

# COMMENTS ON THE ART MARKET

## VOLUME 123

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### **Palm Beach & Upcoming Shows**

I am pleased to report that we had two very successful shows in Palm Beach, during which works by Ridgway Knight, Dawson, Cortes, Harris and Dufy found new homes. In addition, it was amazing that only a handful of people felt the need to make a few of my favorite comments ... all in all, the visitors knew what they were looking at and enjoyed the art we had on display – I like Palm Beach!

Our next show will be right here in the Big Apple ... in the uptown Armory at the end of April. Stay tuned for more details.

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### **The Stock Market**

Well, this past month I was living in a Marriott Hotel in West Palm Beach and had very little time to watch my portfolios – spent most of our time at the shows. Upon our return, this week, I finally opened up my stock program and I will say it was not bad (given all the turmoil) ... I was up a little from last month and the magical 12,000 has been holding.

Among my favorites, most of which are up from my last report, are: GE – which is closing in on \$21; McD at \$74.44; CTL \$40.44; Citi - \$4.70; Oracle \$32.95; BofA; \$14.20; RIMM \$65.99 (come on Blackberry); Qwest \$6.66 (always liked that number), Intel \$21.86, Pfizer \$18.86, VZ \$35.97, AT&T \$28.13 and VOD - \$28.35.

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### **Auction Results - Why Works Can Make Less the Second or Third Time Around Or, When a Loss is Really a Profit.**

I covered this topic before, but people are always bringing it up so I thought I would go through it once again ... especially since it is a very important factor when trying to understand the market for a specific artist; or even the art market in general. Many people will consult auction result sites and discover that a particular work has appeared on the market a number of times (over a short period of time). In addition, they find that in certain cases a work brings substantially more, or substantially less, the second or third time around ... people are usually puzzled, or concerned, by the fact that a work has appeared many times, so quickly. The typical question asked is: why was the work resold so fast?

At times this happens when the first buyer got a great deal, buying in a less visible market, and decided to reoffer the work in a more visible market ... this, in turn, generally results in a sharp increase. Other times the work could be returning because of changes in a family's situation (death, debt, divorce, etc.); if the work was bought during a very strong period and is being sold during a weak period then it may bring less the second time around. And then there are those times when a work returns because of a change in its condition. It is this last reason I will explore here.

The fundamental problem when consulting a web site, or book, which offers the results from public auctions, is that none of them give you the full picture. Sales take place on a specific day, while the individual works sell at a specific moment and many things can take place that will affect the results ... turmoil in the financial markets, war, weather, disrupted telephone lines, bad placement of the work during the viewing (it was hanging in the wrong location and not everyone saw it), etc. In addition to all of these, is the possibility that there may have been a change in the work's condition and this can cause a change in its value. What needs to be remembered is that none of the factors are revealed in the after-sale prices and they are all tremendously important when trying to determine the trend for an artist's work.

Getting back to condition -- while works of art usually stand up pretty well over time, there are instances when damage does occur. If this happens, and the work was properly insured, you may find that once the claim is settled, the work can come back on the market so that either the insured, or the insurer, can recoup as much money as possible.

The typical comment I hear from someone who sees that a work sold for a lower price the second time around is: "that work was a bad investment". Now maybe they are right ... the work may have been bought in a very heated auction battle and the buyer paid way too much, only to be 'buried in the picture' (paying so far above market value that it would take years, or decades, before there was any possibility of recouping their cost); however, the work may have sold for a much lower price because of a change in its condition and in the end, the owner actually made money. Now I am sure you are wondering: "how is that possible?"

Well, here is an example (and this comes from many personal experiences). A painting is purchased for \$100,000 and insured for that amount. Soon after, the work sustains a fairly major damage and the insurance company offers the owners a couple of options:

1. Take the full insurance value and surrender the painting, or
2. Accept a lower payout (let's say 85% ... \$85,000) and keep the painting.

For this example, the owners decide to take option 2. They immediately recover 85% of the painting's value and then have the work restored (some insurance policies even cover the cost of restoration). The owners then decide to sell the work; this time it is offered at a lower price because of its change in condition. As long as it now sells for \$15,000, the owners are at a break-even level ... and should it make a bit more, they have a profit. And from experience, I will tell you that many times these damaged works will do well since many potential buyers have very little knowledge about condition.

And here is another variation on this story (again from personal experience). A work is bought for \$100,000 and the owners obtain a professional appraisal valuing the work at \$120,000 and insure it for that amount. Soon after the painting sustains damage and the scenarios above are repeated ... only this time when the owners take option 2 they initially receive \$102,000 ... slightly more than they originally paid for the work (right away they are ahead). After it has been restored they then place it back on the market and no matter what it sells for they are way ahead of the game.

