# Violins as Investments - The basics

# FREQUENTLY ASKED QUESTIONS

**Why invest in rare stringed instruments?**

- The rare stringed musical instrument niche represents half of a $22 billion industry. No new supply exists and demand grows continuously as the global population and awareness of the investment value of stringed musical instruments increase.
- Substitution of supply is controversial. New violins may have similar sound qualities but their time-tested resilience and personae do not generate the same emotional performance. Given the choice, musicians prefer to play on, and many listeners prefer to hear, an "original."
- Market inefficiency. Only a few individuals in specific regional territories closely control information and knowledge about availability and demand. Opportunities exist to buy instruments with greater likelihood of future appreciation.
- Market discrepancy. Other artwork, of similar rarity and quality, has achieved very high absolute dollar prices. This market discrepancy suggests a large potential unrealized appreciation potential for the owners of exiting rare stringed instruments.
- New institutional demand. Large asset managers' requests for alternative investments having financial performance attributes not closely correlated with stocks or bonds signals new institutional demand for the type of investment profile that rare stringed musical instruments represent.
- Store of Value /Demise of Seigniorage. High Net Worth individuals and large asset managers seek investment opportunities independent of government controlled monetary and fiscal policy. Proceeds from the recent sale of stringed instruments have significantly surpassed their original purchasing power. The geographic mobility of musical instruments, unlike real estate, means that they are not confined to one governmental tax jurisdiction.
- The prices of rare stringed instruments have constantly increased for many decades. The same powerful forces that created steadily growing demand for rare stringed instruments over the past 10 years will continue to operate in years ahead. These forces include steady population growth and the annual addition of millions of new customers, rising personal income, and aging demographics that correlate with increasing appreciation of rare stringed instrument music. These forces create an imbalance in the demand/supply equation suggesting continuing future price increases.
- Growing demand for rare stringed instruments suggests that the risk of loss of capital is remote with any single instrument.

**Why should someone consider an investment in a rare stringed instrument as a part of their investment activities?**

- **Insurance.** An investment in a rare stringed instrument can be thought of as an insurance policy whose benefits include a greater likelihood of capital value maintenance. The performance return is likely to have a low correlation with other known financial instruments such as stocks, bonds, gold, currency or real estate.
- **Diversification.** Investors currently investing in stocks, bonds and real estate can achieve immediate diversification of owned assets with the purchase of a portfolio of rare stringed instruments without compromising financial returns.
- **Financial Rewards.** The potential financial returns of rare stringed instruments are compelling.
- **Social responsibility.** Investment in quality rare stringed musical instruments can encourage the development of musical talent and finer cultural art by providing talented musicians with access to otherwise prohibitively expensive instruments. Such investments are socially responsible since they help to ensure that rare stringed musical instruments remain in active performance and accessible for public appreciation.
- **Insurability.** Unlike stocks and bonds, investments in rare stringed musical instruments are insured for their value against loss caused by damage, fire, theft or destruction. Insurance protection of rare stringed musical instruments is similar to the protection provided on commercial and residential real estate. However, insurance covers full value of musical instruments while in real estate situations land is often not insured. Generally, the par value of stocks and bonds cannot be insured.

**What are the factors that affect price?**

- Mobility, condition, sound, and interpretation of the maker's perceived value, all affect price. Mobility of rare stringed instruments allows them to be sold at the location of greatest demand. This mobility is similar to that associated with gem quality diamonds. Since rare stringed instruments can be flown anywhere, the sale of rare stringed instruments, in contrast to real estate, is unaffected by possible negative local economic or jurisdictional tax conditions. Condition, sound and changing interpretation of a maker's value over time each affect price. Whether a physical reality or fashion trend, these traits affect price. Dealers, with the support of art patrons, have historically managed demand for specific instruments by organizing product-promoting events of various sorts such as solo and chamber orchestra concerts or competitions.

**How does provenance affect value?**

- Prior owners, whether individual, institutional or dealer, past players, the emotional element associated with each instrument's sound and history also affect value. A good story comprises an integral part of the purchase decision made by prospective players and investors.

