



*Investing in Rare
Violins and Cellos*

Tony Finley & Edward Papier
The Artist Rare Instrument Fund

“I’ve got all the money I’ll ever need; if I die by four o’clock” quipped violinist/comedian Henny Youngman. Little did the old-time master of the one-line zinger realize that the violin tucked under his arm, if it had the right pedigree, might have been the source of his continued prosperity, relieve his anxiety over conservation of his wealth and ease him and his family into retirement.

We rarely consider musical instruments a separate asset class worthy of inclusion in an overall investment plan, unless we have a personal connection with the music world or a passion for a particular music star or type of music. Auction records for “Elvis’s guitar” or “Liberace’s piano” make headlines, and so do stories captioned “Stradivarius Violin Makes New World Auction Record,” but we often relegate the subject of the headline to our concept of “esoterica” or say “who would pay so much for that?” However, in today’s economy, where investments in stocks, bonds, commodities, real estate and hedge funds have been severely battered and give none of the comfort they previously provided, investors are seeking other safe harbors. Anything unique and one-of-a-kind collectible “objets d’arts” now attract greater attention – and experts in the field of rare 17th and 18th Century Italian stringed instruments are advocating Stradivarius and Guarnerius violins and cellos as worthy of focus for investors seeking steady, non-correlated, long-term capital appreciation.

Some investors are fleeing to antiques – witness the recent Yves Saint-Laurent estate auction, where a single leather chair sold for \$27.8 million. In the same sale, a vase by Jean Dunand fetched \$344,600, nine times the highest estimate, and seven artists’ records were achieved, including \$35.9 million euros for Matisse’s 1911 still life, “Les coucous, tapis bleu et rose” (estimate 12 to 18 million euros). Probably, the prices realized had a lot to do with Saint-Laurent’s personal mystique, demonstrating the cachet of buying an object “from the estate of X.” Art works in general are performing well, but fads in artists’ popularity can result in uncertain returns and the need to tie up large amounts in one art-work can deter an investor seeking a diverse, balanced portfolio. On the other hand, investments in rare



stringed instruments benefit from a relatively stable market, high but not excessive individual values, and an excess of demand over supply among players and collectors, recently including Russian and Asian investors and players.

One completely unique thing about rare violins is that they are also musicians' tools of trade, much in demand for their tonal qualities. In the competitive world of top "fiddle" players, their livelihood often depends upon being known to play an old, master-crafted instrument. As Western classical music gathers momentum in Korea and China, the market for top instruments is expanding there also. One violin expert recently commented – "you don't need an extra leather chair, but what is a concert violinist without a Stradivarius?"



London, UNITED KINGDOM: Violinist Ruth Palmer plays a 1729 Stradivari violin known as the 'Solomon, Ex-Lambert' at Christies auction house in central London, 23 February 2007

Skilled European violinmakers were building fine instruments in Italy as far back as 1540. However, the zenith of the art of "lutherie" (violinmaking) was reached approximately 175-200 years later in Cremona, in the workshops of Stradivarius and his younger colleague, Giuseppe Guarnerius "del Gesu," whose instruments are equally admired for their tonal qualities. Fine instruments have been created elsewhere, but in terms of mastery of aesthetics and creating miracles of acoustical projection and beauty, the heart of lutherie has always belonged to 18th century Cremona. George Eliot once wrote "Tis God gives skill, but not without men's hand: He could not make Antonio Stradivarius's violins without Antonio."

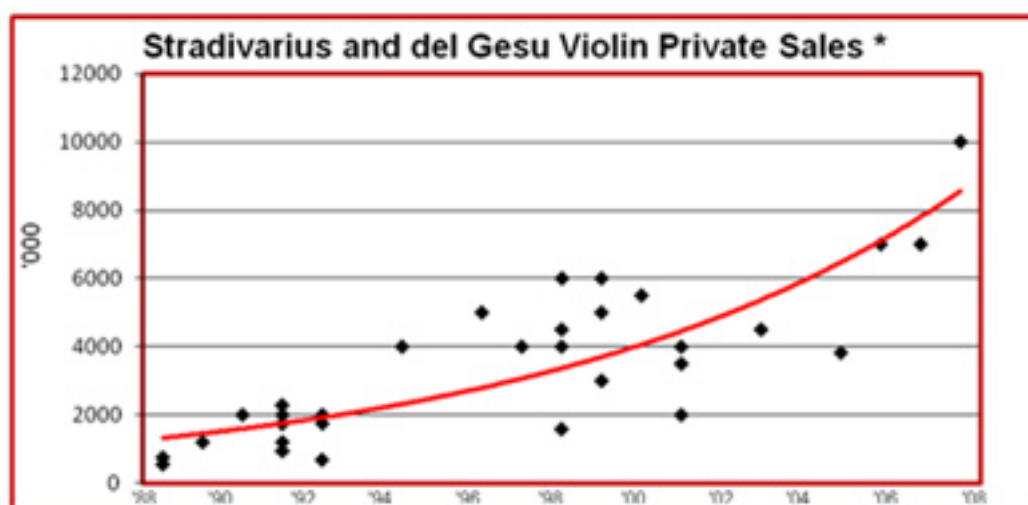
Stradivarius and del Gesu instruments command high collectible prices, ranging from \$2 million for an unexceptional violin to \$20 million paid last year for a fine Stradivarius cello. History shows that these instruments have continuously increased in value, from Strad's lifetime when only nobility had the resources to order his instruments, until today, when top instruments are generally sold privately. Such sales generally occur outside of auction houses because the ownership and location of each instrument is the focus of a tight-knit circle of highly-active dealers, collectors, foundations and top soloists who rely on them to make their careers. Players sometimes wait for decades to acquire a specific instrument. Even when an instrument of

