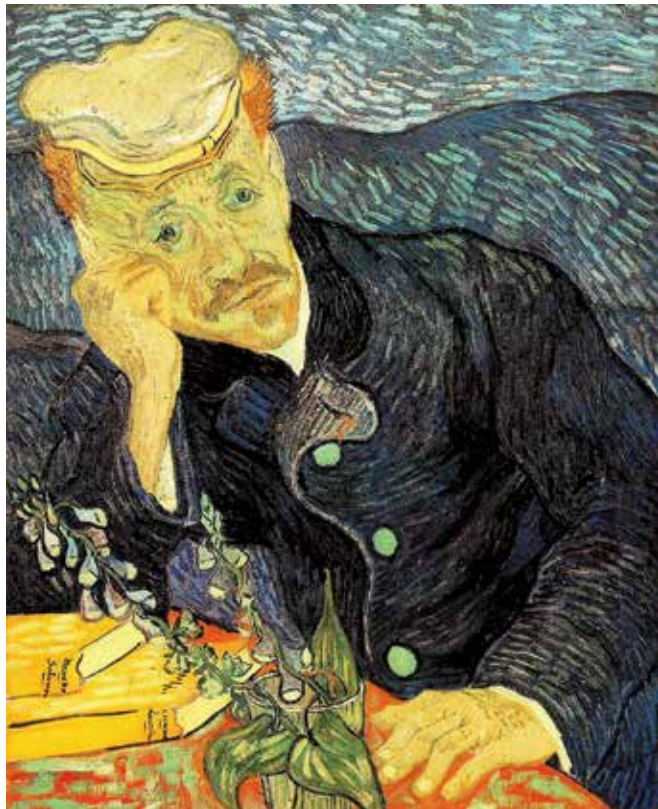


Is It a Bubble?



WHEN FRANCIS BACON's *Three Studies of Lucian Freud*, 1969, fetched an astounding \$142,405,000 in November 2013, it pushed the tally for the evening sale at Christie's New York to a record-breaking total of more than \$691 million. Months earlier, hedge fund manager Steven A. Cohen had purchased Pablo Picasso's *Le rêve*, 1932, privately for an estimated \$155 million; that price was topped only by one of the five known versions of Paul Cézanne's *The Card Players*, 1892–93, which was acquired from collector George Embiricos by the State of Qatar in May 2011 for a price exceeding \$250 million. While mega-million sales account for just 25 percent of the dollar

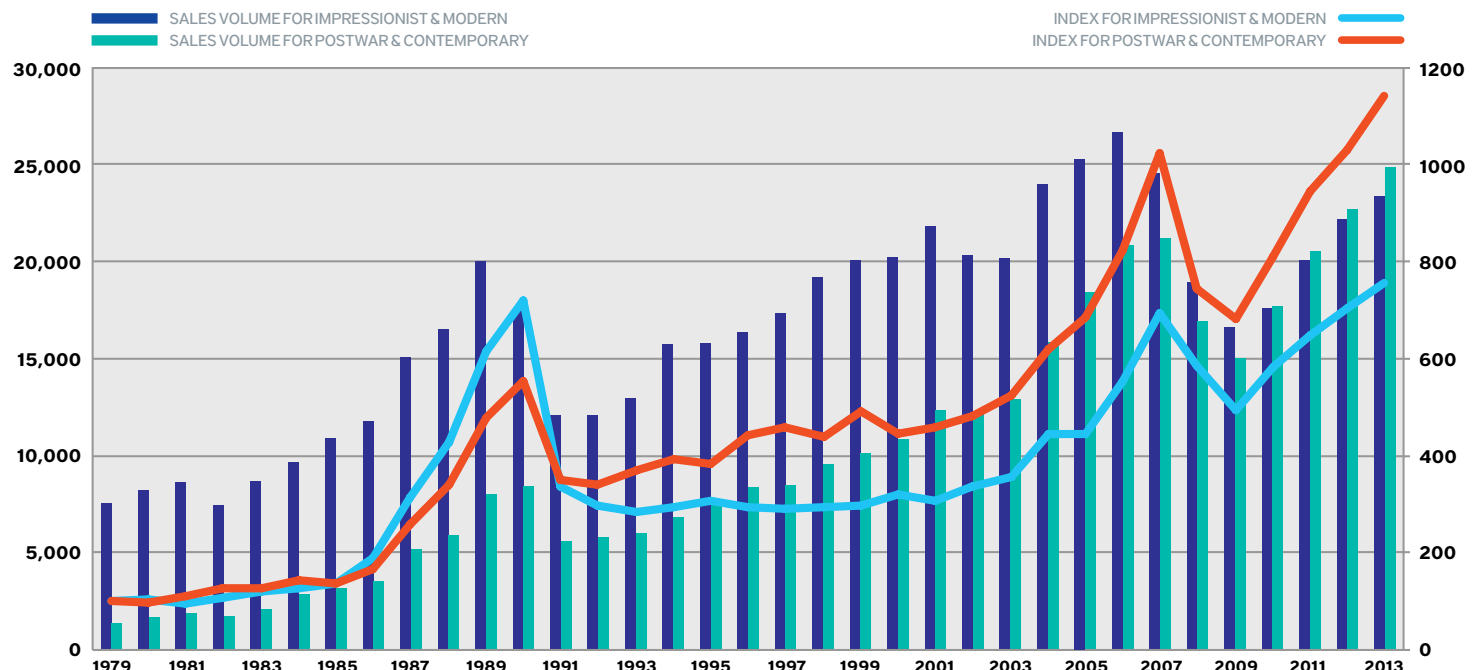
When Vincent van Gogh's oil-on-canvas *Portrait of Dr. Gachet*, 1890, sold for \$82.5 million at Christie's New York in May 1990, it set a record for the most expensive painting ever sold at auction. Adjusted for inflation, the painting maintains that distinction; its sale price is equal to more than \$151 million in today's dollars.