**What makes rare stringed instruments so unique?**

- Their sound, provenance, and general mystique make professional musicians overtly or secretly create love/hate relationships with instruments made by certain luthiers, generally luthiers from the 18th or 19th century. Much speculation about the origin of this uniqueness of these instruments exists: solar sunspot activity may have resulted in 40 years of unusually dry winters creating tight tree rings in the wood of trees used by master craftsmen to build violins. This may have also resulted in varnishes that are no longer available. Other theories exist, but the general conclusion remains one that the quality sound and mystique of certain luthiers cannot be duplicated today.

**What are some of the events that drive the prices of rare musical instruments?**

- A musician's ability to create emotion around the music they perform, general population growth, and global economic development drive prices for rare stringed instruments. Although many active purchasers reside in countries where such policies do not exist, government policies that encourage donation of appreciated art to museums and not-for-profit organizations also influences price in specific tax jurisdictions.

**What programs can an individual initiate to build demand?**

Various programs can stimulate further demand such as:

a) Education and Information distribution programs including tours of schools,

b) Loan and Awareness programs of rare stringed instrument music: such programs exist around music competitions, thoroughbred horse events, particular cities or inner cities, diplomatic ceremonies, and art museum exhibits.

c) Sponsorship of players' competitions,

d) Sponsorship of a medalled "Pentathlon of Muses" Olympic event currently under development,

e) Mutual fund ownership: For example, this could create a venue for a $25,000 wedding gift i.e. a partial ownership in a Stradivari as a "romantic" investment associated with the wedding vows.

f) Integration of music into art exhibits as an enhancing multimedia experience as recently done by Tate-Modern, London and the Metropolitan Museum, New York.

*Observation: Many image conscious financial, pharmaceutical, automobile, and utility organizations like to be associated with classical music sponsorship in support of their desire to cultivate a "sophisticated image." UBS Bank supposedly invested US$75 million in such events in 2003. Also, American and British "socially responsible investment criteria" encourage support and investment in activities that promote the classical music industry, as well as other environmentally friendly and lifestyle enhancing activities.*

**Are expected financial returns from investment consistent?**

- Yes and no. Purchasing rare stringed musical instruments at the correct price can generate consistent profits. However, it is not a good strategy to purchase one year and expect to re-sell at a cumulative compounding gain shortly thereafter. Experience suggests that the cumulative average compounded financial gains tend to occur because of later period appreciation in a ten-year holding period.

**Why do prices of rare stringed instruments constantly rise?**

- The fixed quantity of quality instruments available in the world creates an inelastic, possibly backward leaning supply curve. For example, there are only about 550 known instruments built by the luthier Antonio Stardivari. Prices for individual instruments constantly rise as this low supply is combined with an ever-increasing world population and its portion of musicians whom become enamored with the rare-stringed sound.
- Valuations of instruments are not directly influenced by changing local political or local tax environments. The market for rare stringed instruments is global and a different geographical region is pleased when they are able to capture the benefits of ownership of an instrument when another geographical region makes it more expensive to own an instrument.

**Who should invest in a rare stringed instrument?**

- Investment opportunities are open to all. As part of a professionally managed asset portfolio, however, investments should be limited to accredited individuals or organizations that accept the 60-months to 120-months time frame that typically brings liquidity to managed portfolios. Rare stringed instrument investment should be part of a strategy involving a 15-year scenario for increasing wealth. Most investments should be viewed as a ten-year investment with a liquidation phase that should last no longer than 24 months.

**Who appreciates the sound produced by rare stringed instruments?**

- All age groups enjoy music. The appreciation of classical music is demographically correlated with age, especially with people over 40 years of age.

**How quickly can an instrument be sold?**

- The sales life liquidity cycle of rare stringed instruments tends to revolve around the immediate to within 36 months, depending upon the price and instrument history. If an investor requests rapid liquidity, the owner should contact a reputable dealer and motivate them to sell their instrument as a priority.

