

Skate's Art Market Research

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Annual Art Investment Report by Skate's: 2010 in Review, Forecast for 2011

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Seven Predictions for the Art World in 2011

1. Art securitization will be the most important new trend to watch.
2. Christie's will go public if it is not sold to new owners, at least one more IPO in the art industry will take place in 2011.
3. Artnet will harvest its investment in online auctions and will become the top performing stock in 2011.
4. MCH Group will be pressed to launch online strategy for Art Basel events
5. The value of Skate's Top 5000 will exceed \$30 bln and its threshold price will go over \$2 mln
6. Warhol will overtake Monet as the world's second most valuable artist
7. More attention will be paid to photography

Introduction

Welcome to the Annual Art Investment Report by Skate's. Published by Skate's Art Market Research since 2006, this report covers global art market trends and provides forecasts for the coming year. Our coverage is focused on the universe of global artists (647 names as of December 27, 2010) whose works are represented in Skate's Top 5000, our database of the world's most valuable art based on auction prices. We also follow all publicly traded companies operating in the art industry around the world, tracking their performance with Skate's Art Stocks Index.

To learn more about Skate's Top 5000 and the artworks and artists represented, please download Skate's application for your iPad or visit www.skatepress.com. For art stocks and art funds coverage, please visit [Skate's Art Stocks & Funds](#).

In this report, we focus on the world's leading auctions that saw artwork sales qualifying for entrance into Skate's Top 5000 in 2010 (the threshold price currently stands at \$1.87 mln). Skate's currently covers 30 auction houses globally, of which Sotheby's, Christie's and Phillips are by far the most significant contributors of works to Skate's Top 5000 (2375, 2265 and 113 sales records, respectively).

2010 Art Market Overview

- *SKATE'S TOP 5000 ARTWORKS GENERATE \$3.6 BLN IN TRADING VOLUME IN 2010*
- *14% OF VOLUME IS REPEAT SALES*
- *WEIGHTED AVERAGE ERR ON TOP 5000 REPEAT SALES INCREASES TO 4.24% PER ANNUM*

2010 will go down in history as a stellar year for premium segment art, an assertion supported by the new price and volume records we detail later in this report. Since our expansion from the original Skate's Top 1000 to Skate's Top 5000 in May, we have created an unparalleled vantage point from which to monitor the performance of the global art market. Our statistics show that this year high net worth individuals, state and private museums, art funds and other institutions were prepared to make numerous acquisitions of works with seven-figure price tags throughout the year; in total we registered 588 sales in Skate's Top 5000 during 2010. This coincided with an increase in the ranking's threshold price by 7.1% to \$1,870,000.

The total volume of trading in Skate's Top 5000 art stood at \$3.63 bln in 2010, or \$6.1 mln per work of art.

The premium segment of the global art market is also becoming increasingly diverse. Of the 223 artists whose works changed hands at auction above the Skate's Top 5000 threshold of \$1.87 mln, 47 were artists with no prior price records in the ranking, 46 were living artists and

53 artists came from BRIC countries. The only apparent conservative trend in the art world is the prevailing dominance of male artists; 2010 saw only 8 female artists (of the 223 total number of artists) trading at Top 5000 prices.

The statistics for 2010 have confirmed one of the most important predictions we made last year, i.e., that the growth in both the volume of repeat sales and the repeat sales of premium artworks themselves would be comparable to those high-priced artworks entering the auction market for the first time. In 2010, repeat sales represented 12.3% of all trades within Skate's Top 5000 and contributed to 13.9% of its volume. The ERR indicator on repeat sales that Skate's has pioneered is becoming an increasingly convenient yardstick to measure investment returns in the art world, especially since the number of artists with more than five repeat sales records in Skate's Top 5000 grew to an all-time high of 154 artists by December 2010.

As for investment returns, the weighted average effective rate of return (ERR) on repeat sales has increased from 4.10% to 4.24% per annum (before ownership costs and taxes).

Skate's Top 5000, Statistical Overview for 2010	
Number of new entrants ¹ in 2010	588
Total value of new entrants, USD	3,629,214,346
Number of artists among new entrants	223
Number of new artists ² since 31-May-2010	47
Number of living artists among new entrants ³	46
Number of female artists among new entrants	8
Number of BRIC artists among new entrants ⁴	53

Top 5000 Trading Review (2010)	
Total value, USD	27,630,454,263
Percentage of trades made up of repeat sales	12.3%
Percentage of volume made up of repeat sales	13.9%
Number of artists with more than 1 trade	358
Number of artists with more than 5 trades	154

Top 5000 Benchmarks	31-May-10	31-Dec-10
Threshold price, USD	1,745,621	1,870,000
Weighted average ERR, annualized % ⁵	4.10%	4.24%

Source: Skate's Art Market Research

¹ New entrant – an artwork included in Skate's Top 5000 with its most recent auction price record achieved in 2010

