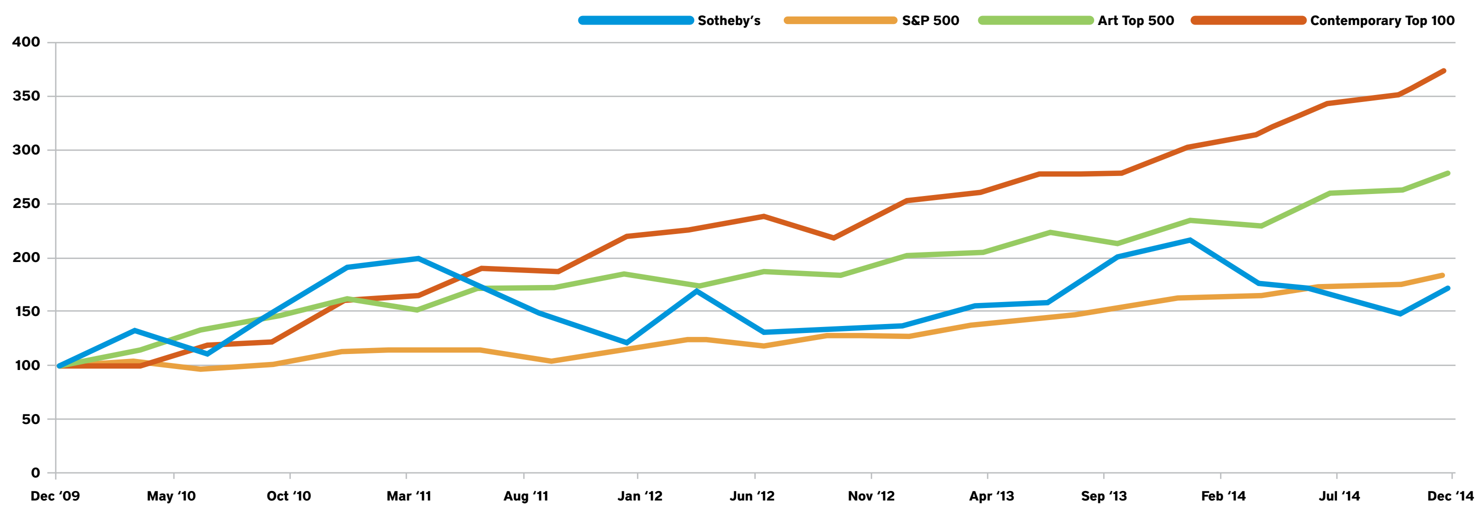
The Company You Keep?

WHILE THE ART MARKET has seen sustained growth over the past several years, the same cannot be said for the value of publicly traded companies related to it. Take Sotheby's, for example. One would expect stock in that company to reflect the behavior of the art market, particularly in the realms of postwar and contemporary art, where new highs were seen last fall. The house, a multinational corporation established in London in March of 1744 and now headquartered in New York, is the world's fourth oldest auctioneer in continuous operation, with 90 locations in 40 countries. It is also one of the world's largest brokers of fine and decorative art, jewelry, real estate, and collectibles, having recently partnered with online behemoth eBay. In business for 271 years, Sotheby's is also the oldest company publicly traded on the New York Stock Exchange. It went public in 1988, listing its shares under the ticker symbol BID.

Sotheby's has seen record sales over the past two years, including its $422.1 million November 2014 sale of Impressionist and modern art in New York, the highest total in company history. Simultaneously, it has also been the target of a takeover attempt. Activist investor Daniel Loeb, a hedge-fund manager whose New York–based Third Point LLC manages some $17.5 billion in assets, has exercised his might, stacking the board and forcing out Sotheby's CEO William Ruprecht, a 14-year company veteran. Loeb's aggressive actions have resulted in a volatile stock price, which has fluctuated in recent years, and plummeted substantially since its market high in early 2014. Sotheby's is by far the largest art-related listed stock; however, it is not the only one. To understand the relative return between investments in actual art and those in publicly traded art-related entities—the publishing companies, fair producers, market-tracking agencies, and art-trading enterprises—we looked not only at Sotheby's but at four other companies: Berlin-based Artnet, and Artprice, headquartered in Saint-Romain-au-Mont-d'Or, France, both of which offer platforms for buying, selling, and researching fine art; MCH Group, a Swiss concern that manages trade shows, including the Art Basel fairs; and Weng Fine Art, a German art-dealing company founded in 1994 by Rüdiger K. Weng. While embattled Sotheby's outperforms half the pack, in our estimation it is far better to buy a print, enjoy it at home, and invest the rest of your money in low-fee ETFs. BY ROMAN KRAEUSSL