fair quality, i.e., without an undue amount of restoration and where much of the original varnish is still present, hits the auction room, publicity reaches feverish pitch and bidders emerge from across the globe. In the Canadian fictionalized 1999 movie, "The Red Violin", the climax is in a Montreal auction room where bidders from many countries are crowded and telephone bidders call from China and Germany.

Today the market for the greatest instruments is the subject of keen interest by seekers of alternative investments. Over the past 20 years, many instruments in the top category have climbed in value 12-15% per annum, with virtually no downside volatility. Data for individual instruments is available to subscribers on a website called www.cozio.com, detailing rare instrument sales going back almost to their date of creation - including Cremonese makers Antonio Stradivarius, Giuseppe Guarnerius del Gesu, Carlo Bergonzi, J.B. Guadagnini, Venetians Domenico Montagnana and Matteo Gofriller (primarily makers of top cellos). The records demonstrate a steady increase of approximately 4% per annum for classical Italian instruments over a 200 year period. It also

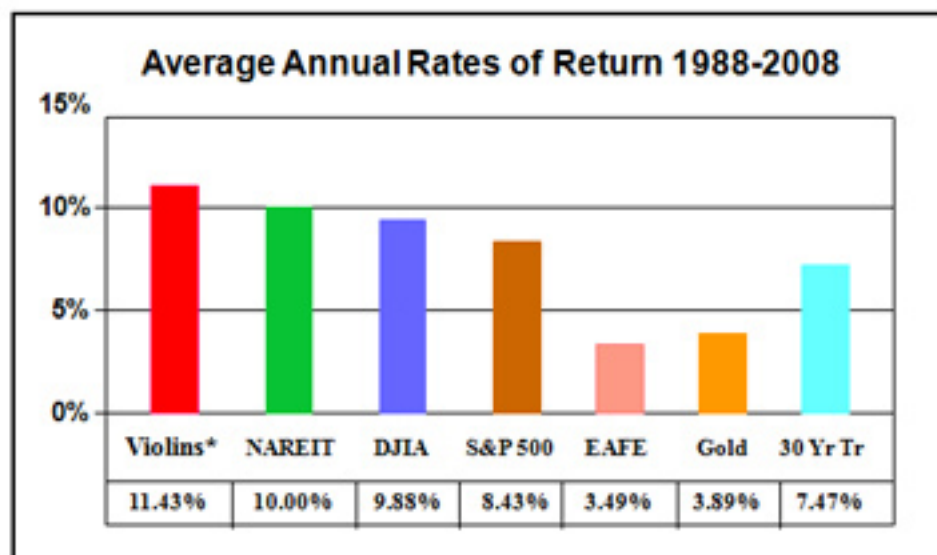
reveals one of the very few investments where verifiable price information is available over such an extended period.

Sales of instruments in the six, seven and ten million dollar range have become common and some of these instruments were purchased in the 1960s and 1970s for less than \$200,000. Generally, the "star factor" of an instrument having been played by a top musician adds an allure and fancy prices are paid for instruments once owned by famed violinists Yehudi Menuhin, Ruggiero Ricci and Isaac Stern or the late great cellist Mstislav Rostropovich - witness Rostropovich's Stradivarius cello which sold for \$20 million in 2008. The 19th century virtuoso Niccolo Paganini's Guarnerius violin, nicknamed the "Cannon" for its powerful sound, is insured for somewhere north of \$40 million - and is now accompanied by an armed guard when it leaves its permanent home in a museum in Genoa. The current economic downturn does not seem to have any impact on the rise in prices and reports indicate prices are continuing upwards.



*Source – cozio.com. Between 1980 and 2005, available auction price data for Stradivarius violins indicated an average annual increase of 10.4%. Rates of return inclusive of such period and to date for private sales of top Stradivarius and del Gesu violins have been appreciably higher.

Average annual returns for these top instruments have been among the top performing asset classes exclusive of private equity.