**Will others guarantee the value of an instrument?**

- Insurance companies rated “AAA” and “AA” by the Standard & Poor’s Rating Agency guarantee value. Financial guarantee coverage for collateral value is available at low premiums to guarantee liquidity but not for par principal insured amounts above 25% of purchase price. Investors seeking such value can be directed to insurance companies providing such coverage.

**Why are high financial returns available in rare instruments?**

- The rare stringed instrument market is inefficient. There is no significant correlation between risk and return. A well-bought instrument can earn a good profit. Transaction costs help prevent loss. Taking steps to protect against fraud is important. Time is valuable. Time spent identifying an opportunity, understanding the history and condition of an instrument, defining an opportunity, negotiating the correct purchase price, negotiating a sale, is important. Quality of the physical instrument is important. Operating with knowledge of past actions on future decisions is important. Each of these factors enters into an equation that results in investments having a high financial return with low actual risk exposure to loss of invested capital.

**Why do commercial banks and lenders generally not supply loan capital?**

- Commercial banks are funded with short-term deposits that are best suited to meet short-term working capital requirements of manufacturers of commodity products. The commercial bank's valuation and liquidity requirements produce very low loan-to-collateral advances for musical instruments and require much education of new personnel assigned to supervise accounts.
- The rare violin trade is a truly global business, with geographically dispersed musicians, collectors and investors. Each instrument is unique. "Institutional research" does not cater well to specialized topics that cannot easily be homogenized into one assets class, no matter how large the industry niche. "Financial institution" lenders are also not well attuned to focus on services required by current or potential owners; lending officers and credit committees constantly need to become educated about unique value and liquidity characteristics of rare stringed instruments.
- Credit Unions such as the Actors Federal Credit Union (www.actorsfcu.com) or the Dallas-Fort Worth Professional Musicians Association (www.musiciansdfw. org) make low interest loans available for the purchase of rare stringed instruments. As of April 2005, the Actors Federal Credit Union's current 3-year term loans include maximum loan amounts of $250,000, a 6.50% interest rate, and a 25-year amortization, while the Professional Musicians Association extends loans on a personal credit basis.

**What is the size of this market and what are the historical rates of appreciation?**

- Orchestrated Investments, Inc., a Cincinnati, Ohio, firm specializing in research of rare musical instruments, estimated in February 2004, that the market capitalization of rare stringed instruments was between $18 and $22 billion. In 1999, the same firm concluded that the 1960 to 1996 compounded annual return of rare stringed instruments ranged between 8% and 15% with an average annual appreciation of 11.69%.

**Do individual purchases affect the price of other instruments?**

- No. Due to the $18 to $22 billion size of the market, correctly timed and managed, an individual purchase is not expected to affect the purchase price of other instruments although individual sales regularly set new record sales prices.

**How large is the classical music industry?**

- Definitions determine the size of the industry. The classical music industry, with concerts and event organized locally and outside the US, is estimated to be a multi-hundred-billion dollar industry. Small events usually involve economic development activity of over $100,000 per event. Larger festivals, such as the Aspen Music festival, generate gross revenues above $11,000,000. No good measurement statistics about the size or annual turnover of the classical music industry have been developed.

**Is the industry becoming less flexible in selecting who receives playing privileges on finer instruments?**

- Probably yes. The constantly increasing price of finer instruments, whether created from dealer promotions or for other reasons, has reduced the flexibility of decision makers to support artists that may not present well to generally well-meaning boards. This perception may be illusionary as the ownership of finer instruments, according to many, has historically been outside the financial reach of the musicians who, according to others, should be playing these instruments.

**What is the risk of capital loss?**

- Professionals in the field consider the risk of capital loss low. Historic sales prices and all known public sales suggest that no purchaser of an old quality stringed instrument made by a recognized luthier has been sold below the purchase price when owned for at least 5 years. Statistics to confirm this are not available.