So when looking at the 'numbers' on paper, the fact that a work sells for less a few years after it was purchased may not mean that the market for that artist has changed, but that the work itself has changed ... and those physical changes caused a devaluation; but the owners really did not care because they ended up making money!

I also want to stress that not all damages are equal. There are plenty of times when damage will have little, to no, impact on the value of a work. To read more about this, please see Volume 63.

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### **Tales from the Dark Side – New & Updates**

Ralph Esmerian – in November this owner of celebrity jeweler Fred Leighton was arrested on fraud charges. Mr. Esmerian has been accused of double-dealing over \$210 million in loans and stealing company baubles. Ralph was also an avid American Folk art collector and from 1977 – 1999 was the president of the American Folk Art Museum. In 2000 it was announced that Esmerian had donated 400 works from his collection to the museum ... what was unknown at the time was that it was not an outright gift, but loans with the promise of a future donation. His world would soon begin to crumble and in 2008 one of the major works from his collection (Hicks's *Peaceable Kingdom*) was taken from the museum, by Sotheby's, to be sold to satisfy his debts. Turns out he not only owed Sotheby's \$11.5M, but owed Christie's \$7.5M and Merrill Lynch Mortgage Capital a whopping \$185M. In addition it came to light that 200 of the 'donated items' were used as collateral for loans from Sotheby's. Oh what a tangled web we weave ... To read more on this, please click here – MAD's article.

Portugal – a recent raid in Portugal uncovered a huge hoard of fake works by Monet, Matisse, Modigliani, Botero, Chagall, Leonardo, etc. along with forged certificates of authenticity. Most of the works were in the style of the specific artist and not direct copies of a particular work ... the forgers attempted to create 'new', never before seen, works. Reports claim that if sold to unsuspecting buyers, the forgers could

have made more than \$20M. It was also revealed that while the copies were good, most experts would have been able to tell there were issues with the works.

Mark A. Landis (aka Father Arthur Scott or Steven Gardiner) is now considered to be one of the most prolific forgers American museums have seen (as reported in The New York Times). Over the past two decades Mr. Landis (who was also a dealer) would arrive at different museums with well-concocted stories about his family's collection and donate a superbly faked work of art. However, money does not seem to have been a motive here ... it was purely the thrill of knowing he was able to do it. Among the museums that have been stung by Mr. Landis were: Paul and Lulu Hilliard University Art Museum, LA.; Ackland Art Museum, N.C.; St. Louis University Museum of Art and the Lauren Rogers Museum of Art, MS. The sad thing is that Mr. Landis is still out there; but most museums are aware of his existence and it may be a bit more difficult for him to continue perpetrating his fraud. It should be noted that some of the museums did uncover, fairly quickly, that the donated work was a fake; however, others did not.

Michele Speranza (one of the good guys) – while on vacation in New York, Speranza spotted a statue in a Madison Avenue gallery and thought it looked familiar. He took a picture of the work and forwarded it to the Italian Carabinieri art squad – of which Speranza is a member. It turned out that the item in question had been stolen from a small museum in Terracina in 1988. The work, valued at \$680,000, has now been returned -- no arrests were made.

Recovered – this story begins in 1978 when 7 valuable works of art were stolen from the Massachusetts home of Michael Bakwin; included were paintings by Soutine, Utrillo, Vlaminck and Cezanne. At that time attorney Robert Mardirosian was representing the alleged thief, David Colvin, on another matter and Mr. Colvin gave the stolen paintings to Mardirosian for safe keeping (uh oh ... possession of stolen goods – does not sound very promising to me). In 1979 Colvin was shot and killed, but Mardirosian kept possession of the paintings in the hopes of obtaining a reward. He soon discovered that the works were never insured so he held on to them; initially keeping them in his attic, then moving them to Monaco and finally, in 1988, to a bank vault in Switzerland (transportation of stolen goods – yikes). Mardirosian attempted to profit from the paintings by demanding a 'finder's fee' of \$1 million for their safe return ... he did this through lawyers in London and a Panamanian shell company he created just for the paintings.

In 1999 Mardirosian tried moving the works to London for a sale and contacted Lloyd's underwriters to insure them while in transit. In turn they contact the Art Loss Register (ALR) to research the pieces and it was determined that they were stolen; ALR alerted the rightful owner. In October of 1999 ALR brokered an agreement between the Panamanian company and Barkwin that would allow the Panamanian company to keep 6 of the works (valued at about \$1M) in exchange for the Cezanne. A deal was struck and the Cezanne was returned ... the rightful owner promptly placed the work for sale and it brought \$29.3M. ALR continued to negotiate for the return of the other 6 works, informing the 'holder' that their agreement was void due to the fact that it had been entered into under duress. The holders demanded a \$500,000 payment which was never paid. Negotiations ended in 2001.

