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Money for Nothing

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A couple of weeks ago I entered a new world – that of auction houses. The lure was Christie's sale of a big chunk of Dire Straits' founder and leading light Mark Knopfler's collection of guitars. I have been a big fan of Dire Straits since the 1970s, seen them in concert on several occasions and was even once involved with a feature film for which Knopfler wrote the title song and original music. I thought there was an outside chance of owning a piece of memorabilia that would also have the practical advantage of being something that I could actually play rather than just hang on a wall or lock in a safe.

The estimates in the catalogue were not outrageous (apart from the odd lot such as a rare 1959 Gibson Les Paul Custom guitar, which was in the catalogue at a range of £300k – £500k), but it quickly became apparent that the premiums over the estimates were going to be huge. Lot 1, a red Höfner electric guitar that was, apparently, the first one that his dad bought for him in the early 1960s, had an estimate of £1-£1.5k and went for the princely sum of £48k. The next three lots were all sold for solid six-figure sums against low four-figure estimates.

One of the stars of the show was the guitar that Knopfler played on the 1985 single Money for Nothing, a song that exemplified the meeting of music and video through the medium of American cable TV channel MTV. Despite a lowly estimate of £10-15k, the hammer was brought down on it at £592k (including buyer's premium).

A brand new Les Paul Custom will set you back around £5k, with reissued heritage models (such as the 1959 version) going for a bit more. What on earth possesses people to pay multiples of the actual value of some glued-together bits of wood and wires? No doubt there are some who are only in it for the money, taking the view that at some point in the future, possibly when the celebrity associated with the object passes away, it might be worth even more.

For me, the main explanation would be that one has invested in some form of 'social capital'. I recognise that this term is used in classical economics to describe a group of people coming together to work towards a common cause, but I am going to appropriate it anyway to describe the value that people will ascribe to an object or experience over and above what might be deemed to be its "intrinsic" value. For some, the idea of playing an instrument used by someone famous will be inspiring. For others, ownership will create some deep nostalgic connection with their past or with some long-lost friend or relative. Some will find their way into a new community of people with shared interests and values. And there are always those whose primary purpose will be to achieve bragging rights over those who do not have the item in their possession.

The point, though, is that the value placed on the object is wholly subjective. And, of course, people will have different perspectives on what constitutes a reasonable price dependent upon their own net worth. It is no surprise that prices of collectibles rise when financial markets are doing well. The frenzy in cryptocurrencies led to extraordinary prices being paid for non-fungible tokens, including a series of Bored Ape memes, that, to the majority, appeared to have no intrinsic value whatsoever – there was no physical form and no associated revenue stream to value.

Provenance is an important factor in valuations too. The guitars in the Knopfler auction that could be seen in videos and live concert performances attracted a bigger premium, as did the ones that he said had been played on specific songs. The ones he twiddled on his back porch went for a bit less (but still not in my price range). The fact they were being sold by him also guaranteed authenticity. Once things move into the 'second-hand' market, the trail can become harder to follow.
There are sometimes unforeseen pitfalls in the world of collecting. A buyer paid over $500k for the football that legendary quarter-back Tom Brady threw to complete his last pass before retirement… 24 hours before Brady announced that he was coming out of retirement. At least justice was seen to be done when the sale was voided by the auction house.

A colleague of mine in New York in the 1980s told me that he had started collecting work by the artist Erté in the 1970s, convinced that there would be a pop in its value when he died. Erté finally expired in 1990 at the age of ninety-seven following a late burst of prolific production which had more than satisfied demand for his output.

We are often asked about collectible assets ranging from classic cars to fine wines and paintings. There are a few problems with treating them as mainstream assets. One of the key ones is that disconnect between the supposed intrinsic value and the purchase price. At least with a share or bond there is (usually) a stream of profits or an income-generating asset from which a price can be derived. Another is liquidity. These tend not to be the sort of things that can be sold in a hurry if required. Then then there are the costs associated with purchasing and selling them. You would be impressed by the amount of time we spend negotiating with external fund managers to shave a few basis points off their management fees, but there is no room for improvement on an auction house's 'buyer's premium', which can be as high as 30%. There are often storage and insurance costs to take into account too.