**Why are auction house prices for old stringed instruments lower than dealer prices?**

The market for old stringed instruments divided 10 years ago into a market represented by the auction houses and that represented by a number of dealers focusing on the Cremona luthiers, generally A. Stradivari and his counterpart J.G. del Gesu. Quality instruments, as measured by their "sound" and "condition," became the domain of dealers, while the auction houses became an outlet for a great number of lesser quality instruments as dealers disposed of their stock. Furthermore, auction houses have limited daily exposure to product thus making it harder for them to identify and certify makers, they do not have luthiers on staff to make unusual repairs or tonal adjustments, and they don't take any responsibility for an instrument's repair work or provenance.

**What are auction prices for old stringed instruments?**

Old instrument auctions occur in different worldwide geographic locations during their seasons at times that have become local traditions in their own manner. Each auction situation carries its personal unique imprint. Investors are encouraged to understand each sale's unique path to an auction event. *This news release is famous because the instrument is famous for its lack of good sound:* **New York, April 23, 2005** (Reuters): A violin made more than three centuries ago by Antonio Stradivari fetched a record $2 million in an auction, the highest price for any musical instrument, Christie's said yesterday.

The sale surpassed the previous mark of $1.8 million for a Stradivari violin sold in 1990, according to the auction house. "The Lady Tennant" violin, made in 1699, the year before Stradivari's golden period style, had a presale estimate of

$800,000 to $1.2 million. Violins made by Stradivari and other prized Italian makers like Amati and Guarneri are highly sought after by concert artists and collectors for their high-quality sound.

*This news release is interesting both because of the valuation given and because of the otherwise attractive jingoism reflected by the actions taken:* **March 1, 2005,** (New York Times). What Price a Violin? The Royal Academy of Music in London has begun a campaign to raise $2.1 million by March 31, in addition to the $1.92 million already raised, to keep in Britain what it describes "as arguably the most important violin in the history of the instrument." The violin, the Viotti Stradivari, is named for Giovanni Battista Viotti (1753-1824), the most influential violinist of his day in Europe, who first alerted the world to the power of Stradivari's model when he played it before audiences in Paris and London in the 1780's and 90's. On condition of anonymity and in lieu of paying $2.69 million in inheritance taxes on its father's estate, the family of the owner has agreed with the British tax authorities, who have valued the instrument at $6.72 million, to accept $4.02 million to enable it to remain in Britain, although a spokesman for the Royal Academy says it would undoubtedly fetch more on the open market. The Royal Academy, which already has a collection of 15 Stradivari violins on public view, says its main reason for seeking this particular instrument is that of 550 of the violins that still exist, the Viotti is extraordinary, not just for its tonal qualities but also for its almost unbelievably fresh state of preservation. It has hardly been played in 200 years. PAM KENT
*A 1010 Wins radio news release on* Apr 22, 2005 5:01 pm US/Eastern stated: “Another instrument in the auction, a cello made by Matteo Goffriller of Venice in 1707, sold for $620,800, a new record for Goffriller's instruments, the auction house said.”

**What are the tax consequences for investors?**

Each country has its own tax regulation. Investors should seek the advice of local tax experts. Subject to the specific circumstances, investors can depreciate or deduct expenses associated with instruments, or deduct the value of an appreciated instrument from the income reported on personal income tax returns. Although investors should seek counsel, gains for U.S. investors typically are subject to U.S. capital gains taxes, while depreciation write-offs can be taken over 7 years. Gains for non-resident or U.S. tax-exempt investors generally are not subject to U.S. taxes.

**What are the storage or maintenance costs for an instrument?**

- Storage and maintenance costs generally do not exist for investors in rare stringed instruments. Rare stringed instruments are maintained, stored and insured by a player who is not generally the same as the owner. Players can generally not afford to own the instruments they play which is why they are owned by “investor groups” or, a long time ago, by the princes and church officials who sponsored the arts. Musicians today agree to insure, maintain, and store instruments in exchange for their right to play. This structure leaves the investor with the advantage of limited “on-going” costs to consider and only final disposition costs to work around. Depending on individual situations, instrument insurance costs for values above $500,000 generally need owner subsidy.

