



ART AS AN INVESTMENT IN POLAND – THE FIRST 20 YEARS AFTER THE COLLAPSE OF THE CENTRAL PLANNING ECONOMY

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Abstract

The article aims at answering the following research question: is the Polish art market mature enough to look at art investment as an important element of portfolio diversification? To provide an answer, the Authors analyzed auctions in Poland from the period 1991-2010, which were published by Art&Business magazine. The number of the analyzed records amounted to 28951. The conclusions may be valuable for researchers specializing in art economics, investors dealing with wealth transfer, financial advisors offering financial products as well as for policy makers responsible for providing institutional infrastructure essential for development of the Polish art market.

JEL classification: D14, Z11, G11

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INTRODUCTION

The high volatility and unpredictability of capital markets explains, as Shiller notes (2005, p. 209), why “people may gradually get increasingly ‘fed up’ with stocks.” It is very important because wealth accumulation is more and more dependent on capital markets (see more in: Shiller, 2005; Epstein, 2005; Palley, 2007). If we add to these arguments the crisis of trust, diminished credibility and reputation of capital markets – factors which will take years to rebuild (following the thought of W. Buffet: ‘It takes 20 years to build a reputation and five minutes to ruin it’) – people planning to invest their wealth are facing serious investment dilemmas.

Investments in fine art, wine, collectibles, etc., may be attractive alternatives to those in stocks and bonds and is becoming increasingly popular mostly among the wealthiest called *High Net Worth Individuals* (HNWI) (due to the financial entry barrier). This process is present in developed countries and has been appearing more and more often in emerging countries (McAndrew, 2002). Especially because it has a long-term investment cycle which lasts, on average, 30-40 years (second sale) and thanks to this emotional connection that owners form with their artworks, it is not subjected to a constant market exchange. Therefore, as an investment tool art corresponds better to the intergenerational wealth transfer model, rather than to speculative investment.

However, art value estimation is based on theories devoted to conspicuous and luxury goods which are rooted in the theory of Veblen and are purchased for aesthetic pleasure (Baumom, 1986), greater social value (Bagwell & Bernheim, 1992) or sentimental value (Mandel, 2009). Veblen in Veblen’s ‘The Theory of the Leisure Class’ (1899) argued that numerous goods are purchased not because of their intrinsic value but as an indication of social status and accumulated wealth. Art is a one-off product – it is unique and it does not have any substitutes. For that reason, as indicated by Mandel, ‘art must be treated differently from equities and other risky assets’ (Mandel, 2009, p. 1653). It does not mean that art cannot be treated as investment but rather its impact on portfolio diversification may be different than traditional investment products such as stocks and bonds. However

to say so, the market has to be mature enough in terms of its depth, access, efficiency and stability.

The article aims at answering the following question: is the Polish art market mature enough in terms of legal arrangements and financial instruments to include art investment in portfolio diversification? The authors analyze data from auctions in Poland over the years 1991-2010 that were published by Art&Business magazine. The number of the analyzed records amounted to 28951, whereas the analysis was carried out in 5-year intervals. The art market is an *ex definition* one with long-term investments, in most cases amounting to at least 5 years. The analysis of single years could provide false information about the market. Rates of return and their volatility were compared with those of traditional investment products.

The first part of this article is a research review in which critical analysis of the literature was applied. The second part presents the research with the application of econometric and statistical methods. An important research motivation to discuss this issue is, to the best of the authors’ knowledge, the lack of a broader, substantial discussion in Poland. Therefore, it is necessary to intensify the debate devoted to art investment in emerging countries or developed countries, but in those that have only recently undergone a system transformation (such as Poland) and the role that an art investment can play especially in portfolio diversification.

SYSTEM TRANSFORMATION AND THE ART MARKET IN POLAND

The art market in Poland till 1949 functioned like in other European countries. It consisted mainly of antique shops and galleries but as a result of Poland’s stormy history: partitions of the State in the 18th century; uprisings for independence in the 19th century; two world wars fought over Poland’s territory in the 20th century, the stock of art in Poland was far from being impressive. But the nationalization of commerce in Poland in 1950 changed completely the face of the Polish art market. Most of the antique shops and private galleries were closed (see more: Bołdok, 1992, p. 33-39). But above all was destroyed the collecting traditions and the need to be around art, the knowledge and the collector’s attitudes.