One other big sticking point is the overall size of the collectibles market. First of all, there are just not enough items to go around, which could be why rarity creates a premium. This problem is being addressed at the margin by funds that deal in fractional ownership, where you could end up owning a racehorse's hoof or a square centimetre of an Old Master painting, but even then, they are just too small for large professional investors to be interested in. I'm pretty sure we could corner the market in some niche category on behalf of clients and create some attractive looking 'mark to market' capital gains, but things would not look as rosy when we tried to monetise those gains (unless we were lucky enough to encounter a 'greater fool' willing to take them off our hands at a nice price).

I realise this is all a bit of a diversion from the business-as-usual discussions of markets and geopolitics and all the things that we spend time worrying about. I'll get back onto those next week as the dust settles on the current corporate reporting season and we look at how recent resilient economic data is pushing back the date of expected interest rate cuts. I hope this piece provided some light relief.

Meanwhile, though, what price an Elton John Collector's Edition pinball machine signed by the man himself? A snip at $10k -$15k if the estimates are to be believed. We'll see about that on 21st February.

Economic Commentary

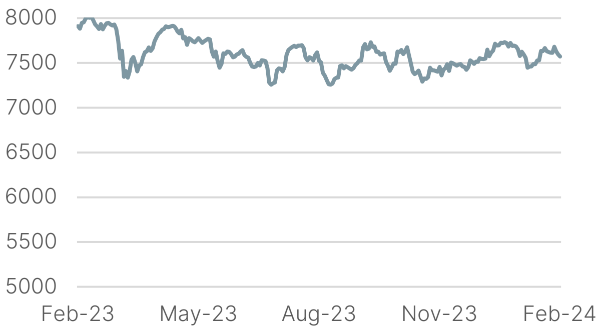
FTSE 100 weekly winners

DS Smith Plc	15.0%
Smurfit Kappa Group PLC	11.0%
Compass Group PLC	4.5%
Hikma Pharmaceuticals Plc	4.3%
BP p.l.c.	4.3%
Ferguson Plc	4.1%
Scottish Mortgage Investment Trust Plc	3.9%

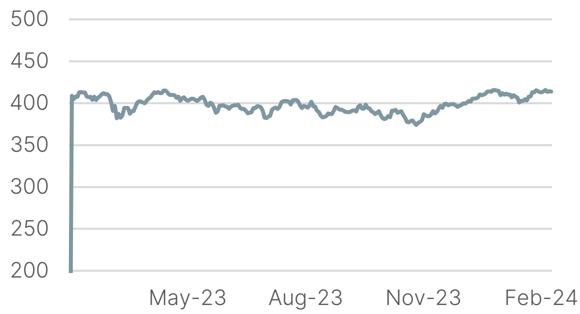
FTSE 100 weekly losers

Vodafone Group Plc	-8.2%
Barratt Developments PLC	-8.0%
JD Sports Fashion Plc	-8.0%
Glencore plc	-7.8%
Legal & General Group Plc	-7.8%
Anglo American plc	-7.2%
J Sainsbury plc	-7.0%

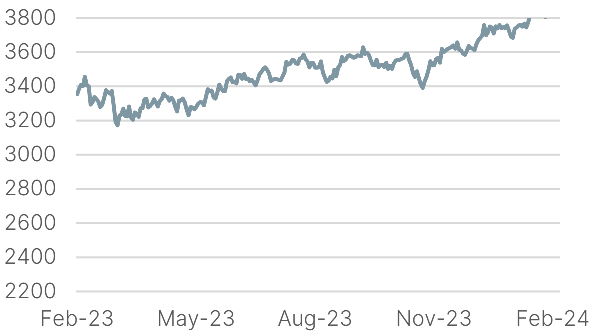
FTSE 100 index, past 12 months



EuroStoxx 600 index, past 12 months



S&P 500 index, past 12 months



All data shown in GBP.

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