PRIVATE BANKING & INVESTMENT GROUP

The art and collectibles market: A primer for new collectors

Each year, tens of thousands of colorful artists, together with hundreds of thousands of professionals who work for art service companies, operate within the nebulous and ever-changing ecosystem that is commonly called the art world. This fascinating and sometimes misunderstood community and marketplace can be daunting to budding collectors. The first step to understanding its mysteries is to educate yourself on the basics so that you are better prepared to enjoy your journey into the world of collecting.

by Michael Duffy

Strategic Wealth Advisory Group

Merrill Lynch Private Banking and Investment Group

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The collecting and wealth planning discussions around so-called "collectibles" are similar to those around fine art. For simplicity, this paper will mostly refer to fine art. However, if your family owns antique rugs, firearms, period furniture, collector coins or stamps, jewelry or gemstones, collector cars, rare comic books, or a whole host of other types of tangible personal property, the concepts in this paper will apply, at least in part, to you.

Today's public tends to have a better understanding of the commercial value of fine art, thanks in part to auctions having become somewhat akin to a spectator sport. This comes from the popular press focusing attention on postwar and contemporary fine art auction results that include a seemingly endless parade of record-breaking prices. For example, there have been more than 20 paintings or sculptures that have sold at auction for over $100 million (adjusted for inflation) and several reported private sales of paintings for amounts up to $300 million.

The collectibles market, which is far larger in scope than the fine art market, tends to receive less news coverage because of higher volume and considerably lower price points. Prices tend to range from a few hundred to a few thousand dollars. To date, there have been no reported sales that come close to the $100 million mark. In part, this is due to the inherent nature of collectibles, which are usually mass produced by a tradesman and therefore not "one-of-a-kind" artistic works. Rather, they are usually part of a series with little or no difference between one collectible versus another collectible from the same series except for rarity, condition and provenance. Baseball trading cards, comic books, movie posters and Barbie® dolls are good examples of mass-produced items that are highly collected.

Despite receiving less attention in the news, certain collectibles are highly coveted and, on occasion, sell for staggering sums of money (see chart below). The occasional news stories that trumpet these prices have helped to fuel the public's interest in the value of these items and ignite numerous cottage art and collectible industries across the globe.

Notable sales

Collectible	Description	Sale Price
Baseball Card	Honus Wagner T206 Tobacco Baseball Card	$3.1 million (2016)[1]
Comic Book	Action Comics No. 1 (Superman)	$3.2 million (2014)[2]
Vintage Coin	U.S. Liberty Head Nickel	$3.73 million (2010)[3]
Postage Stamp	1856 One-Cent Magenta Stamp from British Guiana	$9.5 million (2014)[4]
Furniture	Dragon Armchair	$28 million (2009)[5]
Rare Manuscript	Codex Hammer	$30.8 million (1994)[6]
Carpet	Clark Sickel-Leaf Carpet (Circa 1700)	$33.7 million (2013)[7]
Collector Automobile	1962 Ferrari GTO	$38 million (2014)[8]
Chinese Porcelain Bowls	Ming-Dynasty "Chicken Cup"	$36.3 million (2014)[9]
Diamond	Pink Star 59.6 Carat	$71.2 million (2017)[10]

[1] Daniel Roberts, "Honus Wagner baseball card sells for new record $3.12 million," Finance.yahoo.com, Oct. 2, 2016.
[2] Lance Whitney, "Superman's Action Comics No. 1 sells for record $3.2 million on eBay," CNET.com, Aug. 25, 2014.
[3] "Rare nickel fetches $3.7 million at auction," NBCNews.com, Jan. 9, 2010.
[4] "The British Guiana," Sothebys.com, June 17, 2014.
[5] Katharine Zaleski, "Chair Bought For $28 Million At Christie's Yves Saint Laurent Auction," Huffingtonpost.com, May 25, 2011.
[6] Carol Vogel, "Leonardo Notebook Sells for $30.8 Million," NYTimes.com, Nov. 12, 1994.
[7] Katherine Boyle, "Corcoran's Clark Sickle-Leaf Carpet breaks world record at Sotheby's Auction," Washingtonpost.com, June 5, 2013.
[8] David Undercoffler, "'62 Ferrari 250 GTO sells for record $38 million at Monterey Car Week," LATimes.com, Aug.14, 2014.
[9] Jason Chow, "The $36 Million Ming Dynasty-era Bowl," WSJ.com, April 8, 2014.
[10] Kristine Phillips, "Rare 'Pink Star' diamond is now the most expensive gemstone in the world: $71.2 million," Washingtonpost.com, April 4, 2017.