Processes of system transformation taking place in the post-socialist countries may be described as a systematic absorption of art circulation³, which existed there earlier, by the market system. If we still introduced market segmentation, which would consider its basic division into Old Masters and contemporary art, then we would notice that the above-mentioned processes are twofold. The quasi-market of non-contemporary art, which was characterized by strong reputation and finite supply already in the times of the Polish People's Republic, could easily overcome institutional and legal limitations and transform itself into an art market. Polonica had been sold earlier in London, Paris, Munich and New York, therefore, the art market that was being formed in the 1990s in Poland emerged as a market dominated by Old Masters.

The contemporary art market experienced a different situation. What should have been done in this market segment was igniting interest and creating the demand. Relying solely on the market mechanism ('demand creates supply') involved risk of failure. When it comes to art markets, then first of all its universal mechanisms usually fail, the increase of demand is not followed by an increase in sales (art is characterized by zero elasticity), second of all, the demand alone, like the demand for luxurious goods, reacts to price changes differently (positive indicators of price elasticity of demand).

Potential buyers of artworks in the 1990s did not know what to buy let alone what to invest in. The national market for contemporary art reflected better than the Old Masters market the limited artistic experience and esthetic immaturity of the society. Preferences, tastes and choice criteria of the majority of the Polish society were connected with Old Masters or select modern art artists and they did not concern contemporary art. This situation was caused to a great extent by living for 50 years in isolation, lack of artistic education and lack of habit of visiting museums and art galleries, but, most of all, by disappearing traditions and collecting models. War damages and the 'ownership revolution' – nationalization – that took place in the 1940s caused, on the other hand, looting and dispersion of private collections.

A group of new capitalists still does not feel the need to surround themselves with art and purchase it for purely esthetic and intellectual reasons. Moreover,

they do not fully trust investment values of art. Art, especially contemporary art, requires knowledge. Individual choices based on taste are usually variations of class (group) practices, which in turn create a gallery of models and lifestyles (Bogunia-Borowska & Śleboda, 2003, p. 214). In Poland such models and practices were missing in the times of the Polish People's Republic and their transformation has been a painstakingly slow process.

It should be emphasized as well that for decades institutions that have operated in the West – private museums, auction houses and art shows – did not have their counterparts in the East. These clear differences still translate into the turnover and sales of artworks in Poland.

ART AS INVESTMENT – DILEMMAS AND CHALLENGES FOR PORTFOLIO OPTIMIZATION

One of the aftermaths of the crisis was a phenomenon in which people throughout the world built a large share of their investment portfolio based on short-term deposits and cash. Long-term government bonds of Switzerland or Japan practically did not bring any profits in real terms. Then it was forecast (especially among professional services firms) that a group of SWAG-type alternative investments (from English words: silver, wine, art and gold) will mainly be preferred by the wealthiest in the years to come (see: Capgemini & Merrill Lynch, 2011). As indicated by studies conducted by Capgemini and Merrill Lynch in 2011, among emotional investments the greatest interest was generated by luxury goods: 23%, among them art – 22% and jewelry (mostly gold): 22%. An additional study conducted among HNWIs advisers by the authors of the report showed that in their opinion over 42% of clients invest in art due to financial and not only emotional benefits. Therefore, it can be stated that a rich client has become the backbone of this market. It is especially visible in such countries as Russia, China or India (see: Kraeussl & Logher, 2008).

Researchers have a serious problem with art due to its lack of intrinsic value and because its evaluation is dominated mostly by taste and fashion, as well as author name, provenance, format, technique, state of preservation and quality of conservation work, the frequency of the appearance of an art work at auction

³ In the so-called 'Eastern Bloc' the art market was replaced by art circulation. This action was supposed to confirm that art can develop without the driving market forces and only through art circulation mechanisms established by government administration. In this period national patronage was the most important and practically the only instance purchasing works of contemporary art and controlling artists' activity.

case of deceased artists the elasticity of supply is zero. Mei and Moses developed a thesis that the true value of art could be the dealer's estimates (Mei & Moses, 2002, p.1667). However, this argument seems to be too optimistic considering at least the 'low' forecasting efficiency of experts typical for stock markets (compare with: Shiller, 2005).

Baumol points out a few key features which may transform 'art investment [into] a floating crap game' (which is also the title of his paper: Baumol, 1986) considering: lack of homogeneity, perfect market competition, continuous transaction record and 'true value' (Baumol, 1986, p. 10-11). Despite its publication date, the article remains valid for the art market and it contributes to a great amount of criticism of buying art for investment purposes and treating art mostly as speculative goods⁴.

