

## ART AS AN ALTERNATIVE INVESTMENT ASSET CLASS IN EMERGING ECONOMIES: A STUDY LINKING PERSONALITY FACTORS TO INVESTOR BEHAVIOUR

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### ABSTRACT:

This research paper attempts to analyse Art as an alternative investment asset class in the emerging economies with linking personality factors to investor behaviour. The purpose of study is to analyse the influence of BIG FIVE personality factors in investment in art as an alternative asset class among the investors of emerging economies. Earlier the investment pattern was only bank deposits, bonds, fixed deposits, schemes, etc. but these days it has evolved into alternate investments. Alternative investments include venture capital, hedge funds, private equity funds, art and antiques, commodities, derivatives, Real Estate Investment Trust (REIT), Mortgage based securities (MBS), etc. and more so investors are looking into investment in collectibles such as Art investment. For the purpose of this study, the primary data will be collected from respondents through a structured questionnaire to analyse the type of personality who invests in Art as an alternative investment.

**Key Words:** Art investment, Alternative Investment, Personality factors, Investor behaviour, Emerging economies.

### 1. INTRODUCTION:

#### 1.1 Background of the research

Art as an asset class has a financial history which dates to the 1940s. Some researchers point out that investment in art as an asset class started soon after the Second World War (**Frey and Pommerehne, 1989a**) when it was first observed that financially driven art investment and holding art emerged as source of potential gain. The authors analysed the financial performance of art as an asset class and concluded that art investors may not purchase artworks purely for their aesthetic value. Art works were also found to be a source of capital appreciation with yielding higher returns as compared to traditional asset classes such as like commodities, financial instruments, or real estate. There is a growing interest among collectors and investors in art as an alternative asset class. At the same many wealth management firms and auction houses offer art investment services to discerning clientele comprising high net-worth individuals, art dealers, professional investors and so on who look at the potential benefit of purchasing art for investment purposes (**Frey and Pommerehne, 1989b**). The market for art exhibits characteristics that are distinct from other markets for investments as artworks are unique, heterogeneous, illiquid, and infrequently traded. Also, as the value the value of art works poses challenges in estimation anomalies do arise due to market inefficiency which cannot be annulled by arbitrage.

“Art speculation” has matured into “art investment” as collectors and family offices increasingly see art as a working part of their wealth portfolio. The monetization of art is big business: banks offer specialist loans against art; hedge funds and dealers place irrevocable bids at auction from clients speculating on lots outperforming their estimates; and brokers advise their clients on buying art for investment. Money flows fastest in those areas with the highest “supply” and turnover: contemporary art, jewellery, cars, wine, whisky, and watches. These specialist auction markets are concentrated in London, New York, and Hong Kong, creating a dynamic market with associated price fluctuations that percolate at different levels depending on where they are offered. Such collections should be valued regularly for insurance and tax planning purposes (**Knight Frank-The wealth report 2020**).

The wealth management industry is dealing with ways and means to ensure the sustainability of art as investment and investor education on the lucrative nature of art works as investment. (**Deloitte 2019**).

The high net-worth individuals lobbied with wealth managers and investment consultants to include art in their investment portfolio and ensured that art can be inherited as an asset class by the next generation. The emergence of art as an alternative investment class required a sounder understanding of the underlying behavioural motives and investment behaviour of art investors. (Mohammed Z, 2011)

**Elroy Dimson and Christophe Spaenjers (2014)** reviewed the long-term investment performance of collectibles and found that emotional assets have outperformed government bonds, Treasury bills, and gold over the long run. The study also finds that emotional assets are particularly attractive to some high-net-worth investors.