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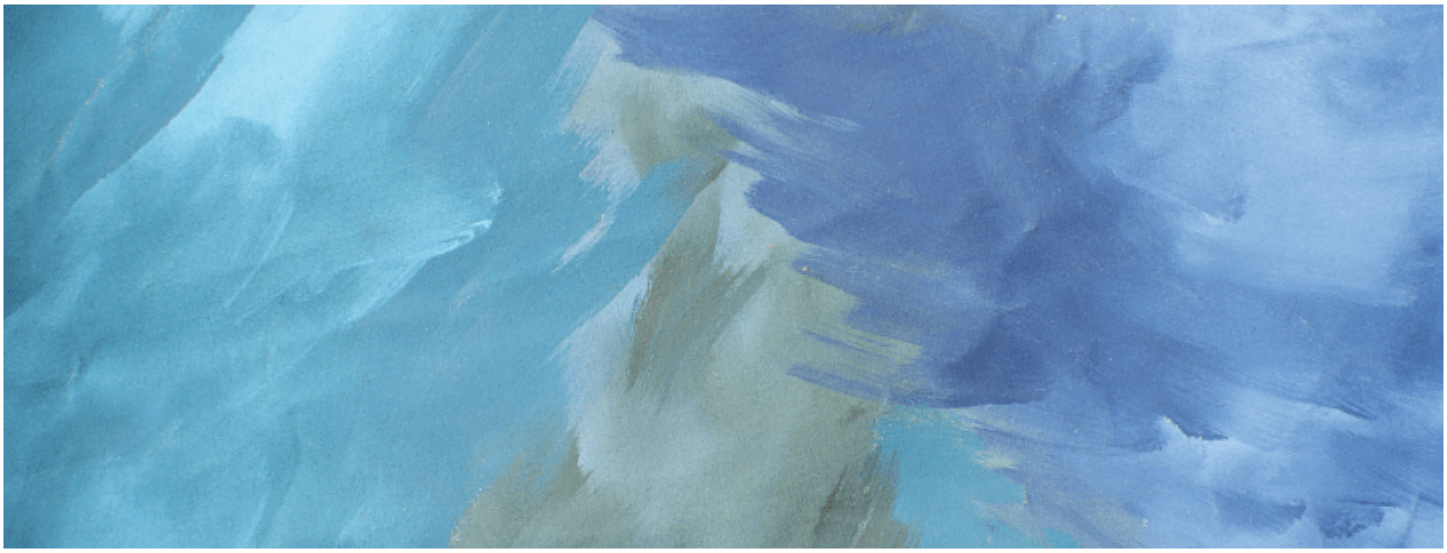

> "The price of a work of art is an index of pure, irrational desire, and nothing is more manipulable than desire."
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> — Robert Hughes, Art Critic

Understanding the players: From artists to auction houses

The term "the artworld" was first coined by American philosopher and art critic Arthur Danto and served as the title of his 1964 paper published in the *Journal of Philosophy*. In it, Danto attempted to answer the age-old question, *What is art?* To answer that question, Danto suggests that we must look at a work in its cultural context as provided by schools, museums, critics and artists (that is, the art world). The concept that there is an art world is now omnipresent in our culture despite its ongoing inexact definition.

Today the term is generally used to describe a vibrant, amorphous and interconnected ecosystem made up of a diverse and colorful array of actors who are constantly changing and evolving their art services to adapt to contemporary fashion, politics, technology and globalization.