² New artist – an artist that had no representation in Skate's Top 5000 at the time his/her work's sale on the auction market qualified it for entry into Skate's Top 5000

³ Living artists – living as of the date of related auction sale

⁴ Artists attributed to BRIC on the basis of their place of birth (i.e., Brazil, Russia, India or China)

⁵ Weighted average effective rate of return calculated for the entire statistical set of Top 5000 repeat sales records with weights assigned on the basis of the initial purchase price (including buyer's premium), converted to USD (for non-USD sales) on the basis of the exchange rate at the time of sale

Changes in Market Capitalization

2010: THE YEAR'S SHOOTING STARS ARE WARHOL, PICASSO, DAQIAN AND BASQUIAT

With \$3.6 bln in trading volume in 2010 alone, Skate's Top 5000 peer group of global masterpieces is currently valued at \$27.6 bln. Put in starkly realistic terms, with all the world's valuable art one would barely have enough capital to purchase a mere 25% of Pepsico Inc at current valuations. Nevertheless, Skate's Top 5000 provides enough fresh data points to make some important observations about market trends that are very likely to continue into 2011. These observations are used as the basis for market forecasts included in the final section of this report.

First, we see an increasingly more efficient market for artists with a large free float (i.e., a significant volume of art in private hands traded on the auction market) and multiple repeat sales records. Capital flows consistently into the market for higher value and more liquid artists, and transactions involving their works typically generate returns in well-defined ranges that are, on average, moving upwards.

As we see in the table below, eye-catching ERR records are often set by artists with a less liquid market that has a shorter auction history. These artists are also statistically insignificant; none of the Top 10 artists in terms of market capitalization have an historical weighted average ERR in excess of 35%. In fact, they tend to group well below 20% (4.24% is the average for Skate's Top 5000).

At the same time, artists with the highest historical ERRs tend to have very volatile markets. In 2010, Hirst, Bacon, Wesselmann and Minjun had no repeat sale record on the auction market, while Levitan, Kustodiev, Master of the Legend of Saint Barbara and Frans Hals I did not have a single auction sale in 2010. Taking into account the fact that Noguchi's 2010 record was the artist's only repeat sale record in Top 5000, of the top 10 weighted average ERR leaders, we are left only with Rodin, who is indeed unique in his ability to combine both an established market and consistent repeat sales records and phenomenal weighted average ERR of about

90% per annum. That said, the fact that Rodin scored three out of his four all time Top 5000 repeat sales in 2010 makes us wonder if this phenomenal track record can continue into 2011 or whether 2010 was an outlier for a suddenly booming Rodin market.

Second, looking back into the art market's statistics for 2010, the dominance of Picasso and Warhol is staggering. Both are by far the 2010 champions in the following categories: number of auction sales, number of repeat sales (Warhol #1 in both cases) and overall trading volume (here Picasso ranks first).

The second table in this section lists related rankings for 2010 and provides some less obvious but perhaps even more interesting insights into two developing "equity stories" on the global art market. One is Chinese artist Zhang Daqian, currently ranked #65 in Skate's list of most valuable artists based on the value of Top 5000 artworks – 17 of 20 Daqian's Top 5000 artworks changed hands in 2010, producing a weighted average ERR of 25.17% for the artist and making him perhaps the hottest and most speculative name in the art market in 2010. The second story to watch is Jean Michel Basquiat who passed away just five years after Daqian (albeit after a much shorter life) and is currently ranked #21 among the most valuable artist by Skate's. Of the 11 Basquiat Top 5000 sales in 2010, four were repeat sales that locked a spectacular 36.97% weighted average ERR for the artist. Compared to ERRs of 4.17% and 19.26% for Picasso and Warhol, respectively, Daqian and Basquiat clearly offer higher returns to investors with a higher risk tolerance.

Finally, our third observation concerns those artists among the world's most valuable who did not see a single auction sale in 2010 (see the third table in this section below). Clearly hurt by problems of supply quality, the markets for artists like Degas, Mondrian and Munch are definitely the ones to watch in 2011, as art investors will look for fresh benchmarks for these higher-value artists.

Top ERRs are Outliers while Markets of Established Artists Produce More Consistent Returns

	Top 10 Artist by Market Value	Market Cap (Value of Top 5000 Works)		Top 10 Artist by ERR Record	Weighted Average ERR
1	Pablo Picasso	2,879,510,572	1	Isamu Noguchi	190.20%
2	Claude Monet	1,490,411,425	2	Yue Minjun	147.16%
3	Andy Warhol	1,285,991,395	3	Frans Hals I	114.25%
4	Henri Matisse	798,992,611	4	Auguste Rodin	89.72%
5	Francis Bacon	738,631,619	5	Damien Hirst	53.77%
6	Pierre-Auguste Renoir	705,763,264	6	Francis Bacon	51.60%
7	Paul Cézanne	671,806,902	7	Master of the Legend of Saint Barbara	46.38%
8	Alberto Giacometti	662,775,287	8	Tom Wesselmann	42.87%
9	Vincent van Gogh	641,473,627	9	Isaak Ilych Levitan	38.05%
10	Amedeo Modigliani	640,640,637	10	Boris Mikhailovich Kustodiev	37.51%