**In 1988/1989, private sales for \$550,000 and \$750,000 were recorded. In 2007/2008, private sales for \$7,000,000 and \$10,000,000 were recorded, representing an 11.43% return collectively.
Sources: Ibbotson, www.reit.com, DFA Returnw, www.cozio.com*

In the past, great individual collections were assembled, only to be broken apart upon a collector's death. Count Cozio di Salabue, an Italian nobleman, was among the first to recognize the collectibility of Stradivarius violins and a whole stream of collectors followed. Soloists such as Paganini collected instruments, although generally for their playing qualities. The great Parisian maker and dealer Jean-Baptiste Vuillaume helped create an orderly market for top instruments in the 19th Century and dealers like the English Hill family in London, whose forebears as makers reached back to Stradivari's times, continued the tradition into the 20th and 21st centuries.

Today, dealers and auction rooms all over the world participate in the market. Funds created by corporations, governments and individuals acquire instruments for many reasons: the preservation of art, to provide instruments to younger artists who cannot afford them, for investment returns, or for a combination of all of these objectives. If you are considering investing, there are two possibilities:

- (a) Buy an individual instrument through a dealer or auction house. This approach has advantages in that you don't share in the cachet of the investment with anyone else, but disadvantages in that you have to be absolutely sure of provenance, because challenges to authenticity can create a major difference between the purchase price and the instrument's real value. Additionally, it is critical to make sure the instrument is properly maintained, insured, and, preferably, played by careful players (most experts agree that antique instruments maintain their integrity best if played regularly). Eventually, when you want to recoup your investment, you'll have to sell the instrument often with a significant dealer commission payable, ranging from 5% to 20% of the sales price; or
- Buy a share in a rare instrument fund. The strategies employed by funds differ greatly and the type
- (b) of instruments in which funds invest vary. It is worth doing some due diligence to compare the goals and expectations of each fund. The downside is that funds generally do not offer liquidity in the short term: as such, investors requiring a return of principal prior to at least five years, some funds suggest ten, should not consider this investment. Investment-worthy funds should have an eye on sound investments that offer an attractive rate of return and employ strategies designed to lessen the effects of the general illiquidity of the assets. Management fees are in the range of 1-2% and incentives exist on realized capital gains.

A May 2008 Barrons article, (<http://online.barrons.com/article/SB121098374109900401.html>), captures the essence of these investments in its conclusion.

“One dynamic that sets these investments apart is the notion of fixed scarcity. Contrast, for example, shares of Berkshire Hathaway (ticker: BRK.A) with Stradivarius violins. Berkshire, the most expensive U.S. stock at around \$122,000 as we write, has over one million shares outstanding; this number isn't fixed -- it can go up through issuing more shares. The number of Stradivarius violins, on the other hand, can never rise. The same is true of Picassos, Swedish stamps, 200-year-old bottles of wine and original manuscripts.”

Interestingly, in the year since this article appeared, Berkshire Hathaway stock has dropped by 25%. However, sales reports from the auction rooms and private sales for rare violins indicate stringed instruments are continuing their upwards climb at the same pace as before the economic downturn.

The Barron's article does point out that some of these non-traditional assets cannot be sold over-night. And when coupled with high transaction costs stemming from authentication, restoration, preservation, insurance and broker commissions, investing in a rare stringed instrument should not be an impulsive act. However, an instrument fund providing diversity in numbers and types of instrument and economies in expenses of ownership can alleviate many issues.

Albert Einstein, a keen amateur violinist wrote - "A table, a chair, a bowl of fruit and a violin; what else does a man need to be happy." If he calculated the current price of happiness, he might be shocked at the \$102.9 million bill he might now pay for his comfort:

- (a) Tufft pier Table - \$4.6 million, sold at a Christie's auction in Philadelphia on January 20, 1990 (the table was named after its creator, Thomas Tufft and was hand-carved in the late 1700s for general store owner Richard Edwards of Lumberton, New Jersey);
- (b) Leather Chair made by Irish designer Eileen Gray - \$27.8 million, sold at the Paris Grand Palais auction of the Yves Saint-Laurent estate, held February 24, 2009 (the chair was made some time between 1917 and 1919);
- (c) Paul Cezanne's painting "Still Life with Curtain, Pitcher, and Bowl of Fruit - \$60.5 million sold at Sotheby's, New York (the auction took place on May 10, 1999); and
- (d) Stradivarius Violin - \$10 million plus ...

So, if you're looking to diversify your portfolio with an investment that exhibits low correlation to the rest of the markets, and offers the prospect of competitive returns over the long haul -- plus a little more "sizzle" than what you get with traditional assets -- investing in a rare violin fund could be a smart option.

FOA Newsletter Guest Columnist

Tony Finley, Edward Papier
The Artist Rare Instrument Fund
www.arifpartners.com

This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding any investment in particular, nor should it be construed as a recommendation to purchase or sell a security, including futures contracts.

This document is not an invitation to subscribe for shares in any fund and is intended for informational purposes only. Hedge funds and other alternative investments are speculative investments and are not suitable for all investors, nor do they represent a complete investment program. The funds are only open to qualified investors who are comfortable with the substantial risks associated with investing in alternative investments.



Family Office Association

500 West Putnam Avenue, Suite 400
Greenwich, Connecticut 06830
Ph: 203-570-2898

Angelo J. Robles, Founder and CEO

angelo@familyofficeassociation.org
www.familyofficeassociation.org