volume of the overall art market, they nonetheless have prompted speculation that a bubble is brewing. The art world has seen such bubbles in the past—in late 1990, and just before the financial market adjustment of 2008, when assets were traded at prices far above their fundamental values. To determine if we may be in the midst of yet another such swell, we analyzed nearly a million auction records from the past 35 years. Collectively, our data suggest that the postwar and contemporary market is indeed being carried aloft on a bubble; while prices for older works have yet to overheat. But, as we all know, bursts at the top tend to trickle down. BY ROMAN KRAEUSL

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ART MARKET INDEX, 1979–2013

Postwar and contemporary has been the most profitable market category, but that for Impressionist and modern paintings tends to follow the trend, with two identifiable jumps, between 1985 and 1990 and between 2005 and 2008.

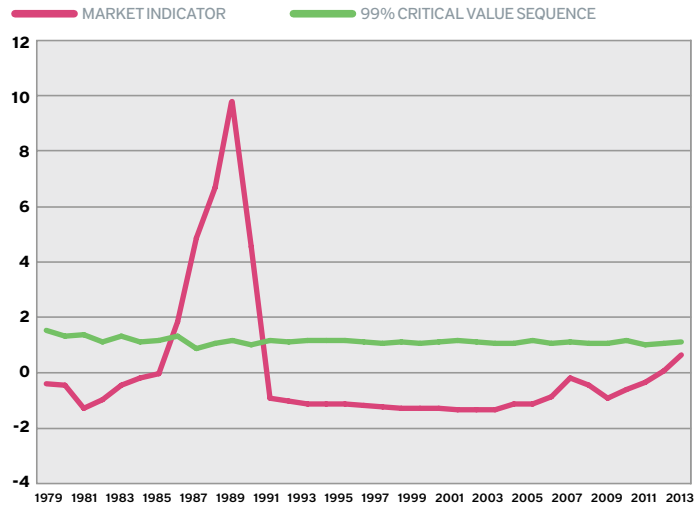


TWO MARKETS THROUGH TIME, 1979–2013

Looking at historical art market patterns over the past 35 years, we established a critical value sequence that allows us to see where the market deviates from its standard behavior, represented by the green line in each of the charts below. When the market rises above it, as illustrated by the red lines, we can define it as a “mania phase,” leading up to a bubble. However, the peaks, of course, are only visible in hindsight.

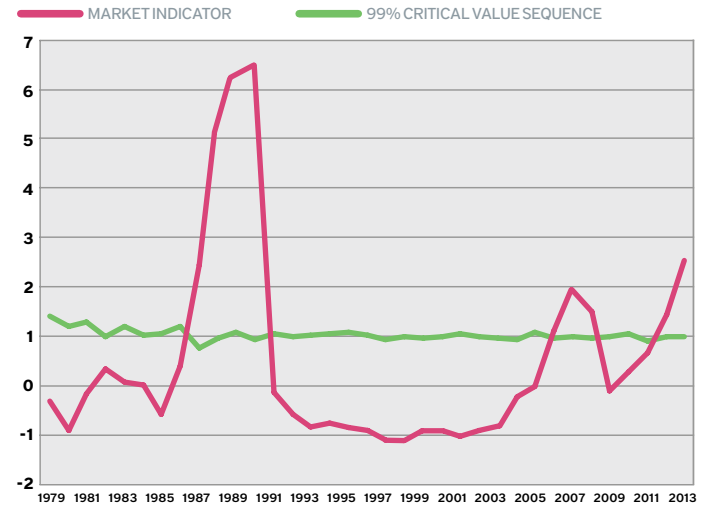
IMPRESSIONIST & MODERN MARKET

The Impressionist and modern market saw a bubble that began with a period of frenzied bidding in 1985, peaked in 1990, and burst in 1991. The market has since rebounded but has yet to enter another bubble phase.



POSTWAR & CONTEMPORARY MARKET

The market for postwar and contemporary is more volatile, with an initial bubble that lasted from 1985 to 1991, and a second from 2006 to 2009. What appears to be another bubble phase began to emerge in late 2011.



Clockwise from above left: Damien Hirst's *The Black Sheep with the Golden Horn*, 2008, realized a mid-estimate £2,617,250 (\$4,682,260) at Sotheby's London in September 2008. In May 1990, the gavel fell on Pierre-Auguste Renoir's *Dance at Le Moulin de la Galette*, 1876, at \$71 million. Bidders drove the price for Francis Bacon's *Three Studies of Lucian Freud*, 1969, to a record-breaking \$142.4 million at Christie's New York in November 2013.