2010 Artist Rankings by Top 5000 Volumes, # of Trades and # of Repeat Sales

	Artist	# of trades in 2010	Artist	Volume in 2010	Artist	# of repeat sales in 2010
1	Andy Warhol	31	Pablo Picasso	327,047,337	Andy Warhol	11
2	Pablo Picasso	29	Andy Warhol	283,559,350	Pablo Picasso	6
3	Zhang Daqian	17	Alberto Giacometti	227,138,003	Claude Monet	5
4	Roy Lichtenstein	15	Henri Matisse	179,697,271	Henri Matisse	5
5	Claude Monet	14	Amedeo Modigliani	154,214,765	Fernand Léger	4
6	Henri Matisse	13	Roy Lichtenstein	112,340,253	Jean-Michel Basquiat	4
7	Alexander Calder	11	Claude Monet	82,978,182	Auguste Rodin	3
8	Fu Baoshi	11	Zhang Daqian	76,777,326	Gerhard Richter	3
9	Jean-Michel Basquiat	11	Gustav Klimt	73,949,645	René Magritte	3
10	Qi Baishi	11	Mark Rothko	70,188,500	Alexander Calder	2

Top 10 Artists by Market Cap with No Top 5000 Auction Sale Records in 2010, USD	
Edgar Degas	476,162,798
Piet Mondrian	197,704,179
Edvard Munch	158,852,782
Rembrandt Harmensz van Rijn	158,700,933
Henri de Toulouse-Lautrec	135,384,977
Constantin Brancusi	131,222,812
Maurice de Vlaminck	128,073,266
John Singer Sargent	96,575,500
Raphaël (Raphaël Urbinas Sanzio)	94,106,634
Kasimir Severinovich Malevich	77,055,000

Source: Skate's Art Market Research

Transactions with the Best and Worst ERRs in 2010

THE BEST DEALS ARE DONE WITH MODEST INVESTMENTS AND A BIT OF LUCK






THE WORST DEALS ARE ALL DONE BY THE RULE OF WRONG TIMING AND SELECTION BIAS

The best effective rate of return (ERR) this year was realized by the post-war architect Isamu Noguchi. The seller of Noguchi's bronze sculpture *Undine (Nadja)* achieved a 190% ERR upon its resale. The second notable case was the high return of 189%, which was achieved by a higher-priced work by Auguste Rodin. His sculpture, which was intended to represent Dante, appeared on the market one year later and successfully sold for \$10.5 mln.

Currently in his mid-seventies, Gerhard Richter is providing the art market with works that consistently generate strong ERRs. This is quite unusual for most other living artists who have

very scarce positive repeat sales records. *Abstraktes Bild* is the latest benchmark, having achieved a 45.5% ERR earned after a six-year holding period.

There is clearly no rule for an art investment to achieve a strong ERR in terms of holding period or name of artist. The only obvious strategy is to be mindful of the initial purchase price. One key statistic is that only one of the Top 5000 repeat sales records from this year was actually in the Top 5000 when it was initially purchased; three out of five were initially purchased for prices below \$200,000.

					
Artist	Isamu Noguchi	Auguste Rodin	Gerhard Richter	Xu Beihong	Andy Warhol
Title	Undine (Nadja)	Le Penseur. Taille de la Porte dit Moyen modèle	Abstraktes Bild	Two pigs	Brillo box (3 cents off)
Sale date	05-May-10	05-May-10	09-Nov-10	30-Nov-10	10-Nov-10
Initial Investment, USD	155,350	4,051,278	1,248,000	44,551	43,700
Holding period, years	3	1	6	12	15
Exit Price, USD	3,700,000	10,500,000	10,000,000	1,676,296	2,650,000
ERR	190.20%	189.33%	45.58%	34.84%	31.35%

Source: Skate's Art Market Research

While large positive returns on art investments always seem to be the result of a combination of good investment discipline and luck, the noteworthy negative returns all seem to follow the same set of rules concerning how not to make a successful art investment. All five of the worst exits from Skate's Top 5000 in 2010 followed the same pattern: an investor was apparently unable to choose timing and had to sell after a relatively short holding period (four years or less). All five artworks were produced by artists with less liquid markets than top tier names (no artists from the Top 10 names by



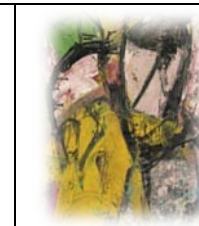


market capitalization listed earlier in this report).