Stocks and bonds held in an IRA, or in a brokerage account, often require the payment of "account maintenance fees." Commercial bank loans require compensating demand deposit balances. Gold and other similar commodities require a storage payment to the bank and involve very expensive transportation and transfer costs. Even passive real estate investments require the payment of insurance, property taxes, and maintenance and repair costs (roofs, elevators, plumbing). These types of fees do not currently exist in the rare stringed instrument market.

**Can sellers give buyers time to pay for instruments?**

- Yes. Industry practice allows instruments to stay with potential purchasers while they become familiar with an instrument, its sound, or while they may wait for a financial event enabling purchase of the instrument. Title and supporting documentation such as original sales receipts do not transfer until all payments are made. Initial deposits become liquidated damages to an owner if subsequent payment is not made. The intent is to enable a sale to take place but not to become a financing vehicle to a purchaser.

**Can options be created?**

- Yes. Payments can be made for certain instruments to lock in a purchase price. Option payments can be made as "collateralized advances" based on different instrument owner needs.

**Who can benefit from a purchased instrument?**

- Individuals can enjoy the musical instrument themselves or can lend the instrument to another person. Owners often consult with respected musicians or conductors to identify candidates. Instruments can be lent for a specific number of years, or for specific events to the following suggestions of players:
  - Established soloists
  - Renowned chamber music groups
  - Competition winners
  - Emerging artists principals of major orchestras

When loaned, the recipient should receive detailed instructions on instrument care and custody. If an instrument needs repair, a professional luthier shop should be contacted for recommendations of approved violin repair persons. The owner decides and determines how to handle all of these factors. It is recommended that the recipient should agree to a self-reporting provision about the condition of the instrument and should be required to cooperate with information requests from the owner. The purpose of all this management is to document information to support the value of the instrument when it is sold.

- Professional musicians readily understand that instruments help push a student's career into self-sufficiency.
- Not-for-profit organizations the world over seek attention from organizations or individuals who have title to instruments. As a consequence, an individual may

govern the process of selecting players to maximize the attractiveness of each instrument over time.

**Who control the naming of instruments?**

- The owner controls instrument naming. Owners often name instruments based on who has owned them, played them, or participated in some other aspect of their history. For example, the ex-Baron Oppenheim violin was originally built by Antonio Stradivari in 1716, and later named after the European banking family that owned it in the early 20th century. It is currently owned by the Central Bank of Austria as part of its capital investment base.

**What characteristics describe the market?**

- There are 50+ major collectors who will buy a Stradivari or Guarneri del Gesù as part of their $100,000,000 portfolios of stringed instruments and about 10,000 smaller collectors who own stringed musical instrument collections below $100,000,000 but above $10,000,000. It has been estimated that there are about 100,000 serious collectors and musicians, some of who only own one or two instruments. Investors seem to rely on the advice of dealers, luthiers, musicians, and teachers to establish a purchase price and to select an appropriate beneficiary. Owners include professional and amateur players.
- Foundations that specifically target rare stringed instruments have been created in the US, Japan and Canada.
- Several handfuls of European commercial banks, one central bank, and numerous small foundations and trusts are known investors in rare stringed instruments. Their investment motive includes a mixture of a desire to be associated with the prestige of owning a rare stringed musical instrument, a desire to support the arts, and a comfort in knowing they won't lose value but could be making significant financial gains. The large "traditional" institutional pension or foundation have not actively sought rare stringed instruments although many more, according to press reports, seek alternative asset classes to better address their fiduciary responsibilities to their stakeholders. Traditional fund managers seem to have concluded that the purchase of individual instruments (currently almost all under $10,000,000) makes consideration of this alternative investment class unattractive and uneconomic. Furthermore, ERISA guidelines that drive decision-making at US institutions do not encourage professional managers to contemplate investment practices outside what would be considered by the "average prudent man." This ERISA framework hampers acceptance of rare stringed instruments as a new asset class in the US.
- It is difficult to generalize about the investment decision-making process that "angels" and friends use. Their style is not systematized and is generally not thought to be as thorough as professional investment practices. This underwriting style has resulted in unexpected complications or conflicted decisions to individual purchasers, reducing financial returns, and creating stress in the final phases and disposition of an investment.
- Wealthy friends provide money and guidance to "emotional" musicians on a regular basis. Non-systematized investment selection procedures sometimes miss important areas of necessary focus.