Artists

Central to this dynamic ecosystem are the gifted artists and skilled tradespeople who create the materials that collectors covet. Unlike financial assets or real estate, an artist's work often has very little practical use. For example, one cannot eat a painting, find shelter in it or drive it to work. It will never pay a dividend and might never find a buyer if offered for resale. Art critic Robert Hughes once said, "No work of art has an intrinsic value, as does a brick or a car.... The price of a work of art is an index of pure, irrational desire, and nothing is more manipulable than desire."

Yet for true collectors, an item's utility or future financial value, while relevant, is not what drives their decision to allocate time and resources to amass tangible objects that they will never consume. Instead, their personal aesthetics, and the joy of being able to live among the items they have come to treasure, lie at the core of their collecting passion.

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A sampling of U.S.-based auction houses

- Bonhams
- Christie's
- Doyle
- Freeman's
- Gooding & Company
- Heritage Auctions
- Leslie Hindman Auctioneers
- Phillips
- Sotheby's

Dealers

There is a vast network of assorted professionals who provide ancillary services to the art world's ecosystem. In 2015, there were approximately 310,400 businesses that employed more than 2.9 million people in the global art and antiques market.[11]

First and foremost among these professionals are dealers and gallery owners, who operated roughly 296,270 businesses and employed almost 2.5 million people. Dealer sales account for the largest part of the art market, garnering over 50% of all art transactions.[12]

The dealer world is essentially divided into two factions: primary dealers, and everyone else. Primary dealers have exclusive agreements to represent living artists. They function as cultural tastemakers in charge of building their artists' brands and reputations. They often stage gallery shows and participate in museum exhibitions across the globe. They set market prices and firmly control who can buy a work and attempt to assert conditions of a client's ability to sell a work in the future. All other sellers (such as gallerists and brokers/advisors) are said to operate in the secondary market in which they sell works of art that were once offered and controlled either by direct sales from an artist or by a primary dealer. Hence, they are resellers.

Auction houses

Next come the approximately 14,135 auction houses that employ an estimated 326,288 people.[13] Most readers are likely familiar with Christie's and Sotheby's, since these firms are the biggest auction houses in the West (Poly International and China Guardian are the largest auction houses in Asia). Sotheby's is a publicly traded company, and Christie's, which was a public company until 1998, is a private company owned by French billionaire François Pinault. Together, these two firms dominate the fine art auction market, accounting for 70% of the postwar and contemporary market and 72% of the European and Old Masters market.[14] Because of their market supremacy, some writers refer to Christie's and Sotheby's as a "biopoly" despite the existence of thousands of smaller auction houses around the world that may offer a greater breadth of material at much lower price points.

The traditional role that auction houses have played has morphed dramatically over the last 15 years to keep up with technology, demand and marketplace inefficiencies. In this regard, Sotheby's has led the way. In 2016, Sotheby's acquired Art Agency Partners to offer art brokerage and consulting services, Mei Moses to offer general and bespoke art indices, and Orion Analytical to offer conservation and forensic authentication services. Such services were traditionally provided by independent third-party specialty firms.

[11] *TEFAF Art Market Report 2016*, pages 225 – 229.
[12] See note 11, above.
[13] See note 11, above.
[14] *TEFAF Art Market Report 2016*, page 28.

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A sampling of online sales platforms

- 1stdibs.com
- artfinder.com
- artsation.com
- artsy.net
- ebay.com
- lofty.com
- saatchiart.com

Art lawyers

There is a legion of legal professionals who assist with the never-ending assortment of issues that can accompany a work of art from its creation to its final disposition (that is, trade, loan, sale or donation). The multidisciplinary legal issues tend to involve contract law, intellectual property law, trust and estate law, tax law, cultural property and antiquity law, international tax law, tax-exempt organization law, and litigation matters. Due to the sheer breadth of these legal matters, it is very likely that art collectors will use several legal specialists to assist with their art transactions over their collecting life cycle.