Apart from the negative annualized ERR of 21% brought by the painting from Richard Prince's series of Nurse Paintings and the 12% negative ERR on *Daybreak* by Maxfield Parrish, negative returns are clearly explained by the irrational premiums paid by art investors at the time of initial purchase. The original price paid for *Daybreak* remains by far the highest price ever paid for the artist's work. At the same time, however, the market for the 61-year old artist is

hardly able to sustain the continuous supply of similar artworks at the multimillion dollar level.

Chagall, De Kooning and Lichtenstein are clearly deals with wrong timing (2010 exits were likely driven by distress). That said, these are worrying benchmarks for those three artists, particularly for Lichtenstein, as November brought not only a negative 10% ERR on a

repeat sale but also an all time auction record for the artist (*Ohhh...Allright..*, priced at \$42.6 mln). There is clearly a big “Ohhh” if the work’s buyer ever becomes interested in exiting with a positive ERR on the investment, particularly as Skate’s does not have a single record of an artwork originally selling for more than \$25 mln, producing a positive ERR upon resale.

					
Artist	Richard Prince	Marc Chagall	Willem de Kooning	Maxfield Parrish	Roy Lichtenstein
Title	Millionaire nurse	Roses et mimosas	Sagamore	Daybreak	Modern painting with fishes
Sale date	28-Jun-10	05-May-10	12-May-10	20-May-10	09-Nov-10
Initial Investment, USD	4,745,000	3,608,569	3,442,500	7,632,000	2,256,000
Holding period, years	2	2	3	4	4
Exit Price, USD	2,844,368	2,450,000	3,000,000	4,600,000	1,762,500
ERR	-21.97%	-19.42%	-15.83%	-12.25%	-10.07%

Source: Skate’s Art Market Research

Some Noteworthy Statistics to Reflect On From 2010

FEMALE ARTISTS' SHY PRESENCE, TOP 5000 DROPOUTS AND DEATHS, TOP NEW ENTRANTS

The art market continues its gender bias – no single female artist represented in Skate's Top 5000 has a market capitalization exceeding \$100 mln. Only four of the top 10 female artists saw any auction trading volume at all in 2010.

The queen of the list is Joan Mitchell despite the fact that she ranks only #66 in Skate's list of most valuable artists. Mitchell enjoyed an exceptionally strong market in 2010 and by now

has firmly overtaken Cassatt and Goncharova as the world's most valuable female artist. This status clearly pays with Mitchell commanding an exceptional 30.25% ERR over a fairly representative set of seven repeat sales. We should also note that Marlene Dumas almost made it onto the list this year and in fact would have been on the list had female artists been ranked by the nominal value as opposed to the present value of their Top 5000 artworks.

#	Rank	Artist	Market Cap, USD, PV	Market Cap, USD, NV	Volume in 2010, USD	Repeat Sales	ERR%
1	66	Joan Mitchell	74,602,800	82,290,839	17,100,500	7	30.25%
2	81	Mary Cassatt	57,204,900	47,406,750	0	1	(0.07%)
3	83	Natalia Goncharova	54,864,000	60,623,117	10,239,278	1	30.55%
4	100	Tamara de Lempicka	42,407,900	44,714,000	0	4	11.58%
5	109	Georgia O'Keeffe	37,972,500	34,673,000	7,557,000	1	5.52%
6	136	Agnes Martin	28,592,300	31,114,500	6,407,500	0	n.a.
7	144	Louise Bourgeois	25,878,400	28,306,693	0	0	n.a.
8	198	Frida Kahlo	15,433,600	13,874,250	0	0	n.a.
9	207	Eva Hesse	14,000,700	14,306,198	0	1	24.37%
10	211	Berthe Morisot	13,771,400	13,212,823	0	1	0.56%

Column #1 shows rank among female artists in Skate's Top 5000; Column #2 shows artist's overall rank in Skate's Top 5000; Column #4 shows Market Capitalization in USD and reflects aggregate value of Top 5000 works in present value terms (adjusted to inflation from the date of sale); Column #5 shows the same but in nominal values; Column #6 shows 2010 trading volume on the auction market in USD (only for artworks eligible for entry into Skate's 5000 in terms of market value); Columns #7-8 show number of repeat sales and ERR (weighted average effective rate of return, annualized, %) based on historical statistics of the artist's repeat auction sales (brackets reflect negative returns).

Source: Skate's Art Market Research

This past year saw three sad deaths in the family of the world's most valuable artists.

Louise Bourgeois was the most valuable in terms of auction prices, and Sigmar Polke entered Skate's Top 5000 in 2007, just three years prior to his death. The art market reacted differently to these three deaths. The more liquid (and therefore more efficient) market for Bourgeois' works was immediately flooded with speculative supply which led to no Top 5000 sales on the auction market and resulted in

value-destroying competition among dealers (nine of whom brought Bourgeois artworks to Art Basel Miami Beach in December, for example). The market for Sigmar Polke reacted similarly albeit on a smaller scale; there were also no auction records in Skate's Top 5000 this year, and a small army of five dealers brought Polke to Miami Beach six months after his death.