In 2004 four of the stolen works were consigned to Sotheby's in London and ALR flagged them ... ALR and Barkwin's lawyers initiated legal action in London to seize the paintings. In 2006 a judge in London ruled that Mardirosian was responsible for paying an estimated \$3M in fees accumulated by Barkwin in his attempt to recover the works. In 2009 Mardirosian was sentenced to 7 years imprisonment, followed by 3 years of supervised release and a \$100,000 fine for possession of stolen goods that had crossed a U.S. boundary. In late 2010 (32 years later) the last of the stolen works were returned to their rightful owner ... Michael Bakwin. Just shows you that sooner or later, the law catches up with you ... and I am still wondering what law school Mr. Mardirosian graduated from!

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## **The Art Market – Moving Higher and Higher**

### **Impressionist & Modern**

In February the major auction action took place in London and when the dust had settled, many works of art changed hands and record prices were achieved. Now I know that some of you are wondering: how can art sell for so much when the general economy is still trying to recover? Well, art has always been a fairly safe place to park some of your wealth and today people are becoming much more vocal about it.

You are hard pressed not to find stories every week about works of art making record prices ... and it is important to remember, that those are only the 'public' sales. A majority of the art sold is done through more private deals.

The battles started on the evening of the 8<sup>th</sup> with Sotheby's Impressionist and Modern art sale and taking the number one spot was our old friend Pablo Picasso whose *La Lecture* brought £25.24M (\$40.7M) on a £12- £18M estimate – this work sold in 1989 for \$5.7M (nice return). Coming in second was a bronze by Marini at £4.24M (\$6.75M) – est. £3.7 - £4.5M and taking the third position was Monet's *Argenteuil...* at £3.4M (\$5.5M) - est. £3.5- £4.5M and bought in 1990 for \$3.5M (not a big increase). Rounding out the top five were Feininger's *Raddamer Am Landungssteg* - £3.2M (\$5.1M) – est. £1-£1.2M and Magritte's *Le Maitre d'Ecole* at £2.5M (\$4.0M) – est. £800-£1.2M.

Of the 42 works offered, 32 sold and 10 were returned to their owners leaving a sell through rate of 76.2% and a total take of £68.8M (\$111M).

The next morning saw their corresponding day sale and the results here were respectable. Top three works were: Juan Gris's *La Mandoline Noire* at £926K (\$1.5M) – est. £350-£450K; Luce's *St. Tropez* at £881K (\$1.4M) – est. £500-£700K and Manet's *La gare du chemin...* at £792K (\$1.27M) – est. £380-£500K. In addition there were a few, rather uninteresting, works by Boudin (one of our favorites) – and they all did well – a standard landscape estimated at £35-£45K sold for £73K (\$118K) while a small sketchy study of a boat (est. £40-£60K) brought £44.4K (\$71K) – in my opinion, these were strong prices for mediocre examples. When the afternoon session was over, of the 266 works offered, 212 sold and 54 were returned to their owners, leaving a 79.7% sell-through rate and a total take of £21.4M (\$34.5M).

In addition to their normal set of sale, Sotheby's held a single owner sale on the evening of the 10<sup>th</sup> – *Looking Closely: A Private Collection*. This collection spanned the 20<sup>th</sup> century and included 40 works, all of which were hotly contested. Coming in at the top slot was Francis Bacon's *Three Studies for Portrait of Lucien Freud* which crushed its £7-£9M estimate when it sold for £23M (\$37M) – the seller paid £88K for it in 1992; in second was Dali's *Portrait de Paul Eluard* which also trounced its estimate of £3.5-£5M when it sold for £13.5M (\$21.6M) – an auction record for the artist; and in third came a Giacometti painting at £4.8M (\$7.8M) – easily defeating its £800-£1.2M est.

When the evening ended, it proved to be the perfect storm with smoking hot results – of the 40 works offered, all sold – leaving a 100% sell-through rate – and the total take was £93.5M (\$150M) ... beating the presale estimate of just £39-£55M. Like I have been saying, the right works at the right estimates will bring amazing results.

In the end, their total take for the week was very strong ... 348 works offered, 284 sold (a sell-through rate of 81.6%) and a gross of £183.7M (\$295.5M).

Of course, Christie's offered their corresponding sales which began on the evening of February 9. Taking top honors here were works by artists we rarely see in the top three: Pierre Bonnard's *Terrasse à Vernon* (a large and beautiful sunlit landscape) at £7.2M (\$11.5M) on an est. of £3-£4M; Andre Derain's *Bateaux à Collioure* at £5.8M (\$9.4M) – est. £4-£6M; and Degas' pastel *Danseuses jupes jaunes* made £5.4M (\$8.7M) on a £3-£5M est. There were some disappointments ...including their star lot, a still life by Gauguin that was estimated at £7-£10M and found no takers.

