The

Estate Analyst®

July, 2006

Art Collections of Great American Estates

By Robert L. Moshman, Esq.

Many wealthy people have discovered one of the eternal verities of the human condition; life is short, but art is forever.1

As a result, many large estates are invested heavily in highly valuable works of art. This is both a means of diversifying the investments of an estate and a way of becoming associated with something long lasting that can transcend one's lifetime achievements.

Names like Frick, Guggenheim, and Getty now represent museums with timeless collections of mankind's greatest art. Yet each of these names originally achieved wealth in fields far removed from the world of art.

Let us review the path toward art in several of the great American estates and consider the investment, tax, and financial lessons that may be applied to other estates today.

Dawn of the Great Fortunes

For most of human history, great wealth usually meant owning land and lots of it, and was therefore limited to a very small group of aristocrats. But toward the end of the 19th century, a series of amazing changes known as the Industrial Revolution took place.

New technology and fuel sources increased productivity. Instead of craftsmen turning out individual products by hand, factories could turn out goods faster. Transportation and communication improvements broadened markets and built a world economy. Mass-production techniques such as the assembly line introduced by Henry Ford took productivity to an even higher level. And the development of capital markets made it possible for new businesses to be financed…and for individual investors to share in the profits of all this new productivity.

By the turn of the century, a new breed of super wealthy industrialists had arrived. By 1918, *Forbes* Magazine put together its first "Rich List"[2] and, not by coincidence, atop the list were legendary industrialists with new fortunes from oil, steel, banking, automobiles, mining, and railroads. Among them were enduring names such as Carnegie, Rockefeller, and Ford.[3]

Nowadays, perhaps the only person routinely identifying himself as an "industrialist" is H.E. Pennypacker.[4] New technology has provided society with another quantum leap in productivity, providing other paths toward wealth. Bill Gates and other "dot.com billionaires" have taken up residence atop the *Forbes* list of wealthiest Americans.[5]

However, in a mere century, many members of the freshman class of industrialists who once had their stars affixed in the firmament of super wealthy icons, have been largely relegated to the footnotes of history books. The exceptions are those who have achieved permanent recognition through philanthropic foundations. And most visible among such efforts are those who have sponsored permanent collections of priceless artworks.

The Mellon Standard

Andrew Mellon, a financier and industrialist, not only amassed a fortune and served as Secretary of the Treasury under three American Presidents (1921-1932), but also collected 126 paintings and 26 sculptures of the finest works of art in the world. He donated his art, a building, and an endowment to our nation.

At Mellon's request, Congress stipulated that only comparable works of the highest caliber would be added to the museum. Thus was born the National Gallery, which was still under construction when Mellon died in 1937.

Frozen in Time

On the upper east side of New York City, surrounded by the world's busiest urban metropolis, lies an oasis of serenity. It is the former mansion of Henry Clay Frick, frozen in time, just as he left it…with hallways, dining rooms, and courtyards lined with the world's finest furnishings, porcelains, and art masterpieces.

At age 21, Frick started a partnership that perfected the process for turning coal into coke, a key ingredient for making steel. The company employed 1,000 people. By age 30, Frick was a millionaire. By 1918, he was the second wealthiest person in America with a fortune of $225 million.

Who was Frick, the man? Research reveals a few telling anecdotes. When a Pittsburgh bank failed, Frick compensated all the children and other members of a Christmas Club who had lost their money.

But Frick was better known for ruthlessly breaking up a labor strike through force. He surrounded a steel mill with barbed wire and hired a private army of Pinkerton detectives to break the will of the union. This confrontation resulted in several deaths and negative publicity, and caused a parting of the ways between Frick and Andrew Carnegie.[6]

Yet it is Frick's Fifth Avenue mansion, left intact to New York City, with its art collection containing priceless works by Rembrandt, Bellini, Titian, El Greco, Turner, and Monet, along with an endowment of $15 million, that remains the legacy by which he is known.

"Here is my home, just as I left it," he seems to have said through this magnificent gesture. "Remember me as a patron of the arts and a benefactor to the public."

The Barnes Foundation

Leaving a collection of art, intact, in a specific setting, is a recurring theme in a number of estates. Quite a number of wills of the rich and famous have taken pains to protect and preserve great mansions and gardens as a way of demonstrating just what was accomplished during a great lifetime.