Attribution, authentication and title professionals

To assist these legal professionals, there is another stable of advisors who often aid in matters of provenance, authentication, attribution and title. Provenance research is important to collectors because it uncovers and records a work of art's prior possession, which can significantly impact what a buyer is willing to pay. Authentication research is critically important because it can uncover forgeries, which are unfortunately prevalent in the art trade. Attribution research is another key service, usually provided by art historians and art scholars, that is meant to assign authorship of a work to a particular artist. Finally, with title research, it is important to understand whether the piece being offered has a prior legal claim against it.

Big data firms

A burgeoning cottage industry that aims to increase transparency in an otherwise opaque, unregulated market is the big data (metadata) industry. For example, artnet Auctions is one of the largest suppliers of global auction results in the world. The website contains more than 10 million auction results spanning over 31 years, 1,700 auction houses and 320,000 artists.[15] It creates broad indices as well as indices that are specific to an artist, both of which are meant to inform buyers and sellers about how liquid their tangible personal property might be and about its potential value.

Online sales and auction platforms

To provide better transparency and sales execution, there is an increasing number of online sales platforms that are primarily aimed at the lower end of the market, where the majority of trade volume occurs. Not only have auction houses and galleries tapped into this new selling medium, but there have been dozens of new websites that have sprung up to cater to the online collector. In 2015, online sales volume was estimated to have reached $4.7 billion, accounting for 7% of the total global art and antiques trade volume.[16] Of these sales, 90% went for prices less than $50,000, while 80% went for prices less than $10,000.

[15] artnet.com (description of Price Database).
[16] *TEFAF Art Market Report 2016*, page 15.

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Art fairs have become a game changer in the art world, particularly to private dealers who are trying to understand and incorporate them into their marketing and branding efforts.

Collection management professionals

Entities or individuals who have created products and services for the care and maintenance of artistic materials fall under the label of collection management professionals. This can include framers, art handlers, qualified appraisers, conservators, collection management software companies, art security firms, property and casualty insurance companies, and art lenders and financiers. Some observers have estimated these annual costs to be approximately 2% to 3% of a collection's value. A worldwide searchable database exclusively dedicated to the top art collection companies can be found at clarionlist.com.

Art fair professionals

Perhaps the fastest-growing industry within the art world comprises the fine art and antiques fairs that have sprung up around the world, with major fairs being staged in Basel, London, Miami, New York and Singapore. In 1970, there were just three main art fairs — Cologne, Basel and Art Actuel — but today there are more than 300.[17] There is likely a major art fair being staged somewhere in the world on every weekend of the year. Each such fair typically employs dozens of employees and hundreds of tradespeople for just a few weeks each year.

Art fairs have become a game changer in the art world, particularly to private dealers who are trying to understand and incorporate them into their marketing and branding efforts. In 2015, dealer sales at art fairs reached $12 billion, representing 40% of dealer sales.[18] In 2015, The European Fine Art Foundation (TEFAF) reported that dealers spent approximately $3.8 billion on art fair costs for shipping, insurance and booth fees to participate in this new paradigm.[19] Despite widespread participation by most major galleries and exposure to many more potential buyers, not all dealers who participated in fairs made a net profit.

Perhaps the best-known art fair in the United States is Art Basel in Miami Beach, which opened its doors in December 2001 and quickly became the largest, and arguably the most prestigious, contemporary art fair in the world. In 2015, there were 267 international galleries from 32 countries bringing in approximately 70,000 visitors a day.[20]

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[17] Georgina Adams, *The Art Newspaper*, June 20, 2012.
[18] *TEFAF Art Market Report 2016*, page 232.
[19] See note 18, above.
[20] Artbasel.com, Miami Beach tab.

In reality, the art market is a fragmented group of facilitators who do their best to make a market by matching buyers and sellers.

Defining the art market

The term "art market" tends to be tossed about freely, giving laypersons the impression that there is some type of centralized, regulated market, like the New York Stock Exchange (NYSE), that provides up-to-date pricing data and efficiently matches buyers and sellers to increase transparency and create daily liquidity. This is not so. In reality, the art market is a fragmented group of facilitators that includes artists, primary dealers, gallerists, auction houses, art brokers and private sellers who do their best to make a market by matching buyers and sellers.