## **1.2 Introduction to the study**

The existence for market for art as a collectible and as a form of alternative investment is not new (**Burton and Jacobsen, 1999**). The asset class of collectibles – art, antiques, coins, stamps, Vintage cars, toys, furniture, wine and other investments have a long history of being traded by high-net-worth individual investors, art collectors, professional traders and auction houses for reasons portfolio diversification, psychic returns, aesthetic value and enhancement of social status among others (**Dimson et.al, 2013**). From a rational investors' perspective, it does not seem to be purely rational to invest in art for key reasons. First, art as a collectible is perceived to be a speculative asset that generates nominal income for the investor. The financial performance of art is linked to that of traditional asset classes such as say stocks, mutual funds, securities, gold etc. Second, art as an asset class demonstrates a potential diversification effect relative to traditional asset classes, but this needs to be viewed with caution (**Burton and Jacobsen, 1999**).

Art as an asset class may not hedge against large price declines during periods of downturn as art is an illiquid asset. Also, art as an alternative form of investment often is subject to changing trends and preferences, which can strongly impact long-term and liquidity of the investment in the hands of high net-worth individuals. Art as an asset class is also prone to incurring costs and risks associated with preserving paintings and master pieces such as storage, conservation, maintenances etc, which do not relate much to traditional investments (**McInish and Srivastava, 1982**). Be that as it may, the market for art as an asset class among high net-worth individuals, collectors, professional traders, and auctioneers has overcome intrinsic resistance among them. As a result, art has emerged to form an alternative investment option within available basket of investments.

This study investigates the link between the personality factors of high net-worth individual investors who invest in art and their behavioural intention towards this asset class as such investors may not be purely financially motivated. The study also examines the behavioural characteristics of high net-worth individual investors as demonstrated by their personality traits. Personality is thereby captured based on the well-established Big Five model (**McCrae and John, 1992; McCrae, 2009**), which establishes five main factors for measuring personality traits. Investors in art as an alternative investment asset class seek to not only increase their collection of items but also strive to preserve and safeguard their collections. The psychological motives for behind collecting art indicate that collecting is an intrinsic economic behaviour that is neither labelled as consumption nor a form of investment activity but, it is nevertheless impacted by psychological dimensions (**Backeland 1981**). Non-financial motivation such as joy of ownership and peer status is a major behavioural dimension among high net-worth individuals as a motive to invest in art.

## **2. NEED FOR THE STUDY:**

The present study was undertaken to understand the Art as an alternative investment asset class in emerging economies, so this study even identities linking personality factors to investor behaviour. The findings of the extant literature point to art an asset that can offer exceptional return with diversification. The actual need of the study is to understand the investors behavioural dimensions behind investing their money in artwork. A study linking personality traits and investor behaviour will be discussed in the study. Several studies were conducted to understand different aspects of investors, but results related to the art investment was still equivocal. The primary data for the proposed study to ascertain the level of awareness and investment acceptance of art as an alternative investment option will be collected through a structured questionnaire from a sample of respondents comprising individual investors such as high-net-worth individuals, wealth mangers, collectors etc. The objective of the sample survey is to understand the underlying factors for the insufficient development and dearth of popularity of art investments among Indian potential investors.

## **3. AIMS AND OBJECTIVES:**

### **3.1 Aims and Objectives of the study:**

The present study focuses on Art as an alternative investment asset class in emerging economies: A study linking personality factors to investor behaviour.

The specific objectives of the given study are:

1. To examine the alternative investment avenues of the High-net- worth individuals.
2. To understand the advantages of art investment and how it is beneficial for the High-net- worth individuals.

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3. To investigate and delineate the linking between personality traits and investor behaviour.
4. To identify the investment pattern of High-net- worth individuals in art assets.

## 3.2 Research Questions:

The present study focuses on Art as an alternative investment asset class in emerging economies: A study linking personality factors to investor behaviour.

The specific research questions of the given study are:

1. What are the alternative investment avenues of the High-net- worth individuals?
2. What are the advantages of art investment and how it is beneficial for the High-net- worth individuals?
3. What is the linking between personality traits and investor behaviour?
4. What is the investment pattern of High-net- worth individuals in art assets?