A related example was that of Dr. Albert Barnes, who developed Argyrol. Neither the man nor his product became household names during his lifetime. But prior to the advent of antibiotics, available antiseptic products were too toxic or caustic to be used in the eye. Argyrol, a simple solution of silver and protein, was prescribed for use in eye drops (and for other purposes) for the first half of the 20th century. In fact, Argyrol captured the world market and by 1907, Dr. Barnes was a millionaire. By 1910, he was able to concentrate on collecting art.

Unlike Henry Clay Frick, who was known to spend $500,000 for the most valuable paintings available, Dr. Barnes applied the same business drive and acumen that built his fortune to the art market. He studied the art, the artists, and the market and skillfully acquired works long before they appreciated in value.

The Barnes collection, which is concentrated on post-impressionistic art, includes 181 works by Renoir, 69 by Cézanne and 60 by Matisse, as well as works by Picasso, Monet, Manet, Degas, and others. The current total value has been estimated to be between $6 billion and $25 billion.

In his will, Dr. Barnes established a foundation specifically to further the study of art and prohibited sales of any paintings or large-scale exhibitions. But in 2004, when the Barnes Foundation's endowment ran out (perhaps through mismanagement), the Montgomery County Orphan's Court ruled that the will of Dr. Barnes could be broken.

Land donated by the city of Philadelphia (near other art museums) and pledges of $150 million from three other private foundations, will create a new museum for the Barnes collection. However, many are concerned that the original purpose and intention of Dr. Barnes is being harmed. The art, buildings, gardens and rules had all been designed with art education in mind and leaving it intact was part of that vision, not about Barnes or public exposure.[7]

Second-Generation Wealth

John Paul Getty was one of the world's first billionaires and his book, "How To Be Rich," was a best seller. But Getty made it clear that the book wasn't about how to get rich. He had inherited a profitable oil business and said that he would not have been as wealthy otherwise.

But as opposed to either oil or wealth, Getty's lifelong passion was art and classical antiquities. His collection is now exhibited in an exquisite $1-billion museum with a multi-billion endowment.

The Getty Center in Brentwood on the outskirts of Los Angeles, California, features a view of the Pacific Ocean, a seven-story-deep underground parking garage with over 1,200 parking spaces, an automated tramway to the museum, buildings made of travertine and white marble, and collections that include Greek, Etruscan, and Roman sculptures, as well as "Irises" by Vincent van Gogh.[8]

Similarly, Ken Thomson, the wealthiest person in Canada (and ninth wealthiest worldwide with $19.6 billion according to *Forbes*), inherited an empire that now employs 39,000 in 46 countries. However, upon his recent death, media accounts of his life cited "Merchant Princes," a book by Peter Newman which notes that Thomson took little pleasure in his career.

"That's the strange part of it," wrote Newman. "He's not a very happy man. He doesn't enjoy life, with the exception of his art." But Thomson did love art. He owned 200 paintings by Dutch-Canadian artist Cornelius Krieghoff and his collection was appraised at $18 million.

Meyer Guggenheim amassed a fortune with a mining company at the turn of the century, but his son Solomon Guggenheim was more interested in modern art. His collection is now housed in the iconic spiraling Fifth Avenue museum in New York that was designed by Frank Lloyd Wright. Branches of the museum are now in Bilbao (Spain), Venice, Berlin, and Las Vegas.

Nouveau Riche

Nothing says "class" faster than buying a classic. Fueled by an insane real estate bubble and monopolistic keiretsu (cartels), Japanese moguls started buying Western art. The climax was the purchase Van Gogh's "Portrait of Dr. Gachet," at a 1990 Christie's auction for $82.5 million by Ryoei Saito, then chairman of Daishowa Paper Manufacturing Co.[9]

But wealth is a transitory condition and even "priceless" art can be overvalued. Many art trophies from that era were sold at a loss. More recently, ultimate artworks began finding their way to new casino-funded museums in Las Vegas. Works by Kandinsky, Picasso, Cézanne, Chagall, Bonnard, and Delaunay are on display at the "Venetian," and other masterpieces will be displayed at Steve Wynn's $2.7 billion mega-resort, "Le Reve."