Goetzmann shows that risk-averse investors will not regard art as an interesting investment product (Goetzmann, 1993, p.1370) due to the fact that the real rate of return that amounts to between 0.09% and 8.3% (see review in: Mandel, 2009) is not paired with the optimism of neither professional services firms, nor NWHL clients. Sample values of annual real rate of return were as follows: 2.0% (Goetzmann, 1993), 4.9% (Mei & Moses, 2002), 8.4% (Renneboog & Van Houtte), 6.96% (Higgs & Worthington, 2005). It does not explain the extraordinary risk measured by standard deviation (Goetzmann, 1993, p.1370). Even if we take such artists as Picasso or Chagall (in the financial terminology the so-called 'blue chips'), real return in the time period of 1977-2004 amounted to 3.02% and 1.94%, then the fluctuations of prices are sharp (Paseando & Shum 2008, p. 157). Adding to it the results for emerging countries (such as e.g. Russia), then the annual real rate of return in the years 1970-2007 was only 3.97% (Renneborg & Spaenjers, 2011, p. 67), much higher for Asian Contemporary and Modern Art from 2000 to 2009 averaged 8.39% but with a very high standard deviation 40.70% (Hsieh et al., 2010, p. 4). The majority of studies was conducted and published before the financial crisis at the turn of 2007 and 2008. The crisis changed considerably the approach to the stock market (Shiller, 2005). Therefore, it seems necessary to analyze the last decade, during which, as indicated by Renneborg and Spaenjers, (for Russia) the real rate of return was almost three times higher (Renneborg & Spaenjers, 2011,

p.67). On the contrary Witkowska estimated that between 2007 and 2010 that the Polish art market decreased by 7.8% (average hedonic index) much less than the stock market (Witkowska, 2014, p. 289). This review shows that the dynamics of changes on the art market can vary considerably under the influence of important changes observed on stock markets.

In order to consider art an investment product, a verification of one more frequently mentioned thesis is necessary, i.e. art as an alternative investment, so an investment characterized by a negative correlation (or lack thereof) between it and traditional stock markets. It is important due to the popular portfolio diversification argument (Mei & Moses, 2002). As indicated by Goetzmann, Renneboog and Spaenjers there is a high positive correlation between art and stock markets (Goetzmann, 1993; Chanel, 1995; Renneboog & Spaenjers, 2010) and dependence tests (e.g., the Granger causality test and the Wald test) clearly show a casual relation from stock to art market (Goetzmann, 1993; Chanel, 1995; Mandel, 2009; Worthington & Higgs, 2003). It does not mean that there are no diversification possibilities but that they are not very visible, especially with the use of Markowitz's efficient frontiers (Worthington & Higgs, 2004, p. 269). Additionally, as emphasized by Paseando and Shum 'investing in a diversified portfolio of modern prints is equivalent to passive investing' (Paseando & Shum, 2008, p. 158).

The differences between media advantages of investing in art and research results only emphasize what an important role is played by the media on the art market (compared to stock markets with: Shiller, 2005). It can also be dangerous since the pursuit of becoming rich in Poland may be an important argument in favor of investing in art but also an 'easy' tool of information manipulation used by the media (as it happened in the case of investment funds where mainly the rate of return was 'advertised'). Moreover, it may also create a speculative bubble in the art market. The empirical findings presented by Kraeussl et al. show that "there is strong evidence of a speculative bubble that has started in late 2011 and is still in the mania phase of its formation for both the "Post-war and Contemporary" and "American" art market segments" (Kraeussl et al., 2014, p. 15).

³ It would be good to add to the features enumerated by Baumol: the specificity of risk (which considers physical risks), segmented markets, additional maintenance costs.

Therefore, it seems that awakening interests and directing effectively the demand to contemporary art can be done only through education and upbringing of potential customers. A profile on art market plays an incredibly important role due to its changeability and investment risk. Frey and Eichelberger point out that the advantage of one group, e.g., ‘pure speculators’ or ‘pure collectors’ may have a considerable impact on investment behavior and, consequently, on the volatility of the market (Frey & Eichelberger, 1995)⁵. If it is difficult to separate or find a segment of real buyers, then such has to be created by transforming potential demand into a real one. Such transformation is easier to do when measures are taken to awake needs, educate, create trends and, most importantly, to inform about profits from purchasing artworks. The increase in wealth will cause the increase in demand for art. Art markets do follow stock markets (Goetzmann, 1993; Chanel, 1995). As indicated by Goetzmann, Renneboog, and Christophe Spaenjers ‘these relationships support the Veblenian view of art as an instrument of social competition among the very rich’ (Renneboog & Spaenjers, 2011, p. 225). In spite of it, as noted by Mandel, art will be an even more interesting investment product simply because of ‘the mixture of pecuniary and non-pecuniary payoffs to ownership that makes artworks both compelling to purchase and difficult to value’ (Mandel, 2009, p. 165). Also because passion investments – art belongs to them – have been made since always, however, mostly due to the needs of heart, personal ambitions and collector’s passion, and not because of the possibility of two-digit return rates and protection of the portfolio of assets in the times of financial crises.