- According to statistics compiled in the Merrill Lynch/ Cap Gemini Ernst & Young World Wealth Report 2003, if the above distribution statistics mentioned above are a correct indication, than approximately 1.4% and possibly as many 15% of the world's High Net Worth individuals already own an expensive stringed instrument.

**Who has invested in rare stringed instruments?**

- Wealthy individuals and organizations purchase rare stringed instruments. This practice started with the aristocracy, princes, noblemen and church officials. Today, it includes businessmen and scientists. Purchasers play as sophisticated amateurs or loan the instruments to professionals.

- Since 1989, the Austrian Central bank has purchased rare stringed instruments. They currently own 23 violins, 4 violincellos, and 2 violas. The stated book value is €32,000,000 (US$38,000,000). Rare stringed musical instruments are booked as "real movable assets." The Austrian Central Bank's collection is pictured in Rudolf Hopfner "Masterpieces of Violin Making" book supported by the world class Kunsthistorisches Museum Vienna (www.khm.at).

- Nippon Music Foundation (www.nmf.or.jp/english/) currently owns many well known musical instruments made by Stradivari.

- The Smithsonian, Washington D.C.

- The "Musical Instrument Bank," established by the Canada Council for the Arts in 1985, currently owns stringed instruments made by Antonio Stradivari, Guarneri del Gesù, Nicolo Gagliano, Giovanni Francesco Pressenda, Gennaro Gagliano, plus others.

- Many others. There are about 50+ individuals and organizations that own instrument collections valued above $100,000,000. See www.usd.edu/smm/ as another example. Dealers estimated that there are about 10,000 smaller investors and several hundred thousand individual investors, with the total number limited by the total number of instruments. Many instruments are owned by partnerships that include more than one owner.

**How does an investment compare with an investment in real estate, diamonds and other artwork?**

- Professionals in the field suggest that publicly traded financial instruments such as stocks, bonds, real estate, and commodities, have greater volatility and "lower" compounded rates of return than rare stringed musical instruments. Experts say that diamonds and pearls have decreased in relative purchasing power value over time because it is perceived that private interests control new production. Furthermore, it is difficult to distinguish between old and new diamonds and pearls. Frank Russell Company, a leading investment research firm, suggests that comparative rates of return for various composition of asset classes including stocks, bonds, real estate, and certain commodities, over various time frames, ranges between 6 and 15% (not including all transaction costs). Many factors that affect the value of stocks, bonds, real estate and commodities do not affect the price of rare stringed musical instruments whose total production run is already known. It seems rare stringed instruments create extraordinary returns that takes advantage of the compounding effects of supply and demand, **low on-going maintenance costs**, and selling costs all pushed off to the day final returns are realized.

**Who are the major dealers?**

- Charles Beare and Peter Biddulph in England, Bein & Fushi, Inc. in Chicago, Rene Morel in New York, and Machold Rare Violins. Machold Rare Violins operates on the large major continents and has offices in New York, Chicago, Zurich, Vienna, Germany and Asia. Each dealer brings his own style to the rare stringed instrument business. Some are better known for their research, some for their international marketing reach with quality instruments; all are part of the global community of art patrons with strongly felt beliefs about what is important.
- Not-for-profit organizations such as orchestras and museums compete for ownership of quality rare stringed instruments. Volunteers generally staff not-for-profits generally and do not have the expertise or financial resources to purchase instruments correctly and to sell them correctly. Not-for-profits tend to be purchasers of brokered transaction when they can organize and raise the funds necessary to obtain control of a rare stringed instrument.

