Are Collectibles the New Real Estate?

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EVERYDAY it seems that another collectible is sold for a record price. Consider three widely publicized sales in the last month. Babe Ruth's contract, which sent him from the Red Sox to the Yankees in 1919, went for nearly $1 million. A 1913 Liberty Head nickel went for $4.15 million, up from $3 million a year earlier. And a 1918 upside-down biplane stamp sold for $525,000, more than three times its pre-auction estimated price.

Are collectibles a sound financial investment? If the past is any guide, the answer is no. Historically, collectibles have yielded a much lower return than stocks and carried more risk.

Benjamin J. Burton of Lehman Brothers and Joyce P. Jacobsen of Wesleyan University conducted an exhaustive summary of studies that estimated the financial return from investing in collectibles in an article published in The Journal of Economic Perspectives in 1999. They examined the payoff from holding several kinds of collectibles, including art, wine, antiques, ceramics, coins, stamps, books and Beanie Babies.

Measuring the return from investing in collectibles is difficult because the items that are sold each year are not identical and some items are rarely sold. Three methods have been used to estimate the return. One involves tracking the prices of objects sold on multiple occasions. Another follows the prices of a portfolio of similar but not identical items each year. And a third tries to adjust statistically for the characteristics of items that are sold at different times - for example, a large Picasso should sell for more than a smaller one, other things being equal.

Despite the methodological differences, according to Mr. Burton and Ms. Jacobsen, the results from the various methods all support the same conclusion: "The majority of collectibles yield lower financial returns than stocks, and studies that include a measure of variability over time uniformly find that collectibles embody more risk than most other financial assets."

For example, using information on repeat sales of paintings , William J. Baumol of New York University estimated that the compound rate of return was just 0.6 percent a year after accounting for inflation, more than 8 percentage points below the rate of return from stocks.

The actual return on holding collectibles may be even lower than most studies indicate because they do not take account of storage and insurance costs, commissions on sales and the risk that it may be difficult to find a buyer. And that does not even take into consideration the products that are manufactured and sold as collectibles from the outset.

To be sure, there have been periods when artwork and other collectibles yielded a higher return than stocks, but those periods tended to be brief and hard to predict. The resale price of Beanie Babies, for instance, grew at an astonishing rate of 140 percent a year from 1994 to 1999 - and has since crashed.

The return on collectibles is inherently volatile because demand depends mainly on buyers' whims and current fads, not on fundamentals. For example, the fundamental value of the biplane stamp is just 24 cents, not enough to mail a letter; the rest of its value comes from consumers' tastes. And it is true that Babe Ruth was traded to the Yankees for $100,000 - which translates to $1.2 million in today's dollars - making the $1 million price tag his contract just fetched sound like a bargain. But the original contract came with Babe Ruth!

Looking across all types of collectibles, Mr. Burton and Ms. Jacobsen find that collectibles tend to yield a higher return when the stock market does poorly (Beanie Babies notwithstanding). Still, collectibles do not provide as good a hedge against stock market risk as bonds or money market accounts, which probably explains why virtually all hedge funds and mutual funds have shied away from investing in collectibles.

So why has the price of some prestigious collectibles surged lately? One possibility is that the news media has just played up some extreme, eye-catching cases. Given the high price volatility and wide variety of collectibles, it would be surprising if some prominent items did not rise sharply in value every year.

Another possibility, however, is that we are in one of those infrequent periods when the price of collectibles is surging. Scott Mitchell, a numismatist at Stack's Coins in New York, said that over the last five years there has been an increase in both the sales volume and price of rare coins, because of publicity about some high-profile sales like the Liberty Head nickel and a desire by investors to move funds from stocks to rare coins.

Still, the average collector and investor would be wise to recognize that collectibles have historically been a poor investment but a good hobby.

"The most important thing I have found out," said William Gunn of Lawton-Wellington Collectibles Inc. in West Palm Beach, Fla., who has sold sports memorabilia for 27 years, "is that many people are more interested in the sizzle than the steak when they buy collectibles; they like the story more than the item."

Presumably the joy that buyers derive from owning and displaying collectibles is why people buy them despite their poor financial return. This is unlikely to change.

Mr. Gunn added that he advises customers, "Buy stocks and bonds to make money; buy memorabilia for the pride and pleasure of ownership." That sounds like sound advice to me, despite the hype given to a few recent record-breaking sales.

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