ART MARKET IN POLAND BETWEEN 1991-2010 – STATISTICAL ANALYSIS

The analysis of the Polish art market has covered the period from 1991 to 2010 for sound methodological reasons. The considerable length of the period allowed us to arrive at conclusions considering depth (turnover), access (number and price of transactions) and stability (rates of return and price volatility) of the Polish art

market⁶. A similar research perspective is applied for the analysis of financial development (compare with: World Bank, 2012; Cihak et al., 2012). The study included data from auction books archived by Art&Business magazine, which refer only to auction sales taking place in Poland. They do not cover the galleries, because they do not reveal sales data. Moreover, the Authors did not take into consideration data on transactions on the Polish art market from global databases such as artprice, artnet or artifact, because they overlap with data provided by Art&Business magazine. A similar research perspective is applied for the analysis of financial development (compare with: World Bank, 2012; Cihak et al., 2012). The study included data from auction books archived by Art&Business magazine, which refer only to auction sales taking place in Poland. They do not cover the galleries, because they do not reveal sales data. Moreover, the Authors did not take into consideration data on transactions on the Polish art market from global databases such as artprice, artnet or artifact, because they overlap with data provided by Art&Business magazine. The number of records amounted to 28 951. Due to the fact that the data are incomplete (Art&Business magazine received incomplete data from auction houses, especially in the early 1990s), one should treat the findings presented in the report as approximate values illustrating tendencies on the art market. They may be under- or overestimated. To the best knowledge of the Authors, a single study covering such a long period and such a great amount of data on the Polish art market was done by Skates [Skates, 2012], in which one of the Authors of this article was engaged.

The following article provides information about turnover on the Polish art market presented in 5-year intervals. According to the Authors of this paper, the art market is an ex definitione one with long-term investments, in most cases amounting to at least 5 years. Therefore, the analysis of single years could provide false information about the real situation on the market.

The analysis carried out by the Authors provided conclusions concerning the current development stage of the Polish art market. Moreover, the analysis of the number and average value of transactions showed whether the Polish art market becomes more available for customers (price of a single transaction). The third

⁵ The considerable number of biases that can be observed, such as: endowment effects, sunk costs, home bias, bequest effect, masterpiece effect, also requires consulting behavioral finance in the process of profitability assessment of art investment.

⁶ The research does not include efficiency because such data is unavailable.

element of the analysis presented evaluation of rates of return for paintings that were a subject of transaction at least twice in the analyzed period (based on Mei & Moses 2002) – there were 960 such transactions. After that, the Authors calculated an annual rate of return on investment in a given instrument. Results of this calculation were used to compare profits from art investments with those from investment in stocks, bonds, gold or a select mutual fund. Additionally, the Article analyzed volatility of art investment as well as a correlation matrix for the Polish art market, which allowed the authors to reach conclusions on the possible role of art in optimization of an investment portfolio.

The situation on the Polish art market may be divided into four phases with respect to turnover in years 1991-2010 (see Graph 1):

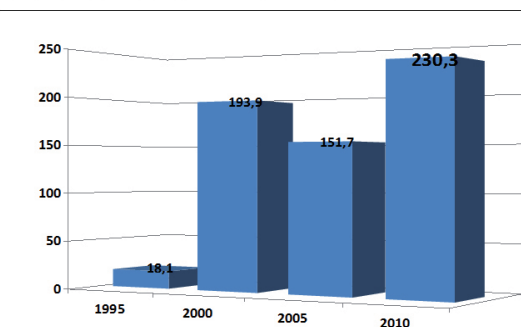
1) incubation phase also called a sleep phase – the years 1991-1995 – a time when the market was institutionalized, which took the form of opening auction houses, increasing the number of private galleries and growing interest in the art market in a new economic situation. Turnover on the market was minimal and did not exceed several PLN million per annum, whereas the relative growth in value amounted to several hundred per cent. The art market is characterized by low market liquidity.⁷

2) growth phase (often speculative growth) – the years 1996-2000 – a time when market development was accompanied with market stabilization of the previously established entities (galleries and auction houses⁸) as well as with considerable growth in sales (the cumulated volume of sales at that time is 10-times higher than in the incubation phase). The subsequent years are characterized by record sales figures.

