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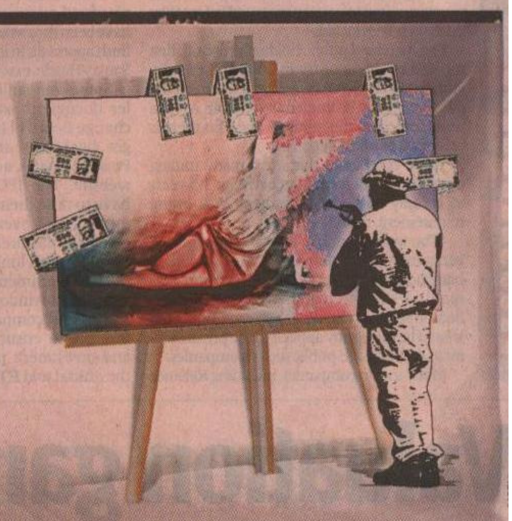
As Indian art gets global recognition, the market has again turned bullish. But before you fall for the charm, bear in mind the pitfalls, says Preeti Kulkarni

ART OF BUYING

- **IF YOU** plan to invest in art, you need to conduct a thorough research on the artist's credentials, the prices at which his/her work has been sold in the past and so on
- **YOU COULD** also turn to those who frequent art circles, buy paintings often and have a fair idea of the likely appreciation in the painting in the future
- **BUYING A** painting from an auction or a gallery could be a better option compared to art funds, given their poor performance last year and close-ended nature. If you own a painting, you can hold on to it till the market recovers, unlike art funds where the units are redeemed on maturity at the prevailing value
- **ASK FOR A** certificate of provenance and get the signature of the painter verified before buying the painting. Art galleries authenticate the paintings they exhibit
- **INSIST ON** documents, including the photograph of the original painting signed by the artist and a detailed description of the painting from the art gallery
- **YOU SHOULD** get into art only if you are confident of staying invested for the long-term, as art is not a very liquid avenue and sees appreciation only over the longer term
- **ANY PROFIT** made from the sale of art will be subject to short-term or long-term capital gains tax, depending on the holding period
- **THE GAIN** on sale of a long-term capital asset will be exempt from LTCGT if the proceeds are reinvested in specified securities or if the sale is made to the government, National Museum, National Art Gallery, National Archives or other institutions notified by the central government



DURING the heady days of 2007 and early-2008, when most asset classes turned in mind-boggling performances, art, too gained currency as a lucrative avenue, particularly for those looking for alternative investment options. However, after the discolouring that some of the art funds went through in India last year, the decision to scout for seemingly-exotic asset classes has left investors with a washed-out portfolio. Not to mention the missed opportunity of parking the money in equities, which have yielded scorching returns during the last one year.

But should the bitter experience of 2009 deter those who have burnt their fingers — and other investors — from investing in art? Perhaps not, considering that those who value art achieve a kind of fulfilment in owning works of artists they appreciate. However, since this is a niche market investors would do well to tread extremely cautiously. "The correction in prices could prove to be a blessing in disguise. Now, collectors and buyers have become more discernible unlike earlier, when paintings used to be sold in no time. That kind of feverishness, which resulted in compromising on ethics, transparency and discipline, has disappeared now," says Mukesh Panika, director of Religare Arts Initiative — a trustee for Religare Art Fund, which also offers art advisory services. "The recovery is slow, but steady. Those who were in the market for the short-term have now moved out."

As Indian art and artists get recognition in international markets, art could see good days ahead, and may also replicate the recovery in equity markets later. However, it is too early to say. Therefore, you need to bear the following points in mind before deciding if you are comfortable with taking exposure to art.

SUBJECTIVE VALUATION

The key issue crops up at the entry point — how do investors decide if the price tag of the piece of art they are looking to buy represents a fair value? After all, it is a work of art, where two people can view the same painting differently. By and large, the price depends on the whims and fancies of the bidder, making it difficult for an average investor to ascertain the price.

"It is difficult to arrive at a fair market price. There is no replica to be compared with. For instance, if one owns 20 equity shares of a company, the price can be compared to other outstanding shares of the company in the market, which is not the case with art," points out financial planner Gaurav Mashruwala.

This apart, if you invest Rs 50,000 in the painting by an upcoming artist, there is no guarantee that s/he will graduate to the next level, consequently improving your investment's market value.

ABSENCE OF A BENCHMARK

Unlike equities, where the various indices managed by the stock exchanges act as yardsticks for investment in the respective categories of stocks, art world offers no such benchmark. The only information publicly available is the auction results at galleries, which typically do not provide a price list or transactions. It may be some time before a benchmark is evolved by the art world, and until then, uncertainty would continue to rule, putting the investor at a disadvantage.

LIQUIDITY CONCERNS

The other major concern when it comes to art is the lack of liquidity — you can't sell the same as soon as the need arises. However, Mr Panika insists this is merely a function of time as the art market has seen a correction. "Till last year, selling works of top-notch artists was never a problem. The market is illiquid right now, but that is probably good as investment in art should never be speculative. It is imperative that investors hold on to it for the long term — only then can they reap rewards."

Mr Mashruwala, though, is of the opinion that one should invest only in those products that they understand. If you do no consider yourself a connoisseur of art, you should stay away from exotic investment avenues. If returns from investment is your only concern, the existing simple-to-understand asset classes in your portfolio could continue to do the job.

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