Genuine masterpieces amidst ersatz Elvi and zirconium-encrusted showgirls? In time, visions of faux palaces shall blur into the pages of history, then fade into legend, and what happened in Vegas will stay there, reclaimed by the Mohave Desert sands. But the art will move on and take up residence in mansions and museums wherever wealth has relocated.

Art is forever.

Practical Advice for Collectors

There are numerous art price indices. One by New York University economists indicated a recent 14.5% increase in values. Another index reflects contemporary art quadrupling in value since 1995. But with so many variables and so much subjectivity, any valuation is problematic. A serious art investor may be well advised to invest for at least five years. Diversification principles also apply, and there are now art funds to accomplish this.[10]

Additional practical points are to invest in styles you like. Know your subject and study the market. Be diligent in exploring provenance for authenticity. Get independent appraisals for a fee rather than for commissions based on sale price.

In addition to insurance, provide security from water, fire, theft, children, smoke, flying objects, and, most especially, sunlight.

Finally, if one's ultimate plans involve a donation, note that *Rev. Proc. 96-15* requires charitable deductions of $50,000 or more for gifts of art to be reviewed by the Art Advisory Panel. A fee of $2,500 covers the first three artworks. A provenance must be submitted for each artwork. Donations of art to a museum for a "related use" enable a charitable deduction for the current fair market value.

TECHNICAL REFERENCES

1. Perhaps the oldest and most famous expression of this is, "Ars Longa, Vita Brevis," which translates as "Art (is) Long, Life (is) Short." This is attributed to Hippocrates, the Greek physician, who lived from 460 to 377 B.C.

2. *Forbes* Magazine publishes an annual list with the estimated wealth of the world's richest people. The first such list was published in 1918 and can be found on the *Forbes* website.

3. Andrew Carnegie sold his steel holdings for $480 million in 1901 and was briefly the world's wealthiest person…before immediately funding philanthropic causes such as education and world peace—giving away 90% of his fortune in 10 years. John D. Rockefeller, who next assumed the world's wealthiest person title, spent the final 40 years of his life giving away wealth. His foundation, established in 1913, supports "the well-being of mankind," provides grants for health, science, and the arts, and had $3.1 billion of assets in 2001. The Ford Foundation's goals are to "strengthen democratic values, reduce poverty and injustice, promote international cooperation, and advance human achievement." It had assets of $10.5 billion in 2004.

4. "I'm, uh, H.E. Pennypacker. I'm a wealthy industrialist and philanthropist and, uh, a bicyclist." Kramer, posing as a prospective homebuyer as a ruse to use a bathroom on the show "Seinfeld."

5. The founder of Microsoft and his wife have continued the tradition of philanthropy. The Bill and Melinda Gates Foundation is currently endowed with $29.1 billion, the largest in America.

6. The private army of Pinkertons defending the steel mill eventually surrendered to the mob and were beaten, prompting 8,000 militia to be deployed. These conflicts also prompted an assassination attempt by a Russian anarchist during which Frick was shot and stabbed with a poisoned knife. "Don't shoot! Don't kill him," Frick said, stopping the police, who came rushing in with guns drawn, "The law will punish him." The would-be assassin spent 14 years in jail. Frick was back at work in a week. Sources: *Encyclopedia Brittanica, Wikipedia, Forbes, The First Rich List, p. 5 (online).*

7. *The Barnes Foundation's Future*, an article by Lita Solis-Cohen appearing in Maine Antique Digest (2004) and available online, details the carefully designed art education environment that is being lost.

8. The Getty Center was recently in the news as a result of stolen art acquired by a former curator, underscoring the need to confirm the authenticity of title for artwork, particularly with antiquities. See, Moshman, *Stolen Art,* The Estate Analyst, April, 2003.

9. A furor erupted at Mr. Saito's plan to have the painting cremated with him, but he later claimed to have been misunderstood. After peaking in 1990, top art prices fell 35% over 15 years but have since recovered. Picasso's "Boy With a Pipe" was purchased for $104.2 million at a Sotheby's auction in 2004. "Portrait of Dr. Gachet" has an inflation-adjusted value that remains the record.

10. According to an article posted on *Bloomberg.com* by Deepak Gopinath, about a dozen art hedge funds have been formed since 2004 and a typical management fee would be 2% of assets plus 20% of all profits. See also, Moshman, *The 21st Century Art Estate,* The Estate Analyst, (July 1999).