3) phase of market consolidation or crash – the years 2001-2005 – according to the adopted division into phases of financial market development, this phase consists in further market development or regression. When referring to the art market, one could observe a progressive slow down and decrease of sales dynamics (its cumulated volume for a 5-year period was more than 40 PLN million lower than in the growth phase) as well as high volatility, which indicates a high risk of investment in the art market and its low stability.

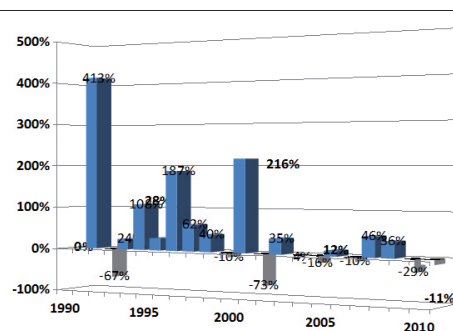
4) phase of mature market – the years 2006-2010. In this case, the adopted terminology has to be applied with some restrictions. Although the Polish art market survived the economic crisis without greater difficulties, its stability might be interpreted in two ways: continued cumulative turnovers and stable grow rate between 2006-2010. Other symptoms of entering maturity phase are the decreasing price volatility and increasing availability

Graph 1: Cumulated turnover in 5-year periods (in million PLN)



Source: Own elaboration

Graph 2: Annual changes in turnover on the art market in years 1991 – 2010 (in percentage)



Source: Own elaboration

⁷ The immaturity of the Polish art market is proved by the fact that activities undertaken by only one company investing in art have dramatically influenced its functioning for several years. Art-B (Artyści Biznesu), a company functioning in years 1989-1991, apart from using an economic oscillator, made an ambitious attempt to collect 250 best paintings in six months. They overpaid. They were responsible for the appearance on the art market of a great number of excellent paintings. Closing that company led to the crisis of the art market. Pursuant to an unwise decision of the liquidator (company) the paintings were sold at a lower price than they were purchased. Art purchasers annoyed by this situation came to the conclusion that paintings cannot be treated as a profitable investment.” After: [Ochalski, A. in an interview for Miliszkievicz, J. In: Miliszkievicz, J. (2007). Przygoda bycia Polakiem. Warszawa: Iskry, p. 98].

⁸ In the end of the 1990s some sales companies suspended their auctioning activity, other turned into professional auction houses well established on the art market. They include: Auction House Unicum (since 1988), Auction House Rempex (since 1989), Auction House Agra-Art (since 1989), Auction House Ostoya (since 1990), Auction House Polswiss Art (since 1990), Sopocki Auction House (since 1990), Auction House ALTIUS (since 1990) or Auction House Rynek Sztuki (since 1991).

of the market. On the other hand, all the above mentioned phenomena could be treated as an evidence for isolation of the Polish art market from the global market, which was profoundly influenced by the economic crisis. It may be assumed that internationalization of the Polish art market will be “the true test of its maturity”.

The greatest growth in dynamics took place in 2000, when the art market doubled its volume annually (see Graph 2). The surge in turnover was noted in 1996, when the market volume was tripled. From that time there has been a stable growth in turnover on the art market – on average 32% per annum (see Graph 2). The last 5 years (2006-2010) characterized by cumulated turnover amounted to 230.3 PLN million, which exceeded considerably the previous 5-year periods, i.e. for the years 2001-2005 by 78.6 PLN million and for 1996-2000 by 36.4 PLN million. Therefore, the last 5 years were the most attractive period in respect of transaction volumes, whereas exceeding the turnover volume from the second half of the 1990s, which was characterized by great growth dynamics, shows that the Polish art market becomes more mature and arouses interest among contemporary art collectors and investors. It needs to be pointed out that the price quotations and sales dynamics cannot serve as the only criterion determining market maturity. A set of given conditions has to be fulfilled at the same time: well-developed and effectively operating institutions and market entities, transparent legal-financial regulations, stable demand represented by an affluent and well-educated in art middle class as well as a rich and diversified supply offer. Considering all the above mentioned aspects one may reach the conclusion that the Polish art market is in the initial phase of maturity.

