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DATA-DRIVEN ART MARKET INSIGHTS

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INVESTOR UPDATE

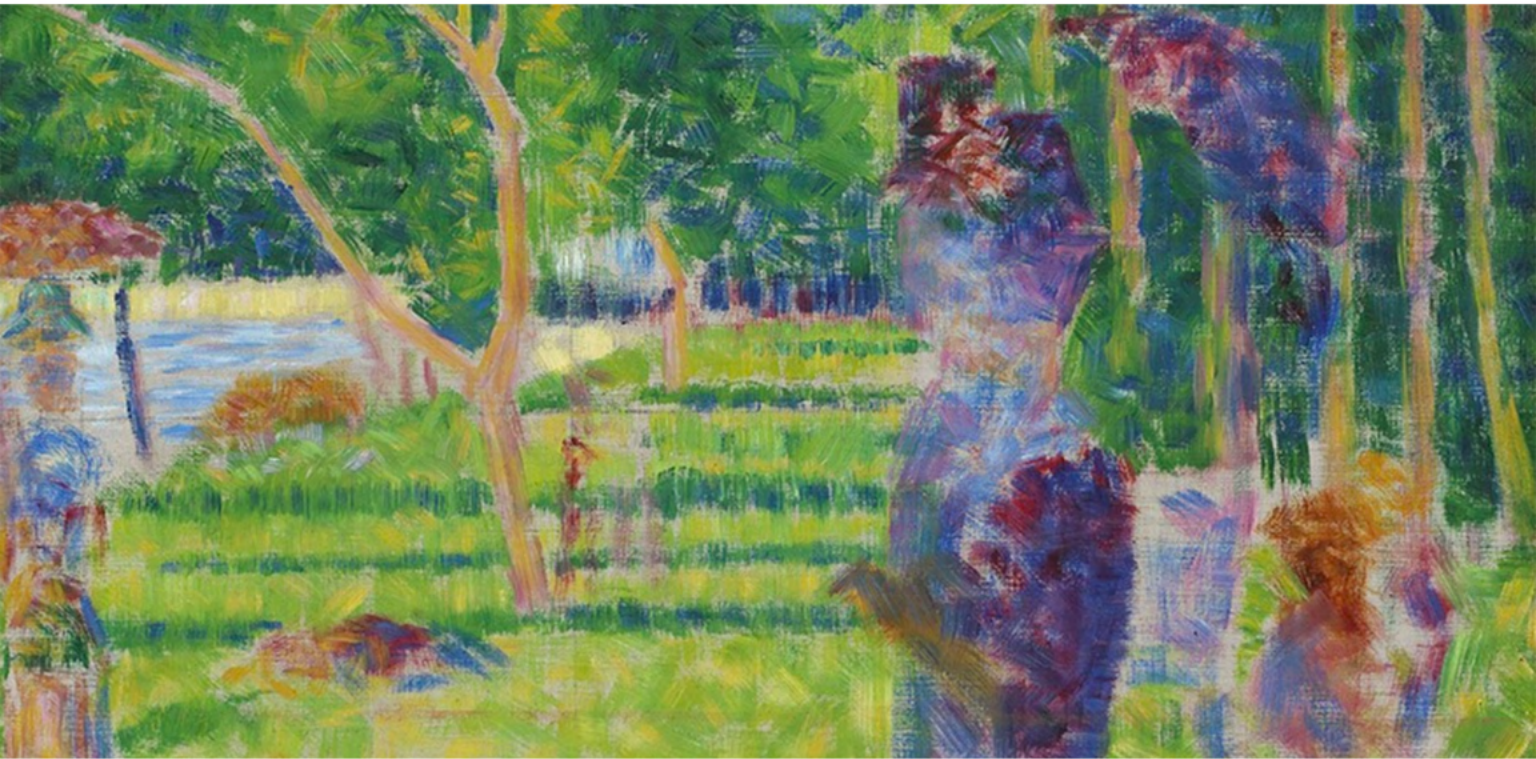


ART INVESTING LESSON FROM JOHN MAYNARD KEYNES

2021

In the wake of a recent series of successful auctions at Sotheby's and Phillips, the art market seems poised to rebound from what could have been a prolonged, difficult period of logistical hurdles and depressed sales. As outbreaks of COVID-19 continue to swirl throughout much of the world, however, the lessons learned from our industry's sudden shock will likely carry us forward through future challenges and uncertainties. Therefore, while we can not, in good