Of the 76 works offered, 60 sold (sell-through rate of 79%) for a total of £84.9M (\$136M); their presale estimate range was £73.8-£109M (so they made it only after the buyer's commissions are added in). It should be noted that while their overall take was a bit better than Sotheby's, the price per lot sold was less: \$2.27M (Christie's) vs. \$3.46M (Sotheby's).

On the 10<sup>th</sup> they offered their Day Sale and here again, the good works did well and the others ... well, you know. The top three spots were taken by a late Renoir head study at £791K (\$1.2M – est. £300-£500K); a Claudel sculpture at £724K (\$1.16M – est. £80-£120K) and a bright and colorful Pechstein at £612K (\$984K – est. £250-£350K). At the end of the day 235 works were offered, 199 sold (sell-through rate of 84.7%) and a total take was £21M (\$33.7M).

In addition, Christie's threw in a sale of 'cheap' works – not much to talk about here, but the totals were: 244 offered, 195 sold (80% sell-through rate) and a total take of £1.66M (\$2.66M).

By the end of the week, a great deal of art and money changed hands. Of the 903 works offered, 702 found new homes (77.7% sell-through rate) for a grand total of £291.3M (about \$468M). Now in case you are wondering, last year the two salerooms offered 563 works and sold 477 (84.7% sell-through rate) for a total of £259M (\$414M) ... so from the numbers it appears that last year's sales were much stronger. Far less material and better percentages – more is not always better!

### Contemporary

The following week both rooms presented their Contemporary sales and to be honest, I missed reviewing the catalogs (we spent most of the past month at two important shows in Palm Beach ... where the action was very good). However, there is nothing keeping me from reporting the overall results and a couple of highlights.

Top 5 from this series of sales were Warhol's *Self-portrait* £10.8M (\$17.3M) – est. £3-£5M; *Raysse's Last Year in Capri* at 4.1M (\$6.5M) – est. £1-£1.5M; Gerhard Richter's *Abstraktes Bild* at £7.2M (\$11.6M) – est. £5-£7M; Warhol's *Nine multicoloured Marylins* at £3.2M (\$5.1M) – est. £2-£3M and another Richter, also titled *Abstraktes Bild*, at £3.17M (\$5.1M) – est. £1-£1.5M.

Both rooms offered strong, small, evening sales ... and the results were very good: Sotheby's had 59 works, of which 54 sold (sell-through rate of 91.5%) and a total take of £44.4M (\$71M). Christie's had 63 works and sold 58 (92% sell-through rate) and a total of £61.4M (\$99.2M).

Their day sales were evenly matched. Sotheby's offered 200 and sold 165 (82.5% sell-through rate) for £13.9M (\$22.5M). Christie's offered 212 and sold 177 (83% sell-through rate) for £14.2M (\$22.9M).

For the week, the two rooms offered 534 works, sold 454 (85%) and took in £133.9M (\$215.7M). These results were pretty much in line with 2010 when 458 of the 537 works offered sold (85.3% sell-through rate) and the total take was £116.8M (\$182.5M).

### Summing it Up

When added together, the two weeks of sales offered 1437 pieces, of which 1156 sold (80.4%) and created a gross take of £425.3M (\$683.5M). What we are seeing here is strong demand for the top quality works by the 1<sup>st</sup>, 2<sup>nd</sup> and even 3<sup>rd</sup> tier artists. It is important to keep in mind that you need to buy quality works – regardless of your budget. You do not want to buy a work just for its signature.

It also appears that the salerooms are beginning to enlarge their sales ... and this is not a good thing (in my opinion). Last year the corresponding set of sales offered 1100 works and sold 935 (85%) and took in £375M (\$596M) which worked out to \$637K per-lot-sold. This year the price per-lot-sold dropped to \$591K.

And one final comment ... back in 2010 I noted that the star lot for the Impressionist sale was lot 8 (a Giacometti that sold for £65M) and at the 2009 sale, lot 8 was also number one (a Degas at £13.3M) ... can you guess what happened in 2011? Lucky number 8 hit again --- the Picasso at £25.24M!

Howard L. Rehs

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**Gallery Updates:** No shows until April ... I think!

**Web Site Updates:** Works by the following artists have made their way through the gallery: Ridgway Knight, Moreau, Glendening, Cortès, Blanchard, Harris and Lovett. And look for the new works by Cortès, Blanchard, Banks, Harris and others that have, or will be posted, to the site. A few of the new works are shown below:





Edouard Cortès – *Rue Royale, Concorde in Winter*  
13 x 18 inches



Edouard Cortès – *Place de la Opera, Café de la Paix*  
10 5/8 x 13 3/4 inches



Antoine Blanchard – *Boulevard de la Madeleine*  
13 x 18 inches



Evert Pieters – *The Doll's New Ribbon*  
24 x 20 inches

## Recently Added Works



Gregory F. Harris – *A La Fontaine*  
16 x 14 inches

**Next Month:** More art market coverage.