

**Art & Finance Report 2019**  
6<sup>th</sup> edition

# The Holding Period Effect: benefits for holding art long-term

Repeat auction sale data analyzed from Sotheby's Mei Moses indices suggests that works of art held off the auction market for at least ten years benefitted from the "holding period effect", in which works were more likely to be sold for a profit, had substantially lower compound annual return (CAR) volatility, and had much higher risk-adjusted returns. The study analyzes over 10,500 Impressionist & Modern and Contemporary works resold at auction between 2014 and 2018.

## Consignors realized outsized gains and losses when they resold artworks within three years

From 2014 to 2018, collectors holding art for at least ten years were much less likely to lose money than those reselling within three years (the red sections below). A total of 88 percent of Contemporary works and 80 percent of Impressionist & Modern works held for over ten years had a resale price higher than their purchase price, while only 65 percent of Contemporary works and 57 percent of Impressionist & Modern works resold within three years sold for a higher price.

However, consignors were more likely to realize outsized gains and losses (i.e., +/- 20 percent CARs) when reselling a work at auction within three years than when holding a work of art for longer time periods. This contrasts with consignors who held works for over ten years—none suffered outsized losses for either Contemporary or Impressionist & Modern pieces.

While the median CARs were similar for works with different holding periods, this calculation looks at the change

in market value and does not factor in transaction costs. Transaction costs, which vary between works, typically have a larger effect on annual returns for works with shorter holding periods. This leads to an additional benefit in aggregate terms for works held for ten years or more. ➔

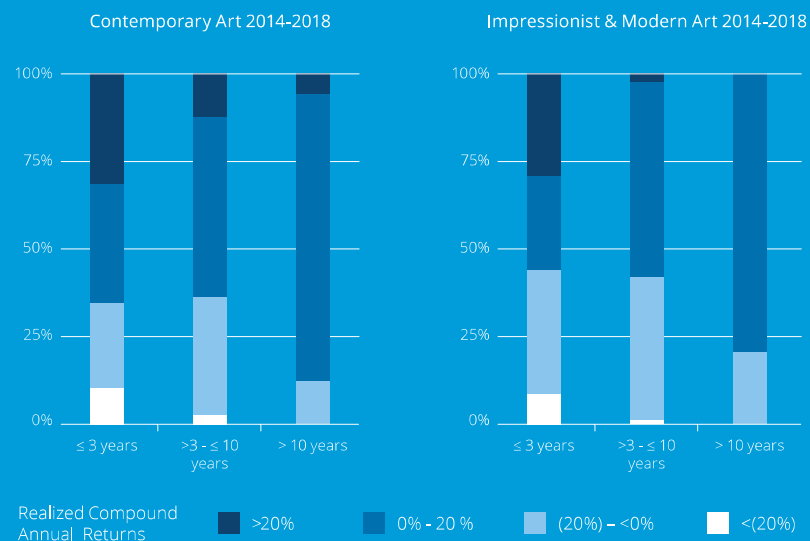


**Michael L. Klein**  
Sotheby's, Head of Sotheby's Mei Moses

## Collectors who resold within three years of purchasing were more likely to realize outsized gains than losses between 2014 and 2018.

**Figure 39. Global Total Sales Value by Price Band, 2014-2018**

Source: Sotheby's Mei Moses indices



Contemporary Art	≤ 3 years	3–10 years	> 10 years
Number of repeat sales	681	2,423	2,453
Median CAR	7.0%	3.8%	7.5%
% resold for higher price	65%	64%	88%

Source: Sotheby's Mei Moses indices

Impressionist & Modern Art	≤ 3 years	3–10 years	> 10 years
Number of repeat sales	373	1,359	3,280
Median CAR	5.4%	1.4%	3.7%
% resold for higher price	57%	59%	80%

Source: Sotheby's Mei Moses indices

**Higher risk-adjusted returns for works kept off the auction market for longer**

The scatterplot graphs show works of art resold at auction between 2014 and 2018, with the holding period on the horizontal axis and the CAR on the vertical axis. The realized CARs for works held for under three years were highly volatile, with a standard deviation of 43 percent for Contemporary Art and 51 percent for Impressionist & Modern Art. The realized CARs for works held for at least ten years had a standard deviation of 8 percent for Contemporary Art and 5 percent for Impressionist & Modern art, which were both substantially lower.