The public is privy only to reported auction sales. However, each year, private dealers are polled by research firms to extract sales data on the private market in order to get a complete picture of the art marketplace. The research firm Art Economics, for example, sends out an annual anonymous survey to more than 6,000 dealers from the United States, Europe, Asia, Africa and South America to obtain information on the private sales market. Its 2015 report suggests that more than half of fine art and collectibles sales occur through private channels.

Unlike the NYSE, there is no centralized fine art and collectibles governing body established to monitor and uphold transactional standards, issue professional licenses, provide ongoing professional continuing education to its professionals, mediate disputes, or assess criminal or civil penalties when appropriate. This lack of oversight has caused many observers to conclude that the art market is the largest unregulated legal market on the planet.

That is not to say that there are no regulations or laws that protect collectors. In the United States, for example, the purchase and sale of tangible personal property is governed by the express written terms of the sales or consignment agreement, state law and the Uniform Commercial Code. The IRS assesses income tax, penalties and interest on income earned through fine art activities and assesses transfer tax on gifts and bequests of fine art. There are international laws that make trading in certain cultural heritage objects a crime, and we have intellectual property laws that protect artists' copyrights.

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For true collectors, personal aesthetics, and the joy of being able to live among the items they have come to treasure, lie at the core of their collecting passion.

In addition to the patchwork of laws that may apply to an art transaction, there are numerous self-regulated trade associations, like the Art Dealers Association of America, that attempt to promote best practices by issuing professional guidelines for their members. These organizations do not have the resources or authority to audit art trade professionals. However, should an issue be litigated in court, any guidelines that have been issued by a trade association can serve to guide a judge or jury's decision.

In recent years, the art and collectibles market has experienced rapid globalization due to a number of factors:

- Increase in the number of ultra-high-net-worth families
- Increase in online art trading platforms
- Better sales data
- Increase in number of art fairs
- Increase in number of megagalleries
- Increase in number of museums
- Increased use of art and collectibles as an alternative investment and asset class

According to TEFAF, the global art and collectibles market dollar volume reached $63.8 billion based on 38.1 million transactions in 2015.[21] The United States, which has been one of the three largest art markets over the last 20 years, commanded the largest share of the art market, with 43% of all reported transactions.[22]

[21] *TEFAF Art Market Report 2016*, page 23.
[22] artprice.com, *The Art Market in 2015*, page 8.

In 2015, the approximately $64 billion in fine art and collectible sales worldwide was about 16 times the global sales at Tiffany's and almost 60% of the global sales at Amazon.[27]

Unique characteristics of the art market

Collectors face unique challenges that, for the most part, are absent with other assets like stocks, bonds or real estate. As previously mentioned, fine art is a non-income-producing asset, so buyers must be prepared to satisfy their ongoing personal consumption needs from other means. Provenance, authentication, attribution and title issues are widespread and plague the art world. But perhaps the biggest challenge among collectors (especially those who collect with an investment premise) is the market's innate illiquidity.

To put things into perspective, let's take a look at the NYSE, which is arguably the most efficient financial market in the world. Keep in mind that a single share of stock is fungible — meaning there is no difference between one share of a company's stock and another share of its stock. Also keep in mind that, due to certain laws and compliance requirements, there is never really an issue as to whether a purchaser is acquiring good title or whether the stock being acquired is authentic. On any given day, approximately 6 million to 7 million trades are executed in which 1.4 trillion shares are bought or sold for a daily dollar volume approaching $50 billion.[23]

The art and collectibles market is miniscule by comparison, with total 2015 sales estimated at $64 billion based on 38 million sales transactions.[24] Of those transactions, there were a total of 875,700 fine art lots hammered down (sold), of which only 546,000 occurred through Western auction houses, bringing in a total of $16 billion.[25] The two largest Western auction houses, Christie's and Sotheby's, typically sell under 20,000 lots each year.[26] Each lot (single piece of fine art) is unique. It is almost unheard of for a work of art to cross an auction block twice in the same year. It is more probable that it will take years or decades (if ever) before a collector is ready to sell a work from his or her collection.