ACCESS TO THE ART MARKET IN POLAND

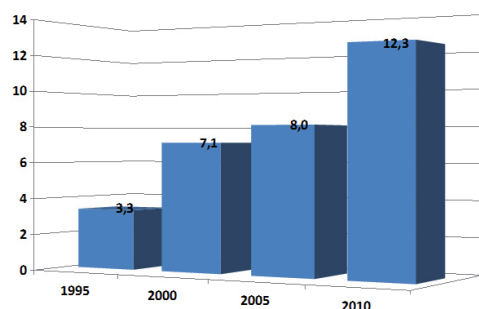
In the early 1990s the number of transactions made in the auctions was close to hundreds, whereas now it is close to thousands (see Graph 3). In 2010 the noted number of sales amounted to 2577, while in 1990 the number of transactions reached 411 (see Graph 3). This status quo was confirmed by the analysis of average volume of transactions (see Graph 4). There is no doubt that the analysis of the number of transactions and their cumulated value for the 5-year periods indicates that the Polish art market moves towards maturity (whereas in the years 1996-2000 the noted

number of transactions amounted to 7.1 thou, which generated the turnover reaching 194 PLN million, in the years 2001-2005 it amounted to 8 thou generating 152 PLN million and in the years 2006-2010 12.3 thou generating the turnover reaching 230 PLN million. Analysis of the average transaction value leads to another significant conclusion. One may distinguish two periods in the existence of the Polish art market in respect of the average turnover:

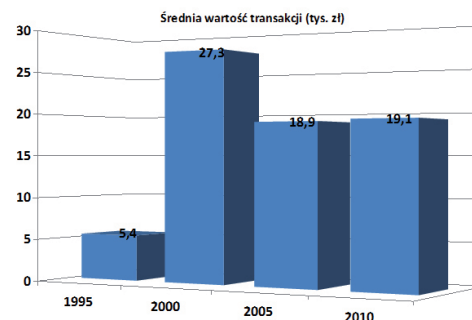
- 1) the period before 2000 – the average transaction prices increase every year – from 2.2 thou in 1991 to 27.3 thou in year 2000,
- 2) the period after 2000 – the average transaction prices decrease in most cases – amounting to 13.7 thou in the year 2010.

The above mentioned situation results from significant growth of the number of transactions and a growing interest in the Young Art in 2000 (the value of a single artwork ranges from 1000 to 20 000 PLN). Contrary to the market of artworks of late artists, which is much less volatile and risky with rare masterpieces and more demanding purchasers, the number of artworks on the young art market is still changing and therefore the supply is theoretically unlimited. At the same time, one can observe the reduction of the art market entry barrier for less wealthy investors and art collectors, who have the possibility to invest on the art market even with only several thousand zlotys. Unlike masterpieces of Old Masters or modern art produced before 1945, which received recognition and interest from art historians, the contemporary art (produced after 1970) is mainly appreciated by the young generation of art collectors (under the age of 40). This segment has recently generated a great return on investment, although the risk of such investment is naturally much higher because the offer on this art market segment is not limited, whereas the purchased works of art are on the market for a short period (in comparison to Old Masters). The dominant group buying currently on the global art market are the young and middle-class art collectors. They buy works of art from the lowest price range, varying between 3 000-50 000 Euro, which mainly drive the mechanism of the art market, because their number is the greatest. 17 years ago, from 1 July 1991 to 1 July 2008, this market segment demonstrated a 132% growth in price index. During the last 12 months of 2008 the price index showed its further increase by +12.5%

⁹ In the early 1990s, when the exchange rate of USD was 11 500 PLN, prices of paintings of recognized Polish painters living in the 19th/20th century varied from 200 to 600 PLN million, of contemporary artists between 15 and 25 PLN million, and of most prominent artists between 60 and 80 PLN million.

Graph 3: Cumulated number of transactions in 5-year periods (in thousands)

Source: Own elaboration

Graph 4: Cumulated value of transactions in 5-year intervals (in thousands PLN)

Source: Own elaboration

(www.artprice.com, access date: 29.02.2015). The prices increased significantly and the auction records have been noted more and more frequently.

PROFITABILITY AND VOLATILITY OF ART INVESTMENT IN POLAND

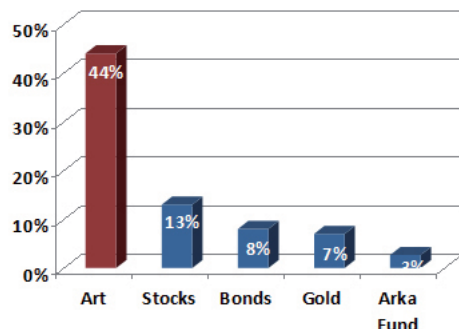
The conducted analysis leads to the main conclusion that art investment may turn out to be very profitable (see Graph 5). The average positive annual rate of return of all works of art (calculated on the basis of at least transactions of the same piece) amounted to 44%, whereas the first 10 works of art are the ones that generated average annual rate of return amounting to 255%. In comparison to traditional investment alternatives offered by the Polish financial market in the last decade, art investment generates the highest rate of return (see graphs 5,8). This type of investment gave the average annual rate of return on the level of 44% in the last 10 years, which exceeds more than a third the rate of return from other traditional investment forms. WIG20 companies obtained the annualized rate of return on the level of 13%, whereas investment in bonds and investment funds perceived as less risky gave the annualized rate of return 8% (see graph 5,8). Nevertheless, it needs to be noted that the art market is characterized by low liquidity. In the last 20 years, among 30 000 transactions only 181 were repeated (which enabled calculation of rate of return), although, what is worth mentioning is that they all had a positive rate of return which means that rate of return for artworks should be treated as a rule of thumb. Nevertheless it may also prove a very high potential of the art market or the fact that investors or art collectors resign from selling works of art that are not traded for

