But any successful investment in collectibles will require a certain amount of planning. One of the best practices is to commit enough time to acquire a basic knowledge of the ins and outs of the particular category of collectible that interests you. You need to be aware of some of the challenges that come with beginning your collection. All collectors should have a healthy level of skepticism and, particularly in the early stages, approach building the collection with a “buyer beware” attitude.

Heed these warnings as you begin collecting:

- A) Counterfeiting is a big risk for all collectible asset classes, whether it be wine, art, vintage autos or others. Art is often forged. The provenance of vintage autos may be slightly different or vastly different from what is purported. The wine in a bottle might not be what the label contends. It is important to invest the time it takes to build a good level of knowledge before you begin to accumulate collectibles.

Some individuals engage consultants to assist in the process, and while this may be beneficial, I believe each collector should develop their own knowledge base.

- B) Collectible markets can be very inefficient in terms of setting true value. In most collectibles markets, condition is everything when it comes to value or how marketable the item will be. In collector cars, a true survivor car in original condition or a concours-established classic with great race provenance will almost always be salable. Collectibles in the best condition will demand a premium over comparable items. In the art market, a piece in pristine condition produced during the artist's most noted period of work might only be available in the private market. Such a work of art will differ greatly in value from a more mundane work produced by the same artist, and now found in an auction and in poor condition or with little provenance.
- C) Dealer or auction house commissions can substantially increase the cost to sell or liquidate the collection. In addition, there may be costs related to transporting, storing, insuring and appraising the piece.
- D) Each collectible class comes with its own set of maintenance and insurance costs. Wine must be stored safely and kept in a controlled environment to protect the quality of the vintage. Art must be stored safely and also kept in a controlled environment to prevent damage from excess light, humidity or other factors. Collector autos must be properly maintained and insured. All tangible objects have costs to protect from theft, loss or damage.
- E) The gains from the sale of a collectible are taxed at a capital gains tax rate of 28 percent, higher than the standard 20 percent for investment assets held for more than a year. As well, an illiquid market could create an estate tax problem if collectibles comprise a significant portion of the taxable estate; if the collection is valuable, there could be insufficient liquid assets or cash in the estate to cover the taxes.
- F) It is best to document the collectibles with photos and a complete inventory for insurance and valuation purposes. Apps and software are available to help in compiling a detailed inventory of the collection. In addition to organizational benefits, this will assist with insurance coverage, maintenance and storage issues.
- G) Measuring the investment returns from collectibles can be difficult as they can vary greatly from year to year based on what is available for sale and the prices they are generating. The information available on the investment return do not ordinarily reflect maintenance, insurance and storage costs incurred over the seller's investment performance or holding period.

Collectibles are being considered more acceptable as an investment asset class, and the number of experts engaged in helping collectors acquire and manage their collections has increased. Certain institutions are also making it easier to borrow against collection, offering lending experts familiar with treating collectibles as an asset

class. According to Credit Suisse, six percent of the global average asset allocation of ultra-high net worth individuals is comprised of collectibles. But a word of caution: proceed in moderation. Over time you will gain additional knowledge in the field and an appreciation of which topics or areas will capture your attention and desire for the long term. And you will learn who you can rely on for expertise and credibility in the area of your interest. In the end, the hope is adding a particular collectible as an asset class will both diversify your investment portfolio and enhance your life.

HBKS® Wealth Advisors is not an expert in valuing or predicting the future value of any collectibles, and does not render advice with respect to collectibles. You should contact a qualified expert if you desire advice with respect to investing in collectibles.

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Dan leads the Naples HBKS® client-servicing team. He has spent his career helping individuals and families negotiate the wide range of complex financial issues that impact people who have amassed substantial wealth. His work and expertise extend to estate planning, philanthropic issues, family business matters, cash management, personal tax matters and retirement planning.

Dan joined HBK in 1979 and opened the Naples office in 1985. He was instrumental in creating the firm's service model, chairing the committee that developed the strategy to transition from a traditional CPA firm to one providing holistic financial services.

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