[23] Transactions, Statistics and Data Library, NYSE, 2010 Through Present NYSE Group Daily Share Volume, 2017.
[24] *TEFAF Art Market Report 2016*, page 23.
[25] artprice.com, *The Art Market in 2015*, page 15.
[26] artprice.com, *The Art Market in 2015*, page 6.
[27] Doug Woodham, *Art Collecting Today: Market Insights for Everyone Passionate About Art*, 2016.

Postwar and contemporary sales from July 2015 to June 2016[28]

With the exception of Pablo Picasso and Andy Warhol, most artists have only a few works that cross the auction block each year. And not all works that are offered for sale at auction end up finding a buyer. To illustrate how thin the discrete art market is for any one artist, refer to the chart below.

Artist	Total Dollar Turnover	Lots Sold	Bought-In*
Andy Warhol	$311,178,328	1,493	560
Roy Lichtenstein	$172,038,887	448	160
Cy Twombly	$167,374,582	93	9
Lucio Fontana	$162,925,231	221	74
Francis Bacon	$159,969,165	98	30
Jean-Michel Basquiat	$141,119,505	98	30
Lucian Freud	$83,041,241	75	29

*Lots that failed to sell at auction and were returned to the consignor.

The chart underscores the fact that only a few pieces by any particular artist are successfully auctioned each year and demonstrates that not all consignors find a buyer. What cannot be gleaned from the chart is the huge number of artists who are absent from the auction market.

Auction houses are extremely fastidious about the material they will accept for consignment. They want consigned items to sell and not be "bought-in" (returned to the consignor). When a work of art is bought-in, it causes the house to incur uncompensated expenses, damages the house's reputation and can cast a negative light on the artwork (that is, the painting is "burned") in future sales efforts. Auction houses only want to offer works of art that they think the public will buy. Because the public's taste in art invariably changes, so do the artists and works that the auction houses will accept.

Contemporary art market author Don Thompson offers the following observation: "Even artists whose work makes it to auction can have short-lived popularity. Fewer than half of the modern and contemporary artists listed in a Christie's or Sotheby's modern and contemporary auction catalog 25 years ago are still offered at any major auction." What this suggests is that collectors should buy what they love, with no expectation that they will ever be able to sell their works of art in the future.

[28] *Art & Auction*, November 2016.

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All too often, children discard, sell or donate works that were given to them by their parents because they have different tastes and lead different lifestyles than mom and dad.

Art longa, vita brevis ("Art is long, life is short")

Most collectors will never sell a single piece from their collection. And since fine art is not a consumable asset, it stands to reason that the objects in their collection could survive for decades by being passed down from one generation to the next. Collectors, therefore, are temporary stewards of their treasures until such time as they (1) discard them, (2) sell them, (3) pass them to heirs, or (4) donate them to charity.

Each of these decision paths warrants a broader discussion with your family and the charities that you intend to benefit. It is essential to understand whether your intended recipient wants to keep your artwork. All too often children discard, sell or donate works that were given to them by their parents because they have different tastes and lead different lifestyles than mom and dad. Often they sell for amounts far less than what their parents could have sold the works for because they know little about the artist, the work, its provenance or what sales channel would be most appropriate. It is also true that, far too often, museums reject donations because they do not fall within the curatorial mandates of their curators.

There are numerous techniques that can be deployed to transfer works of art to your heirs and charity during your lifetime or at your death. You should speak with your Private Banking and Investment Group wealth strategist to get information on the techniques and potential tax benefits.

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Understanding tax implications

There is an array of taxes that collectors should understand. For example, in the U.S., collectors who sell their artwork after holding it for more than one year are taxed on the federal level at a collectibles tax rate of 28% on their long-term capital gains. This stands in stark contrast to stocks and bonds, which would be taxed at a top rate of 20%. Gifts of works of art to an heir that are worth less than $14,000 do not have to be reported. However, gifts above $14,000 in value must be reported on a United States Gift (and Generation-Skipping Transfer) Tax Return (IRS Form 709) and may cause the donor to pay a gift tax if the donor's cumulative lifetime gifts exceed $5,490,000 (unified gift and estate tax exemption amount for 2017). Cumulative lifetime gifts above that amount are taxed at 40% and are generally assessed against the donor.