Due to the large number of outsized winners for works held for three years or less, the average CAR was 15 percent for Contemporary Art and 19 percent for Impressionist & Modern Art; these figures were higher than the average CARs

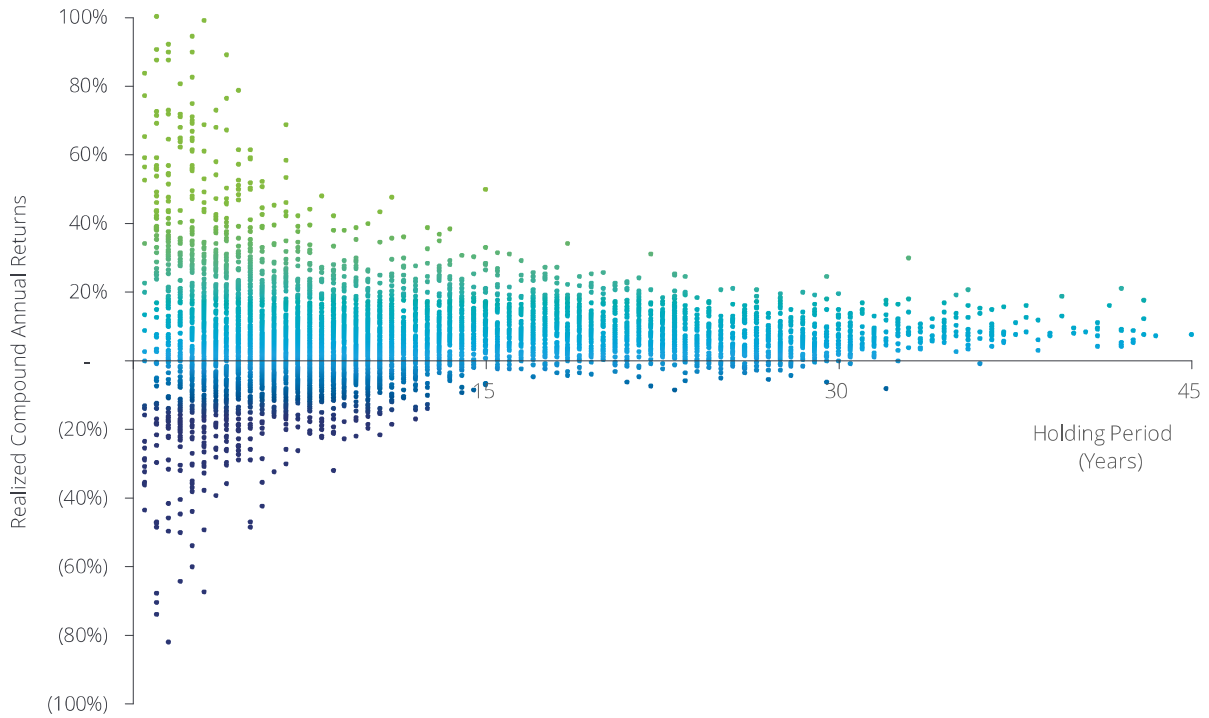
of 8 percent for Contemporary Art and 4 percent for Impressionist & Modern Art for works held for at least ten years. However, on a risk-adjusted basis, works resold within three years incurred more than three times as much risk per unit of reward compared to works held for at least ten years for Contemporary Art, and over twice as much risk per unit of reward for Impressionist & Modern Art.

Interestingly, the average returns and volatility of works were relatively consistent for works held for approximately 20 years or more. This means that once a work had been off the market for a substantial period, there was no additional penalty or reward for holding it longer. Thus, most auction consignors who held works of art for at least ten years benefitted from the "holding period effect" as their art grew in value.

Art works held for longer were more likely to achieve the category average, as the volatility of realized returns decreased with longer holding periods.