a satisfying price in an auction. Another explanation of this situation is the fact that the investment cycle on the art market is very long and may even last for several dozen years, therefore, considering the 25 years of institutionalization of the Polish market, the real test of rates of return on art investment is yet to come.

Moreover, it should be noted that in the case of the Polish art market it is more difficult to analyze and describe its functioning due to two disturbing factors: the influence of historic art (Old Masters), whose selling is governed by its own rules, and a growing importance of modern art produced after 1945 as well as young art created after the year 1970. When it comes to historic art, its historic and market value were verified and its offer is limited (the most significant works of art are held in public museum collections and will never appear on the market). In the case of contemporary art its offer is still open, more available and prices of its works of art are lower and vulnerable to frequent changes, which contributes to the fact that investment in this type of art is far more risky. Nonetheless, one may observe a gradual process of price stabilization on the contemporary art market, which takes place when works of art of contemporary Polish artists are also sold abroad. Prices of Polish historic and contemporary masterpieces are mainly sold on a domestic market that determines their level. It proves the thesis that only when prices of Polish works of art, particularly contemporary ones, are shaped and verified by the global market, one may describe the Polish art market as mature.

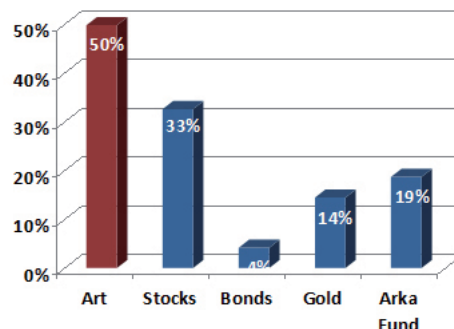
The analysis of rates of return does not provide a full picture of attractiveness of art investment in Poland. The volatility of art investments, as with rate of return, exceeds significantly volatility of other investments. It means

Graph 5: Average annual rate of return on investment in art and other instruments in years 2000-2009



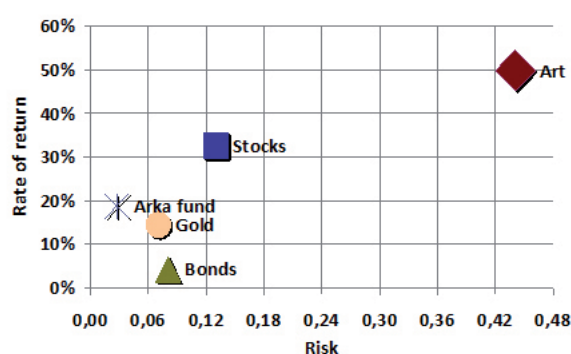
Source: *Own elaboration*

Graph 6: Average annual volatility of on investment in art and other instruments in years 2000-2009



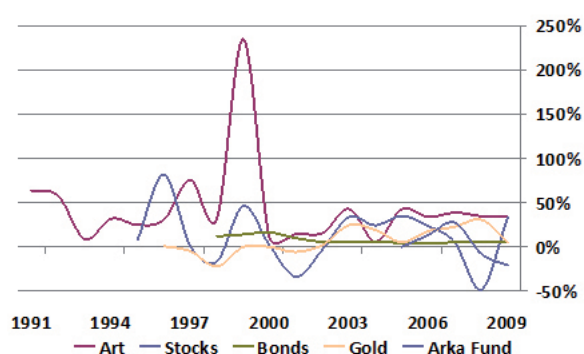
Source: *Own elaboration*

Graph 7: Relationship between rate of return and volatility of investment in art and other instruments in years 2000-2010



Source: *Own elaboration*

Graph 8: Diagram of rates of return on investment in art and other instruments in years 1990-2010



Source: *Own elaboration*

that a very high profitability is accompanied with a high risk and therefore art may be a very risky investment. Nevertheless, this conclusion ought to be treated as a rule of thumb due to a very limited number of repeated sales made for the purpose of the following study.