conscience, count ourselves free from the menace of the pandemic still affecting so many, we may at least reflect on the guiding principles of recession-era investing that allowed collectors to persevere in their patronage of the secondary art market during a moment of financial crisis. To offer an anecdote from history of an analogous triumph over auction uncertainty, we present the strange tale of a young John Maynard Keynes.



Georges Seurat's *Study for La Grande Jatte, The Couple* (1884). Oil on canvas, with squaring up in conté crayon. 81 x 65 cm. Purchased by Keynes for £400 in 1919. On view at The Fitzwilliam Museum, Cambridge, England.

how a Cezanne in a shrub exemplified the opportunities that blossom in times of chaos

On March 24th, 1918, as the first World War was raging, and as the German army was camped outside of Paris, John Maynard Keynes saw a perfect storm brewing. Keynes, the polymath namesake of Keynesian economics, co-founder of the World Bank and IMF, and the originator of what some historians consider to be the first hedge fund, seized an opportunity amidst the tumult to combine his two great passions, money and art.

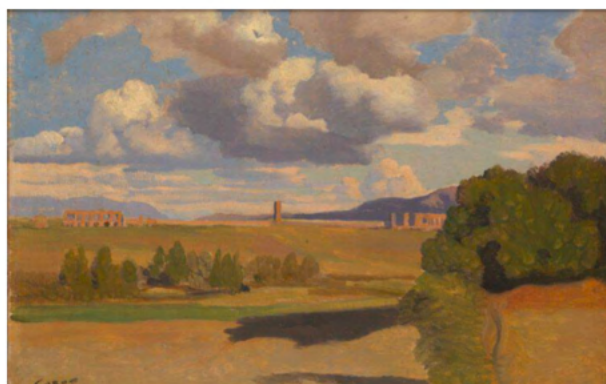
Keynes had heard from a friend that there would be an auction at the Galerie Roland Petit in Paris featuring the estate of the great French impressionist artist, Edgar Degas. Degas had collected hundreds of works by other artists whom he admired, and Keynes suspected that the collection might hold a trove of hidden gems. Keynes, then merely a 31-year-old mid-level Treasury advisor, viewed this auction as a life-changing opportunity.

The young economist secured a meeting with Andrew Bonar Law, the UK's Chancellor of the Exchequer, and pitched an audacious strategy, requesting to smuggle £20,000 of the British government's capital (\$1.5 million today) into France for the purpose of art investing. As context, by March 1918, the British treasury had already spent 4 years fighting the most devastating war the planet had yet seen, was heavily in debt to the United States, and was expecting default on notes it issued to France. Britain's economy was also mired in the costs of raging trench warfare with no sign of abatement. To make matters worse, the German army camped just outside of Paris, threatening to raze a critical financial center. It seemed as though the world were ending.

Miraculously, however, Keynes' request for funding was approved. In a letter to his mother, Keynes wrote that the chancellor was "very much amused at my wanting to buy pictures and eventually let me have my way as a sort of joke." With his capital in hand, the young economist embarked that night on a wild adventure to the wartime auction. Escorted by destroyers at sea and an airship watching overhead, Keynes crossed the English Channel. Penetrating a besieged France, he then traveled by train through the panicked city of Paris with £20,000 in French banknotes hidden in his suitcase. Aware that the French would be reluctant to sell to a British bidder, Keynes disguised his identity, feigned a French accent, and secured an auction ticket. At 3 p.m, another auction attendee wrote in his memoir, just as the sale was getting underway, "a dull 'Boom' sounded outside, as if a smallish bomb had dropped,". At 3:15 the most important paintings were about to come on the block when a second explosion suddenly shook the neighborhood. Paris was under fire from a giant new German artillery cannon, the 108-foot "Paris Super Gun," bombarding the city from a railway line 80 miles away. Other bidders bolted for the door, panicking and fleeing for shelter. Keynes seized an opportunity in the chaos. While the competition huddled in hiding, Keynes stepped forward to the block, buying 27 artworks with the British government's funds, and acquiring numerous others using his own personal account. The prices were the bargain of a lifetime. In a letter to Vanessa Bell (the sister of Virginia Woolf), Keynes wrote, "My picture coup was a whirlwind affair carried out in a day and a half before anyone had time to reflect on what they were doing."