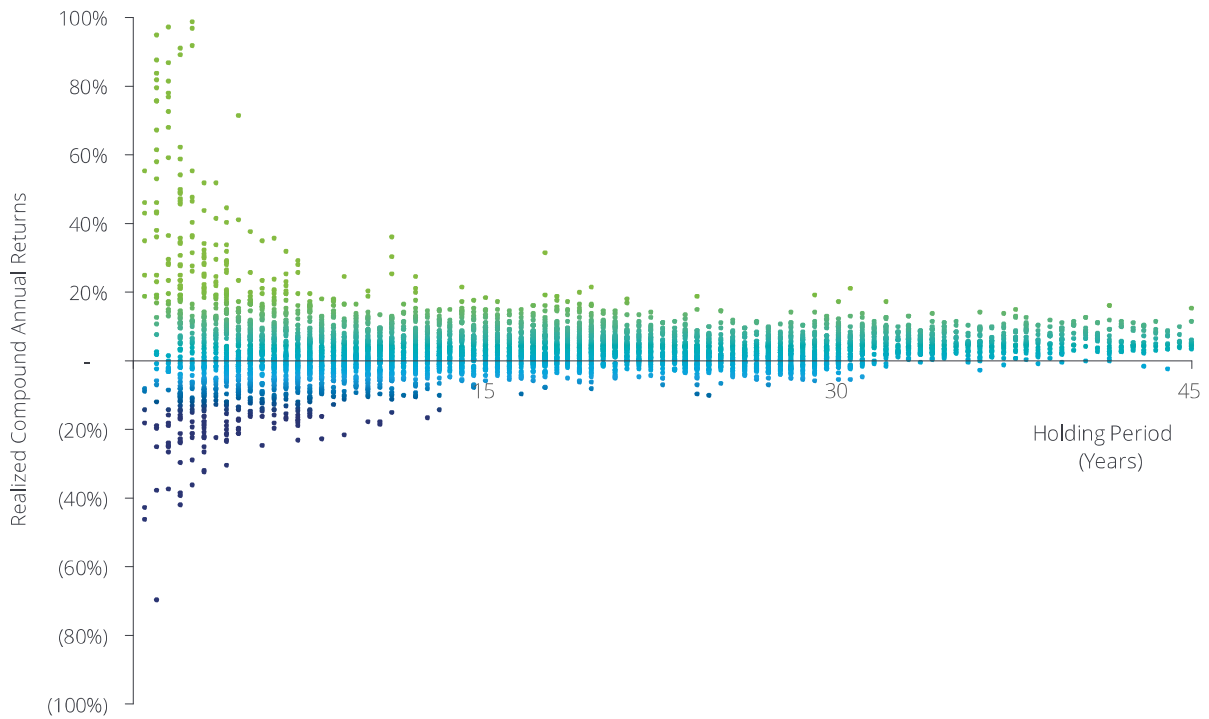
**Figure 40. Contemporary Art: realized compound annual returns 2014–2018**

Source: Sotheby's Mei Moses indices



**Figure 41. Impressionist & Modern Art: realized compound annual returns 2014–2018**

Source: Sotheby's Mei Moses indices





# Notes

## Methodology

Sotheby's Mei Moses index uses the purchase prices of the same painting at two distinct moments in time (i.e., repeat sales) to measure the change in the value of unique works of art. Based on approximately 50,000 repeat sales from 1810 to the present, Sotheby's Mei Moses index is the financial industry's preferred instrument to compare the investment performance of art as an asset class, identify trends and internal dynamics on the market, and understand the market's relationship with broader economic and societal factors.

## Founders

Developed in 2002 by New York University Stern School of Business professors Jianping Mei, PhD, and Michael Moses, PhD, Sotheby's Mei Moses index is used by wealth management firms such as JP Morgan and Morgan Stanley and has been cited in publications such as The New York Times, The Wall Street Journal, The Economist and The FT.

## Disclaimer

Please note that the prior performance of the indices and realized returns contained herein do not guarantee future results. In addition, there is no guarantee that random collections of individual works of art or stocks will yield returns in line with the index. We are not financial advisors and we are not in the business of recommending art as an investment. We also have no comparative advantage in forecasting the future direction of the art market. Investment decisions should be based on the risk tolerance and time horizon of the investor with, if desired, the support of a licensed financial advisor. This information is provided "as is" and with no representations or warranties, either express or implied, of accuracy, merchantability, fitness for a particular purpose or of any other nature are made with respect to this information or to any expressed views presented.



From the series: Comer del Arte Quiero © Lina Sinisterra (2011)