Some possibilities of investment portfolio diversification are provided by correlation matrix

comparing art with stocks, bonds, and gold for the years 1998-2009 (see Table 1). Art is positively correlated with stocks and bonds, whereas negatively correlated with rates of return on gold (all three correlation coefficients are statistically insignificant). It proves that art may help to diversify the investment portfolio but its role is overrated and should be a subject of further research.

Table 1: Correlation matrix for art and example investment products

	Art	Stocks	Bonds	Gold
Art	1,00	0,44	0,37	-0,11
Stocks	0,44	1,00	-0,09	0,08
Bonds	0,37	-0,09	1,00	-0,62*
Gold	-0,11	0,08	-0,62*	1,00

Source: *Own elaboration*

Correlation coefficient in % can't be accepted. It ranges from -1 to 1.
 Mark significant correlations with *

CONCLUSIONS AND IMPLICATIONS FOR POLAND

The Polish art market becomes more and more approachable for investors and collectors. Only 10 years ago the average transaction price would vary from 30 to 40 thousand PLN, whereas now it does not exceed 15 PLN thousand. Rates of return on the art market were much higher than the ones on other financial instruments in the last twenty and ten years. Nevertheless, this period was characterized by the risk of high price volatility. It needs to be emphasized that the financial crisis from the period 2007-2008 did not have a detrimental effect on the increasing number and value of transactions on the art market. It may indicate an entirely different cyclicity of the Polish art market and prove the fact that it is perceived as a purely collector's market or alternative to traditional financial instruments.

Apart from the positive signals resulting from the analysis of the last 20 years of the Polish art market, it is worth noting that this market is not mature in the depth and stability dimension and still relatively limited in depth in comparison to other mature art markets.

In order to change this, policymakers, especially government administration, must participate in the activities of entities operating on the art market. It is government administration that indirectly regulates this market through legal acts, security and tax laws. It is also promoting internationally the art of a given country and – as an investor – it influences directly the development of the art market through purchases for public museums, libraries or art galleries. Government administration establishes also security standards by engaging in the global art market such organizations as UNESCO or intelligence services. For comparison it is worth mentioning e.g. the Own Art program introduced in Great Britain by Arts Council England, whose aim is to increase the interest in purchasing art by giving credit to potential buyers. Second of all, full formation of the middle class (of a relatively high level of wealth) and a higher number of institutional and corporate clients are another chance to develop the national contemporary art market and collecting practices. After the year 2000, buyers from the new but still small middle class started to appear on the Polish contemporary art market and they move with much greater ease around the map of contemporary creativity. However, they still treat art more like a luxurious form of consumption of post-industrial goods rather than a collectible or an investment. It should be taken into account that purchasing works

of art, especially of contemporary art, is inscribed into the consumption of luxury goods/services ('premium' group). Art, as the majority of products stemming from the anesthetization of reality, is an object of desire for those who have already satisfied their material needs. For an experienced consumer, who possesses almost everything they need, works of art are goods from the highest, most luxurious shelf. Such a consumer also knows that only the sphere of luxury goods – cultural goods among them – can express social differences to such an extent (Bourdieu, 2001, p. 130).

Unknown is also a detailed segmentation of art buyers, which can constitute a starting point for complex economic and social analyses. Such analyses would explain at least the following issue: which level of wealth of a given social group indicates that expenditures on art are already a permanent position in financial budgets. Neither has been created a representative art index which would provide information on the real rate of return, risk and diversification opportunity.

It can be noticed, while comparing this status quo with recognizable global trends, that among world funds offering art investment and developing most often three main investment strategies, only the last of them may be used in Poland in the nearest future. 'The first is a 'diversified' strategy in which investments are made across multiple geographical markets and market sectors – from Old Masters and Impressionist painting to contemporary art. Another is a vertically integrated 'region-specific' strategy' e.g. Polish contemporary art. The third is an 'opportunistic' strategy which generates profits through sales on the global market (Horowitz, 2011, p. 151) usually as the result of the so-called 3D (divorce, debt and death). In such purchases, considerable price disproportions may appear as well as a possibility to purchase artworks with a substantial discount as inheritors usually prefer to capitalize quickly the inherited collections. It is still relatively cheap in comparison to the art from other countries and transaction costs are not as high as in the case of foreign and non-contemporary art.

What is more, art is correlated with the development of human capital (the entry level of knowledge must be substantially higher to achieve considerable profits). Most importantly, art investments are secured by the underlying, which is art itself (an object) and the art world that guarantees its value (Velthuis, 2012, p. 27). Thanks to this, individuals who are building up their own collections have a rising number of opportunities to receive a special dividend on displaying their collections in art galleries or at other cultural or corporate events.

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