The market for Wu Guanzhong responded much differently with supply clearly under better

control (no art offered at any major fairs in Q4 2010, and one postmortem auction sale in Skate's Top 5000 in December).

We will watch the performance of all three artists in 2011, and in particular we expect

significant upward re-pricing for Wu Guanzhong, an artist who saw \$13 mln worth of art sold at auction in a single day just eight days prior to his death.

Artist	Date of Birth	Date of Death	Age	Market Cap at Death	Market Cap 31-Dec-2010
Louise Bourgeois	25-Dec-11	31-May-10	98	26,514,693	28,306,693
Wu Guanzhong	29-Apr-19	25-Jun-10	91	25,471,089	26,861,411
Sigmar Polke	13-Feb-41	10-Jun-10	69	7,407,078	7,407,078

Source: Skate's Art Market Research

While the death of an artist does not necessarily mean the end of his or her art market (often quite the opposite happens as a result of increased prices and investor interests), the inability to maintain a steady flow of auction records in the premium price segment can lead to relegation from Skate's Top 5000, and hence from Skate's Top Artists list. In 2010, 32 artists were eliminated from our ranking. Of these, only three were living artists – Banksy, Georges Mathieu and Richard Tuttle.

The biggest losses in Skate's Top 5000 were incurred by well established "blue chip" artists who had no fresh auction price records in 2010, which meant that a lot of their previously top priced artworks were eliminated from Skate's

Top 5000 as a result of the database's quickly growing threshold price.

The market for Edgar Degas is the biggest area of concern, for not only did the artist have no single auction sale in 2010 in the Top 5000 price category, but also eight of his works with a total market value of \$14.3 mln were eliminated due to the rising threshold price of Skate's Top 5000 over the course of the year (reaching \$1.87 mln by Dec 31, 2010). Degas' (and Munch's) works did sell at auction in 2010, but transactions were below the Top 5000 threshold level. Works estimated above this level failed to find buyers (e.g., *Femme nue assis, se coiffant*, estimated by Sotheby's at \$1.5-2.5 mln, went unsold in November).

Artists with Greatest Reduction in Number of Artworks in Skate's Top 5000		Artists with Greatest Absolute Decline in Market Cap (value of their artworks in Skate's Top 5000), USD	
Edgar Degas	-8	Edgar Degas	-14,317,274
Marc Chagall	-7	Marc Chagall	-10,867,757
Pierre-Auguste Renoir	-7	Pierre-Auguste Renoir	-10,142,550
Camille Pissarro	-6	Camille Pissarro	-9,228,665
Alfred Sisley	-5	Paul Cézanne	-9,079,181
Claude Monet	-5	Franz Kline	-9,013,000
Franz Kline	-5	Alfred Sisley	-7,755,027
Paul Cézanne	-5	Emil Nolde	-7,251,350
Emil Nolde	-4	Jean-Léon Gérôme	-5,435,186
Egon Schiele	-3	Erik Bulatov	-5,394,119

Source: Skate's Art Market Research

So who is taking the place of such noble names as Degas and Munch in Skate's Top 5000 and, in so doing, pushing the database's threshold price to levels that require us to remove works by Renoir, Cézanne, Pissaro and many other impressionists from the Skate's Top 5000 hall of (dollar) fame?

Three belong to Warhol, and two each belong to Giacometti, Modigliani, Matisse and Klimt. Save for the extraordinary rise of Warhol, the top entrants to Skate's Top 5000 seem to depend more on auctioneers' ability to source top quality artworks than on the shifting tastes of art market elite.

Below is the list of the Top 20 new entrants to Skate's Top 5000 in terms of auction prices.

Rank in Top 5000	Artist	Title	Auction House	Auction Date	Purchase Price, USD	Repeat Sale ERR, %	Repeat Sale Initial Purchase Price, USD	Repeat Sale Holding Period, Years
1	Pablo Picasso	Nude. Green Leaves and Bust	Christie's	04-May-10	106,482,500			
3	Alberto Giacometti	L'homme qui marche I	Sotheby's	03-Feb-10	103,689,994			
14	Amedeo Modigliani	Nu assis sur un divan (La belle romaine)	Sotheby's	02-Nov-10	68,962,500	12.40	16,777,500	11
15	Andy Warhol	Men in Her Life	Phillips	08-Nov-10	63,362,500			
20	Alberto Giacometti	Grande tête mince	Christie's	04-May-10	53,282,500			
22	Amedeo Modigliani	Tête	Christie's	14-Jun-10	52,327,265			
25	Pablo Picasso	Portrait d'Angel Fernández de Soto	Christie's	23-Jun-10	51,373,651	2.93	29,152 500	15
28	Henri Matisse	Nu de dos. 4 état (Back IV)	Christie's	03-Nov-10	48,802,500			
35	Joseph Mallord William Turner	Modern Rome - Campo Vaccino	Sotheby's	07-Jul-10	45,099,025			
38	Gustav Klimt	Kirche in Cassone - Landschaft mit Zypressen (Church in Cassone - Landscape with cypresses)	Sotheby's	03-Feb-10	42,944,778			
39	Roy Lichtenstein	Ohhh...Alright...	Christie's	10-Nov-10	42,642,500			
59	Sir Lawrence Alma-Tadema	The finding of Moses	Sotheby's	04-Nov-10	35,922,500	17.08	2,752,500	15.5
62	Andy Warhol	Coca-cola - 4 (Large coca-cola)	Sotheby's	09-Nov-10	35,362,500			
69	Edouard Manet	Portrait de Manet par lui-même, en buste (Manet à la palette)	Sotheby's	22-Jun-10	33,296,083	3.46	18,702,500	13
75	Andy Warhol	Self portrait	Sotheby's	12-May-10	32,562,500			
78	Mark Rothko	Untitled	Sotheby's	12-May-10	31,442,500	24.04	1,872,500	12.5
92	Henri Matisse	Bouquet de fleurs pour le quatorze juillet	Sotheby's	05-May-10	28,642,500			