## 4. LITERATURE REVIEW:

According to **Daniel et. al., (1998)** in their study, “Investor psychology and security market under- and overreactions” explained the behaviour of the investor and purchasing style, simultaneously even about the returns gained through it. The study tried to highlight the effects of the biases. Various elements are identified with their impact on autocorrelations. The study has also covered the returns gained by the investors. It is said that several irrational behavioural patterns cannot be studied in one theory. The paper showed the abilities of the investors. Lastly, paper even explains the market and public tendency to react to the information.

According to **Chavali and Mohanraj (2016)** in their study, “Impact of demographic variables and risk tolerance on investment decisions: an empirical analysis”, identified the relationship between demographic characteristics of investors and their investment pattern. Moreover, the paper described the risk tolerance of the people and their decision towards it. The study noticed that gender is the essential and important impacting variable on investment decision.

According to **Pak and Mahmood (2015)** in their study “Confirmation bias, overconfidence, and investment performance: Evidence from stock message boards” found the financial behaviour of the students with regards to their personality characteristics. The study was conducted in context with post-Soviet transition economies. Moreover, the study even included the cross-country transitions of financial information, which holds a wide range of investors.

## 5. RESEARCH METHODOLOGY:

The current study will make use of the interpretivism research paradigm. This will help in gaining insights of the Art as an alternative investment asset class in emerging economies. The study will help in delineating the linking personality traits to investor behaviour. The researcher has selected the descriptive research design for this study as the dependent, and independent variables have been identified in the previous section of the study (**Yeboah-Fofie, 2017**). The researcher has found the tentative consequences of the study and concluded it as per the selected research design. Research process which includes the data collection, analysis of data and interpretation of data (**Hennink, Hutter, & Bailey, 2010**). Moreover, the current study will utilize a quantitative research approach. In a quantitative research approach, numeric or statistical approach is implemented, and the experiment is designed which involves the data collection through the surveys (**Williams, 2007**). The present study will be using a questionnaire tool to collect the data. In this survey technique, the questionnaire tool will be utilized as that will help in collecting precise answers for the questions provided as per study and help in generating results for the study. Further, the drafted questionnaire will incorporate structured questions with predefined options as this will benefit from getting the meaning result. It will be distributed among High-net-worth individuals who buy or invest their money in purchasing the artwork. Sampling helps in easier and faster collecting the data, and the researcher can also improve the data accuracy (**Sarantakos, 2012**). The sampling adopted in the study is non-judgemental probability sampling, where people have knowledge of their background. Lastly, the present study will make use of the primary data collection techniques to strategically achieve the objectives of the study.

## 6. LIMITATIONS OF THE STUDY:

The current study makes use of a quantitative research approach for data collection. The reasons for a person may vary from one person to another as they have different opinions. Thus, a few details cannot be defined properly. The current study has a limited number of groups (High-net-worth individuals), so there will be a bias between the opinions of the investors. As per above mentioned, the utilization of the primary data will be done for creating the findings and conclusions of the study, so wherein other studies may or may not be accurate or related to the study conducted. Thus, the reliability of those facts can be questioned. Lastly, the present study aims at gaining the perspective of High-net- worth individuals regarding art works investments. As this will help in gaining meaningful results, so this information gathered for this will be through the questionnaire technique. It is noticed that some people may not prefer investing the money in Art might prefer in some other thing. Thus, it may not give an accurate result as data would be collected from other people also.

## 7. SIGNIFICANCE OF THE STUDY:

The research conducted for the current study will offer tremendous insight into Art as an alternative investment asset class in emerging economies: A study linking personality traits to investor behaviour. The study will accept various actions that will help to explore and discover new data related to the study. The present study will be useful for understanding the investing patterns of the individuals (High-net- worth individuals). Moreover, the present study undertaken will be useful for investigating various ways of achieving success in having artwork as an asset. Apart from that, the motives and the factors affecting the High-net- worth individuals in purchasing artwork will also be explored through primary data collection methods. The findings of the current study will be related to examine the alternative investment avenues of the High-net- worth individuals. Secondly, understanding the advantages of art investment and how it is beneficial for the High-net- worth individuals. Followed by finding the linking between personality traits and investor behaviour. Lastly, analysing the investment pattern of High-net- worth individuals in art assets.

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