Edouard Manet, *Women with a Cat* (1880)



Jean-Baptiste-Camille Corot, *The Roman Campagna* (1828)

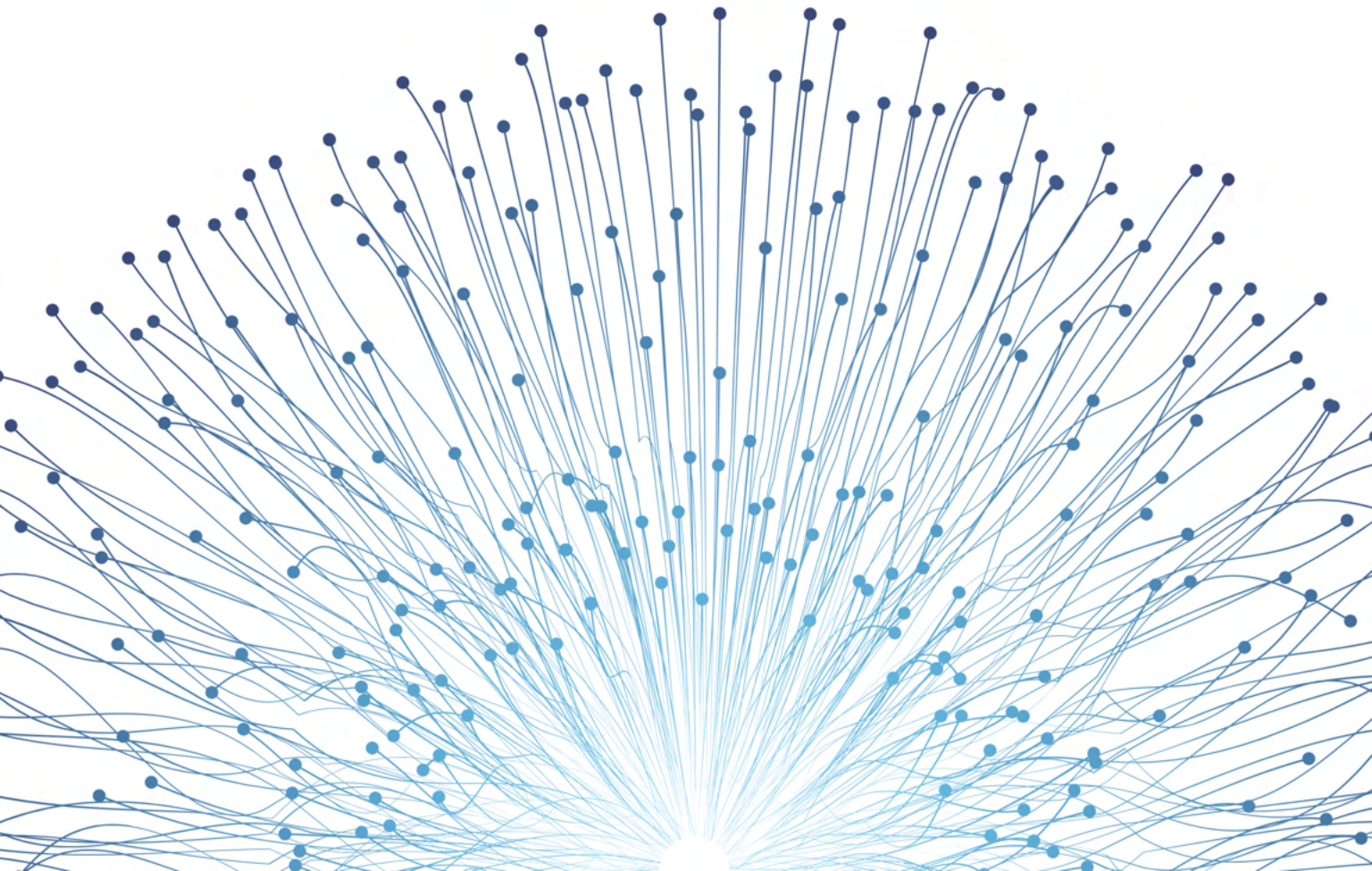
The National Gallery, London.