93	Jasper Johns	Flag	Christie's	11-May-10	28,642,500			
94	Juan Gris	Violon et guitare	Christie's	03-Nov-10	28,642,500			
100	Gustav Klimt	Frauenbildnis. portrait of Ria Munk III	Christie's	23-Jun-10	27,786,367			

Source: Skate's Art Market Research

Skate's Art Stocks Index and Global Art Market Forecast

GLOBAL ART INDUSTRY'S ONLY BENCHMARK GAINS 70%, ART MARKET OUTLOOK STRONGLY POSITIVE

The global art industry blossomed throughout 2010, at least when measured with Skate's Art Stocks Index (SASI). Currently covering 11 art industry companies worldwide and calculated since September 1, 2005, SASI gained almost 70% this year in USD terms and reached nearly \$4 bln in total market capitalization.

This stellar performance was largely powered by Sotheby's, which was the top performing art stock of 2010. Sotheby's shares more than doubled in value and now contribute to more than 75% of the total market capitalization of SASI. The auction business model was stronger than ever with auction companies in Japan and South Korea posting massive capital gains for the year. The share prices of listed dealers and art fairs underperformed relative to those of auction houses.

Information and data providers were the market loss leaders in 2010. The worst performance was quite naturally produced by two European companies known for their least transparent financial reporting and opaque disclosure: French information provider Artprice and German photography bank and dealer Camerawork.

The resurrection of the global art market and the surge in art auction valuations have created a powerful magnet attracting private capital into reforming and developing global art trade. Artnet's investment in online auctions; venture capital investments in New England-based Artfacts, New York-based art.sy, Israel-based Mutual Art, India-based Safron; continuing Russian investment in Phillips; Chinese investment in Beijing Poly; the launch of online startup vipartfair in January 2011; as well as various other deals – all of these events serve to highlight the search for new formats and focus for global art trade.

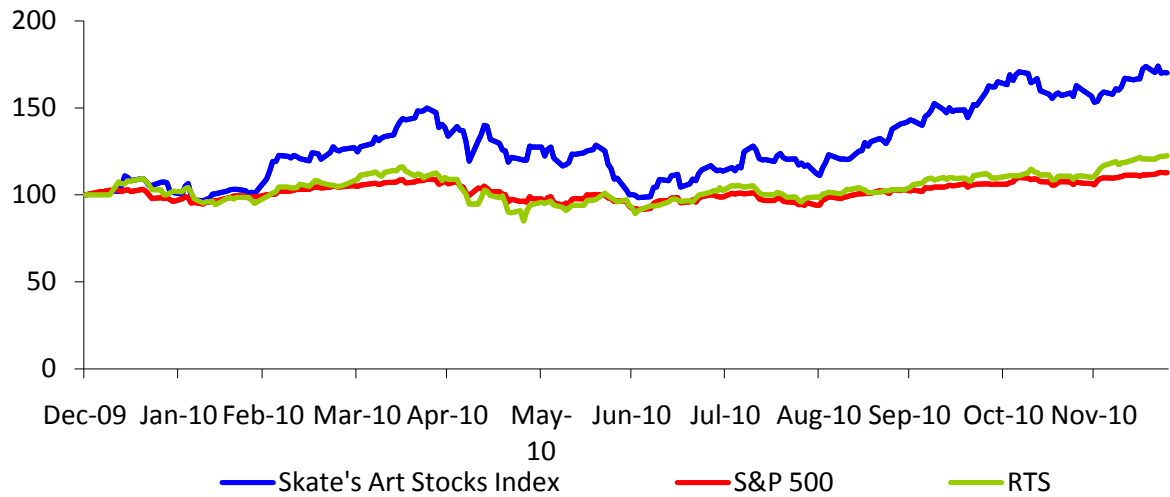
SASI has consistently outperformed not only the S&P 500 (in 2010 and over the last five years) but also many emerging market benchmarks (e.g., Russia's RTS - one of the best performing benchmarks in the global emerging markets universe). This stellar performance creates a very strong basis for further capital inflows into the art industry in 2011. In our final section below we turn our attention to where this capital might go.