A lifetime donation of a work of art by a collector can create an income tax charitable deduction. The deduction will be based on the cost of the work of art (the tax basis) and not its current fair market value unless the donation satisfies several tests:

- The artwork must have been owned for more than one year
- The donation must be to a public charity or private operating foundation
- The charity must intend to use the donation for its related charitable purpose
- There must be a contemporaneous qualified appraisal (part or all of which must be attached to the tax return)

Also, it's important to keep in mind that no income tax deduction is available for lifetime gifts to non-U.S. charities or for the mere promise to make a donation to a U.S. charity in the future. Finally, depending on the state in which you live, you might have to pay state income taxes if you sell a piece from your collection at a profit.

Perhaps the most important state-level tax that a purchaser needs to be aware of is state sales tax. No matter where you purchase your works of art, a sales tax (or a use tax) will be due except in very limited circumstances. For example, the tax rate in New York City is a whopping 8.875%. If you are having a work shipped home across state lines, you may not have to pay state sales tax, but you might have to pay a state use tax in your home state.

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Get started

The following checklist can help get you on your way as you start forming and managing your collection.

- ☐ Visit as many museums, galleries, auctions, biennials and art fairs as you can to cultivate your tastes
- ☐ Take art history classes and attend art-related lectures
- ☐ Talk to living artists whose works you may be interested in
- ☐ Stay attuned to the art world and the art market through magazines and online subscriptions
- ☐ Talk with other collectors
- ☐ Whenever possible, personally examine the work of art that you are interested in
- ☐ Buy what you like
- ☐ Establish a budget and allocate only those resources to your acquisitions that you do not need to sustain your ongoing personal consumption needs; remember to include ongoing expenses for things like logistics, insurance, storage, display and home security
- ☐ Perform due diligence; hire experts who can assist you with attribution, authentication, provenance and title
- ☐ Read all consignment and auction sale agreements carefully
- ☐ Consider hiring an art advisor who will act as your special fiduciary
- ☐ Develop a conservation plan for your collection
- ☐ Obtain adequate property and casualty insurance
- ☐ Be open to trading pieces with other collectors
- ☐ Keep an updated inventory with all related documentation, such as provenance research with publication and exhibit history
- ☐ Have a well-thought-out plan for passing your collection to heirs and charity; understand the tax ramifications of doing so
- ☐ Have fun

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Learn more

There is no substitute for hands-on training and visiting fairs, galleries and museums. To augment what you learn through your art world travels, there are lots of resources that collectors can use to learn more about an artist. Here are a few:

Books

- *Art as an Investment? A Survey of Comparative Assets* by Melanie Gerlis (2014)
- *Art Collecting Today: Market Insights for Everyone Passionate About Art* by Doug Woodham (2016)
- *Art of the Deal: Contemporary Art in a Global Financial Market* by Noah Horowitz (2011)
- *Selling Contemporary Art: How to Navigate the Evolving Market* by Edward Winkleman (2015)
- *Seven Days in the Art World* by Sarah Thornton (2008)
- *The Supermodel and the Brillo Box* by Don Thompson (2014)
- *The $12 Million Stuffed Shark: The Curious Economics of Contemporary Art* by Don Thompson (2008)
- *The Value of Art: Money, Power, Beauty* by Michael Findlay (2012)
- *What Are You Looking At? The Surprising, Shocking, and Sometimes Strange Story of 150 Years of Modern Art* by Will Gompertz (2012)

Websites

- artdaily.com
- artmarketmonitor.com
- artnews.com
- theartnewspaper.com

Magazines

- Art & Auction
- Art in America
- Art Papers
- ARTINFO
- ARTnews
- Fine Art Connoisseur

Annual art market reports

- Artprice Contemporary Art Market Report
- Deloitte Art & Finance Report
- Hiscox Online Art Trade Report
- TEFAF Art Market Report