**What characterizes the industry?**

- Many smaller dealers and lone operators populate the industry, with deep commitments to personal knowledge and personal expertise. As such, across the industry, many petty arguments characteristically grab media attention as news items.

**Is fraud prevalent?**

- Yes. Smaller dealers, probably in acts of desperation and self-delusion, regularly entice investors to pay for unsupported attributions. Pure deceitful behavior by some dealers also exists. Notorious deceits have been perpetuated in London, Chicago and Japan. Experience, careful research, and an ability to distinguish finer nuances of sound, are necessary to correctly classify the identity and provenance of an instrument.

**What are luthiers?**

- Luthiers are craftsmen who specialize in building and repairing stringed instruments. Several European countries have each developed their own standards of learning and expertise required to promote oneself as a "luthier." Countries have also set the standards that allow an individual to consider himself a master luthier. The German "meisterprüfung" requires the candidate to build at least one violin. It generally takes 7 to 12 years of apprenticeship to be considered a recognized luthier in the stringed musical instrument trade.

**What are the anticipated costs of due diligence prior to making an investment?**

- Up-front due diligence costs often reach $25,000 per transaction prior to a final investment decision and an advance of funds. Most of these funds are expended on the accompanied travel required to visit instruments or buyers. ‘Cellos require their own plane seat. Due diligence funds are expended on background checks, travel, market intelligence, accounting, and legal work. Due diligence costs are lower on lesser-valued instruments.

**What documentation exists about rare stringed instrument prices?**

- Taxe der Streichinstrumente by Albert Fuchs is the most common reference book for the prices of violins made by different luthiers. Orchestral Investments, Inc. conducted a study in 1999 suggesting that the sale price of instruments crafted by luthiers from the 17th through the 20th century exhibited average annual compounded rates of return ranging from 8% to 15% over long periods of time. Although these returns exclude the financial returns of the better-known higher quality instruments (See “What are the sales prices of some of the better-known instruments?” below), and ignore the contribution to the returns associated with an actively managed portfolio of such instruments, they provide a basis from which to measure other costs and possible financial returns.

**What institutional research coverage exists?**

- None. The rare musical instrument field, even at a market capitalization of $22 billion, is perceived to be too fragmented to warrant research coverage by US institutional investment houses for their predominantly US customers. The music training required to develop the expertise is considered expensive. Antique and Fine Arts collecting is an industry made up of niche specialists. Each individual niche is perceived to be too small to warrant research coverage by a typical investment house so little good systematic information is available. Salomon Brothers (now Salomon Smith Barney) and the research organization, Erdos & Morgan, produce occasional reports. Newspapers such as Barron’s periodically publish articles and indexes. The Mei/Moses Fine Art Index tracks certain sales prices. The information provided in these articles and indexes is too general to be specifically useful. Individuals learn about the market on their own. The 50 or so large owners of highly valued instruments (those with estimated values over $100,000,000) have generally learned about rare stringed instruments through individual research.
- Similarities have been suggested to exist with tree/lumber funds, fine art funds, and real estate funds. New fine art indexes get created on a periodic basis and a closed end fine arts mutual fund exists.

**What are the sales prices of some of the better-known instruments?**

- The increase in value of the better quality and rarer instruments is expected to exceed that associated with “average” historical instruments. Public historical information is not readily available. However, public disclosure of many sales allows general market conclusions based on the trend indications received for the extraordinary “price leading” instrument sales. The financial return of the Stradivari violin known as the Empress Katarina showed a 17% compounded annual rate of return to the passive investor from 1975 to 1986. The 1736 Guaneri del Gesu “Count Cessol” showed a passive return of 17% from 1972 to 1997. In between these times, knowledgeable dealer/investors made financial returns of 27%, 33%, 46% and 73% purchasing and re-selling these instruments at intervals as short as 1 year but generally weighted towards longer periods such as 5 years. Predictions of future price increases for certain instruments suggest that 30% annually compounded rates are obtainable on a regular basis. As with other financial instruments, such extraordinary return projections are not appropriate for 20-year time frames when financial returns tend to revert to lower norms.