Name	Listing/ Currency	December 2010 Performance	YTD 2010 Performance	Price as of 24-Dec- 2010, USD	Market Cap as of 24-Dec- 2010, USD	52-wk High, USD	52-wk Low, USD
Sotheby's	NYSE/USD	12.50%	102.22%	45.46	3 046.41	47.80	21.76
Artprice	Paris/ EUR	7.14%	-11.05%	11.70	74.86	15.70	9.00
Artnet	Frankfurt/EUR	3.86%	-2.66%	6.92	38.29	6.97	5.45
Collectors' Universe	NASDAQ/USD	-6.62%	49.41%	13.97	107.33	17.03	8.73

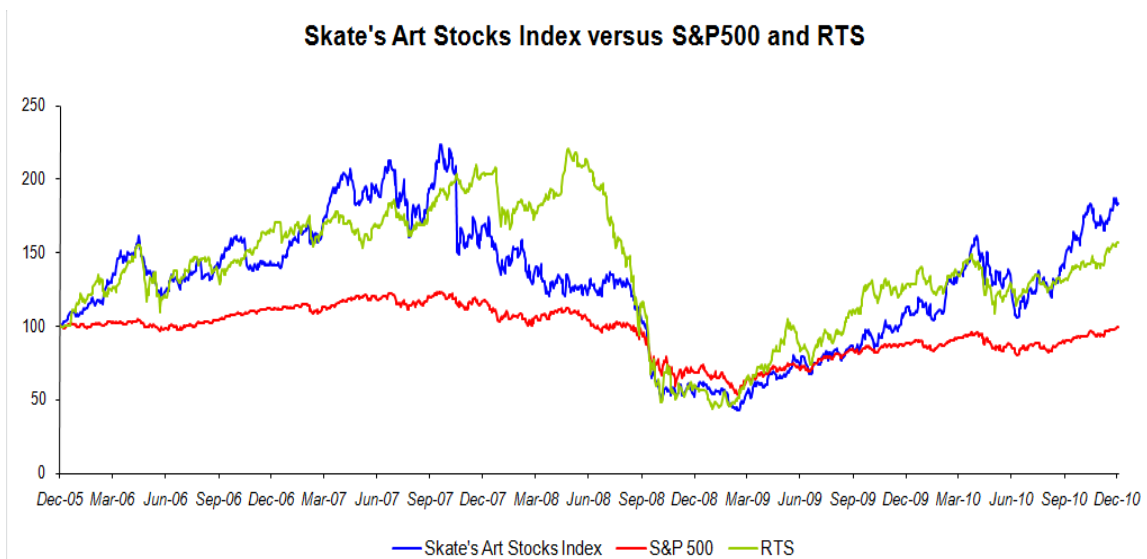
Mallett	London/ GBP	0.34%	0.46%	1.04	14.35	1.16	0.90
Camera Work	Frankfurt/ EUR	8.17%	-10.39%	6 421.94	256.88	8 633.40	5 871.81
Art Vivant	Tokyo/JPY	7.39%	6.50%	2.91	45.00	3.28	2.38
Seoul Auctions	Seoul/WON	11.13%	55.76%	3.75	62.36	4.81	2.34
Shinwa Art Auction	Tokyo/JPY	46.99%	41.58%	360.75	20.92	405.55	200.23
Stanley Gibbons	London/GBP	10.25%	17.01%	2.53	63.82	2.55	1.75
MCH Group	Zurich/CHF	7.55%	32.89%	50.58	243.04	51.09	33.66
Skate's Art Stocks Index		11.06%	69.68%	195.42	3 973.26	199.94	110.96

Source: Skate's Art Market Research

Skate's Art Stocks Index versus S&P500 and RTS



Skate's Art Stocks Index versus S&P500 and RTS



Source: Skate's Art Market Research

The Global Art Market and Art Industry: Forecast for 2011

1. Art securitization will be the most important new trend to watch

As discussed at Skate's Insiders Club art securitization forum held in Miami Beach on December 2, 2010 (<http://skatesinsidersclub.com/>), financial innovations aimed at raising capital from institutional sources against vast art assets locked in public and private collections will constitute the most interesting new business development frontier in the art industry worldwide.

Art securitization is defined as structuring art into funds and other collective investment vehicles with subsequent offering of those vehicles to qualified and even retail investors. Art securitization will be driven by the following forces:

- a) The world's major private banks and wealth managers will seek to erect new barriers for their customers to switch to other providers and in-house family offices by introducing art asset structuring and financing services. Addressing art assets will aim to both retain existing customers and gain new ones through services focused on assets with the greatest emotional attachment and switching costs. New services will include custom art wealth and inheritance planning, art financing and other services.
- b) Regulators in emerging markets and offshore centers will greatly expand and improve the regulatory environment for art funds and art securitization transactions in an attempt to win more business in the lucrative institutional / HNWI collective investment market.
- c) Proven value preservation qualities of investment grade art (by blue chip artists in the \$500,000 - \$1,000,000 per work price range), documented by continuously improving market statistics observed during the latest economic downturn, will give investment managers looking for capital allocation strategies with enhanced risk diversification cause to rethink the suitability of art as an alternative investment asset class.
- d) The global art market will see continuing democratization and a broadening investor base.