Among the masterpieces Keynes purchased for the Crown were Manet's massive *Execution of Maximilian*, a *Portrait of Baron Schwitter* by Delacroix, Corot's *The Roman Campagna*, a painting of *Oedipus and the Sphinx* by Ingres, Manet's *Woman with a Cat*, and a floral still life by Gauguin (all of which now hang in London's National Gallery). Keynes also snagged numerous works by Degas, Delacroix, and Ingres for his personal collection, as well as a prized Cezanne which he acquired for just £370. In 2019, similarly-sized Cezanne paintings sold for between \$28m and \$59m at Christie's.

In a 2019 paper published by the Judge Business School at Cambridge University by authors David Chambers et. al., titled *Art as an Asset: Evidence from Keynes the Collector*, the researchers concluded that Keynes understood art as an investment,

judging by his carefully and extensively documented transactions. These records, held in the archives of King's College, show that Keynes invested a total of £12,847 in his personal art portfolio. The collection subsequently grew to an estimated open market value of £76.2 million by the beginning of 2019. The long-term returns from the Keynes collection are substantial. The collection performed especially well shortly after purchase—with an inflation-adjusted IRR of 9.8% between 1918 and 1959—confirming that Keynes acquired his art at an attractive discount. Over the last six decades, the collection continued to appreciate. The IRR between acquisition and early 2019 was 10.4% in nominal terms. If Keynes' artworks had merely kept pace with inflation, his collection would have been worth less than £0.5 million at the beginning of 2019.

IT WAS KEYNES' KEEN ABILITY TO ACT WHEN EVERYONE ELSE WAS PANICKING THAT LED TO THIS EXCEPTIONAL RETURN. IN TODAY'S ANALOGOUS PANDEMONIUM, WE LOOK TO KEYNES' EXAMPLE AS A REMINDER OF THE OPPORTUNITIES THAT VOLATILITY CAN BRING, EVEN TODAY.



Upon winning his chosen lots, Keynes promptly wrapped the purchases in paper and rushed to a train teeming with Parisians fleeing the German bombardment.

At Bologne, he slipped aboard a convoy of hospital ships and traversed the English Channel beset by German mines and torpedoes. Upon landing in England, the intrepid art collector spotted an acquaintance and hitched a ride from Folkestone to the village of Charleston in Sussex, his clutch of French masterpieces stashed on the car's floor.

Nearing his destination, a farmhouse occupied by the coterie of writers, intellectuals, and philosophers known as The Bloomsbury Group, the road became too muddy for the old car, and Keynes couldn't carry all his luggage. Weary from 24 hours of non-stop travel and a lack of food and sleep, Keynes tossed his Cézanne in a nearby hedge and walked half a mile to the house where he was to spend the night. In a 1969 interview with the BBC, Keynes' friend, Duncan Grant completed the story: "When he arrived here he said 'if you'd like to go down to the road, there's a Cézanne just behind the gate!'"



Paul Cézanne, *L'Enlèvement (The Abduction)*, 1867. Keynes purchased this work for £3,500 in 1935, making this the most expensive piece in his collection. Courtesy of the Provost and Fellows of King's College, Cambridge.

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