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Glossary of art terms

- **Absentee bid.** A method of bidding for those who cannot or do not wish to attend a live auction. Absentee bids are also called "written," "commission" or "order" bids and can be placed by filling out and submitting an absentee bid form.
- **Art loan.** A personal loan secured either fully or in part by a work of art or numerous works of art that are owned by the borrower. Such loans can be recourse or nonrecourse.
- **Attribution.** The act of rendering a qualified expert opinion on the likely author of an unsigned work of art. An unsigned work's attribution is always subject to change.
- **Authentication.** The scholarly and/or scientific determination of whether a work is a forgery.
- **Bid price.** The amount a prospective buyer signals to the auctioneer he or she would pay to purchase the lot during bidding.
- **Bidder.** An individual attempting to purchase a lot at auction.
- **Bought-in.** If there are no bids on a lot, or if bidding does not reach the reserve price, the lot is bought-in, meaning it is left unsold and remains the property of the owner.
- **Buyer's premium.** Percentage on top of the hammer price that the buyer pays to the auction house.
- **Catalogue raisonné.** A scholarly tome, often produced by a deceased artist's estate or foundation, that attempts to faithfully reproduce and annotate every known work of art by an artist. Such catalogs function as reference books used by authenticators, critics, dealers, scholars, curators, lenders and collectors.
- **Chandelier bid.** The practice of auction houses raising false bids at crucial times in the bidding in order to create the appearance of greater demand or to extend bidding momentum for a work on offer.
- **Condition report.** A written description of a lot's past cleaning, retouching or damage prepared, upon request, for prospective bidders by specialist departments within auction houses. Condition reports are not appraisals of value.
- **Consignor.** The owner who is transferring for-sale property to a dealer or an auction house to act as agent on his or her behalf.
- **Deaccession.** To sell a work from a collection. The term is usually associated with museums that sell works to raise funds for other purposes.
- **Enhanced hammer.** When the consignor negotiates with an auction house to receive a portion of the buyer's premium.
- **Fair market value.** What a willing buyer will pay a willing seller.
- **Good title.** Also known as "title," the past and present full legal right, interest and ownership of the work, which may or may not overlap with its provenance (the history of the physical possession of the art).
- **Hammer price.** Also known as "hammer," the winning bid for a lot at auction when the auctioneer brings down the hammer.
- **Knocked down.** Term indicating the auctioneer's hammer coming down and the lot being sold; example, *The lot was knocked down at $275,000.*
- **Lot.** An individual item or group of items being offered at auction.
- **Primary dealer.** An individual or entity having an exclusive agreement to represent a living artist.
- **Private treaty sale.** A private sale that is arranged by an auction house.
- **Provenance.** An important part of the authentication process that establishes the chain of ownership back (if possible) to the date an item was created. Provenance can significantly impact the value of an object and should not be confused with "good title."

Glossary of art terms *continued*

- **Qualified appraiser.** A technical term used by the IRS to denote an individual who has met certain minimum educational requirements, earned the appropriate designations and licenses, demonstrated competency, and who is not expressly excluded from rendering appraisals for tax purposes under the tax laws.
- **Reserve price.** The minimum price that a consignor will allow the auction house to sell an artwork for. If bidding fails to rise to the level of the reserve, the work will be bought-in.
- **Sales tax.** A tax levied at the state level for certain fine art sales transactions that occur within that state. Under certain circumstances, such as where artwork is sold for immediate resale or is sold to a nonprofit, there may be exceptions to the sales tax requirement. In addition, if a nonresident purchases a work of art in one state but then transfers the work to another state, the state in which the artwork is shipped may levy a "use tax."
- **Seller's premium.** A commission paid by a consignor to an auction house if the consigned work is knocked down.
- **Specialists.** On-staff connoisseurs who put together the auction, acquiring the works, assessing their value, and contextualizing them in the frame of art history for the catalog. They are highly trained professionals grouped by their expertise in a particular field.
- **Third-party guarantee.** An amount of money that an individual or group of individuals promises to pay the consignor regardless of whether a work sells at auction.

To learn more about how we can help you build, manage and protect your art collection, contact your private wealth advisor.

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