Skate's expects the surge in size of art assets in collective investment vehicles open to outside investors from the current \$300,000,000-400,000,000 level to at least \$800 mln already in the first half of 2010 and well in excess of \$1 bln by the end of 2011 (N.B. As a result of information recently acquired by Skate's, this forecast has been revised upwards from the one released at the Art Securitization Forum on December 2).

2. Christie's will go public if it is not sold to new owners, at least one more IPO in the art industry will take place in 2011

In our 2008 Annual Report, we predicted that Sotheby's would go private in 2009. In March 2009, Sotheby's share price dipped below \$9, and the market capitalization was approximately \$600 mln. That low point has either been lost or ignored in the time since. Now, with the firm's current market capitalization of more than \$3 bln, taking Sotheby's private or acquiring it is simply too risky a proposition.

The ageing owner of its archrival Christie's, Francois Pinault, has no clear succession plan for the auction house and is rumored to be looking for strategic options for quite some time. 2011 offers the best momentum in years to do the deal. Even if he (and his holding company Artemis) have a good line up of potential buyers, embarking on dual-track exit path is never a bad strategy. Hence, we expect Christie's to appoint banks for IPO preparation in the near future. Even if the IPO does not happen in 2011, it is likely to become a much talked about possibility.

The strength of the art market and growing consumer interest in it are making art industry one of the least served global consumer segments in terms of professional products and services offerings. As a result, we expect to see at least one more IPO (in addition to Christie's) coming from an art industry company in 2011. This IPO will benefit from what appears to be ideal timing to raise capital against an art market focused equity story.

3. Artnet will harvest its investment in online auctions and will become the top performing stock in 2011

One such art industry equity story with a long but fairly impressive turnaround is quietly approaching its recognition moment – Berlin- and New York-based Artnet has been investing nonstop for more than three years in building an online art auction platform on the back of its long established art price database and gallery network. In 2011, Artnet is likely to move into the black with its online auctions business unit, and should it manage to sustain or improve on its historical auction volume growth rates, the firm might return to stellar overall profitability and secure a comfortable leadership position in the online art trading market.

Artnet is our stock to watch for 2011, and we increase its target price for the end of 2011 to \$12 per share.

4. MCH Group will be pressed to launch online strategy for Art Basel events

While we believe Artnet is about to harvest results from its consistent investment in an online auction platform, MCH Group will face payback time in 2011 as well, although this will be taken as a negative sign. The Swiss-based operator of the Art Basel fairs (among other businesses) will face a harsh challenge from sprouting online art fairs and auctions that will challenge its current business model, initially through deteriorating exhibitor quality and declining crowd quality.

Keeping affluent art lovers at Basel and Miami in June and December, respectively, will become increasingly difficult. Likewise, getting art dealers to exhibit quality work there will become increasingly more difficult in the absence of a competitive online marketing and trading platform operated by MCH Group / Art Basel. We will watch for MCH Group to address this challenge with an adequate product strategy in 2011 or face the consequences of declining share price and economics of its art fair business.

5. The value of Skate's Top 5000 will exceed \$30 bln and its threshold price will go over \$2 mln

All indications are that we will see even more high-value art successfully selling at auction worldwide in 2011. We conservatively estimate that the universe of the world's 5,000 most valuable artworks will be priced over \$30 bln by the end of 2011. The threshold price for Skate's Top 5000 will likely exceed \$2 mln by the end of the 2011 fall auction season.

6. Warhol will overtake Monet as the world's second most valuable artist

Thanks to an abundant free float, an efficient information and authentication infrastructure, and relatively limited title risk (on top of his cultural and branded importance, of course), the market for Andy Warhol's works is clearly on its way to trailing Picasso's market build up, perhaps with a 20-30 year lag. We believe there will be at least \$300 mln worth of Warhol trading volume in Skate's Top 5000 pricing segment alone in 2011. Depending on Claude Monet's market performance and the availability of quality supply of his top priced works, it is very likely that Warhol's market capitalization will not only pass the \$1.5 bln mark but will also overtake Monet, thus making him the second most valuable artist based on aggregate auction prices after Picasso.

7. More attention will be paid to photography

We expect a surge in trading volume and prices on the photography market, specifically in vintage prints by iconic artists and volumes of securitization deals with important photography archives and related intellectual property. We anticipate active innovation in commercializing photographic images and related intellectual property on top of trading with actual prints, negatives and photography collections.