SOTHEBY'S VS. THE S&P 500 AND OUR ART MARKET INDICES

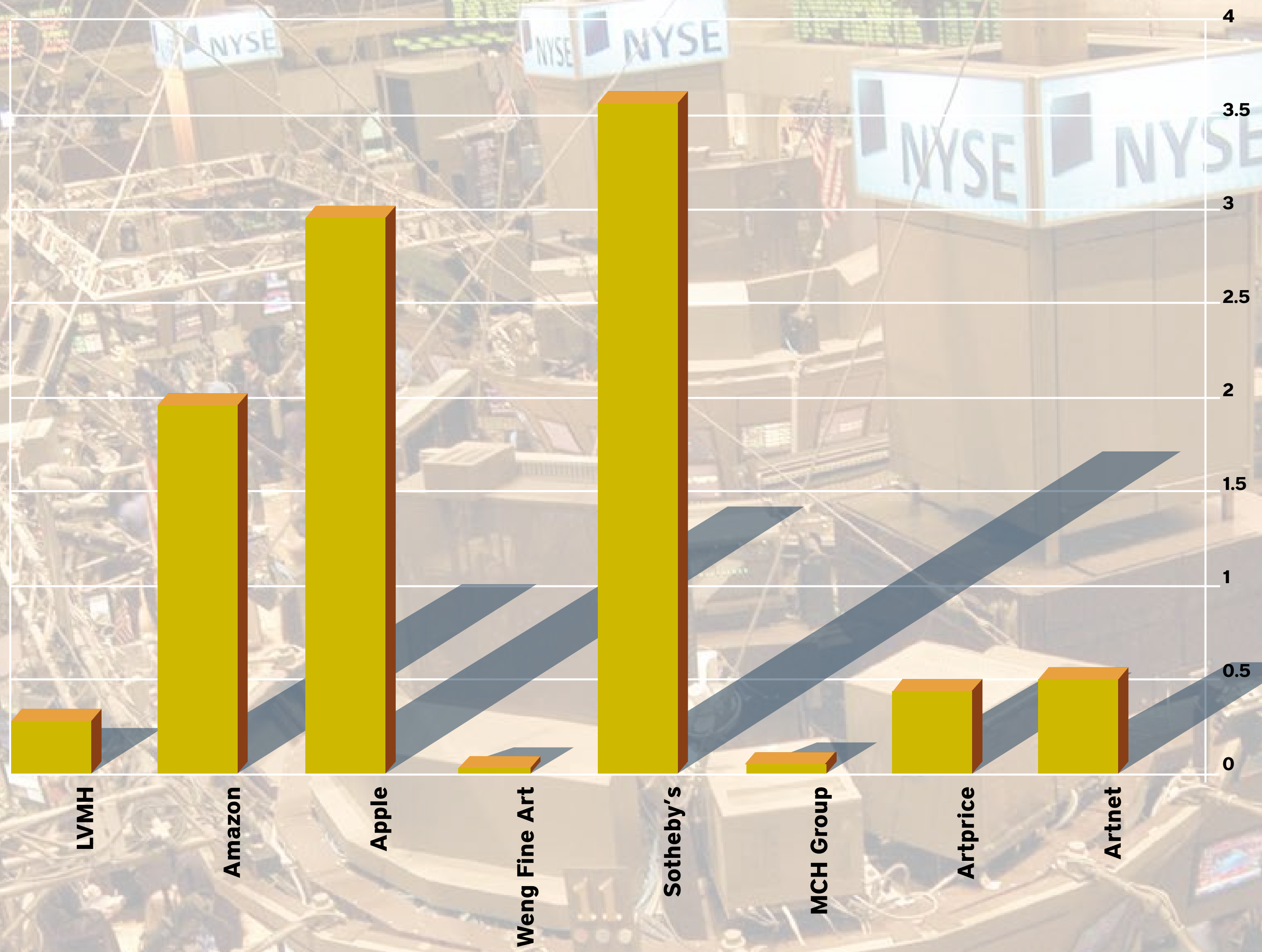
The value of shares in Sotheby's fluctuated wildly over the past five years, while the indices for hypothetical portfolios of works by the top 500 artists of all time and the top 100 contemporary artists have been in a steady climb since December of 2009. Even the Standard & Poor's 500, which comprises some of the market's most conservative investments and is regarded by many as a bellwether for the American economy, has outperformed Sotheby's, as this chart shows.



ISTOCK

LIQUIDITY VS. ILLIQUIDITY: TURNOVER PER YEAR

The relative ease with which an asset or security can be bought or sold in the market affects its price. Sotheby's stock is very liquid and easy to trade, with every share changing hands three times or more last year, though this was prompted in part by takeover attempts. MCH Group and Weng Fine Art, on the other hand, are illiquid: It is nearly impossible to sell shares without moving the market in the opposite direction, which can be quite costly. For comparison, we also show the turnover figures for Apple and Amazon, and the luxury conglomerate LVMH, which is relatively illiquid.



UNHAPPY RETURNS AS OF NOVEMBER 30, 2014

Sotheby's is far from alone in its negative rate of return relative to the overall performance of the art market over the past year. We looked at how its return on investment stacks up against those of four other publicly traded art-related companies.

COMPANY	EXCHANGE	TICKER SYMBOL	DATE OF LISTING	1-YEAR RETURN AS OF DECEMBER 1, 2014	MARKET CAPITALIZATION	SHARES OUTSTANDING
Artnet	Frankfurt	AYD	5/17/99	1.76%	$20.6m	5.63m
Artprice	Paris	PRC	1/28/97	-16.20%	$102.77m	6.52m
MCH Group	Zurich	MCHN	1/28/00	11.46%	$401.99m	6.01m
Sotheby's	New York	BID	1/28/88	-16.05%	$2,736.16m	68.99m
Weng Fine Art	Frankfurt	WFT	4/01/04	-53.40%	$21.33m	2.75m