**Are specific examples of individual purchases available for examination?**
Yes. The world-renowned dealers will present confidential examples of opportunities to individuals and organizations that indicate an interest to invest.

**Is the classical music industry dead?**

- No. This rumor is generated on a regular annual basis but has no basis in fact. Academicians who evaluate the industry regularly and the constant growth in trophy construction projects dedicated to honor classical music all attest to the constant growth in demand and involvement in classical music.

**Won't digital repertoires completely replace live concerts?**

- No. Although CD quality sound could technically reproduce live sound through the full sound spectrum, industry producers have chosen to limit their production of classical music to a much tighter sound spectrum, more in line with the needs of popular than classical music. Live, non-computerized, non-digital, non-mechanized, acoustic sound continues to be a sound experience sought by an ever-increasing number of individuals.

**Can this stringed musical instrument investment opportunity be duplicated with pianos?**

- No, not to the same scale. Bösendorfer, the only branded piano that Franz Liszt never broke while playing, and Steinway, also an excellent brand, create excellent quality and expensively decorated musical instruments. However, the companies only date back to 1828 and 1853 respectively, and historic price appreciation for pianos has not occurred as it has for rare stringed instruments. A possible explanation for this is that of extant pianos none is still in working condition and over 150 years old except with extensive and costly re-working. One reason for this is that the much greater number of moving pieces, and the keyboard hitting associated with pianos, tends to make them harder to maintain and completely break down after 100 years. This does not occur with stringed instruments.

**Who handles the negotiations of the strategic exits?**

- The individual or a trusted dealer.

**How does an individual sell his instrument?**

- An individual should work with a specialized dealer to identify the correct strategic, financial, or public exit associated with his stringed instrument, combination of stringed instruments, or other opportunity. Exit targets include local regional orchestras and foundations that want to promote classical music in their geographic areas. Benefits can include cash sales and/or tax deductions.

**Who provides the "exits" for an investment in a current instrument?**

*a)* National and Regional orchestras *who are buyers and sellers at various times.*

b) High Net Worth individuals: *The motivation to purchase comes from music loving, aesthetic, and eleemosynary roots. In the US, due to the strong popular support of charitable contribution to philanthropic organizations, this is supported by the tax code that allows for the deduction against ordinary income of the "appreciated" value of artwork when donated to tax-exempt organization.*
*c)* Musician partnerships – *partnerships of music loving investors have purchased rare stringed instruments and loaned them to individual musicians or quartets. This practice is expected to grow as more investors become aware of the economic benefits. As a "tool of the trade," tax benefits also exist that can be used to enhance the attractiveness of conventional financial exits.*
d) Museums
e) Rock bands
f) Dealer collectors
g) Central banks
h) Other financial institutions – creating financial investment vehicles such as mutual funds.

**Will users of instruments be motivated to purchase their instrument?**

- Yes. Beneficiaries of purchased instruments usually want to own their instrument; they fall in love with it. These individuals need to work within the community they operate to raise the necessary funds to obtain title.

**What is the disposition cost associated with an instrument?**

- The cost of selling rare stringed instruments can be gauged from sale costs associated with dealing with auction houses. In the music industry, auction houses are deemed "wholesale" operations because they sell instruments "as is," provide no adjustment expertise or fine tuning, provide merchandise only periodically, and provide no guarantees as to the playability of an instrument. Not including negotiating wiggle room, the cost of a sale at an auction house includes the "seller's" and "buyer's" premiums. For most items, this totals 22% at Sotheby's, 25% at Swann Galleries, 17.5% at the web based Tarisio, and is individually negotiated to a similar range at Doyle's.

**How to proceed?**

- Interested buyers of investment quality stringed instruments should engage in an active discussion with a dealer and their community of music art patrons.