

The unusual rise of the alternative asset

Art, bitcoin, action figures – young HNWs are pushing the boundaries on investment, and advisors need to keep up

By David Hawkins

We are seeing the emergence of a new generation of internationally mobile high-net-worths (HNWs). And while their origins are diverse, they share at least one thing in common. Their behaviours and investment attitudes differ profoundly from those of previous generations.

This difference manifests in modern HNWs' tendency to seek non-traditional sources of wealth management. Also, many young investors have grown

up post-2008 financial crisis, and are less interested in stocks – actually seeing the sector as intimidating and uncertain. Instead, young, globally focused investors are inclined to look for alternatives. This includes social investments – those delivering a social, as well as financial, return – such as the financing of infrastructure projects in Asia and Africa, or venture-funding social enterprises.

Here are some of the latest investment trends, and what they mean for advisors.



Venture capital

VC investments in the tech sector, and in artificial intelligence (AI) start-ups in particular, now offer some of the most attractive investment opportunities. Research indicates there were 768 AI firms in London alone in June 2018. Forward Partners and Outlier Ventures are two examples of VC firms investing in tech and distributed ledger technology companies.

'Millennial investors are wedded to tech and believe it can have a positive impact'

Digital currencies

The positives for digital as both a currency and an asset are real – but expect to see consolidation in the currency space. Initial coin offerings (ICOs), whereby firms sell their tokens in exchange for Bitcoin or Ether, provide an opportunity to fund the tech sector using the foundation of the digital economy – digital currencies.

Regulation-wise, Bermuda is a leader. It has put in place a coherent regulatory framework – including ICO legislation and KYC procedures – effectively de-risking this space.



Where tech meets art

Tech and art are converging. Maecenas – the first blockchain-based art investment platform – auctioned 49 per cent of Andy Warhol's *14 Small Electric*

Chairs; investors were able to purchase digital certificates on blockchain using digital currency. Codex, meanwhile, is a decentralised registry for art and collectables.

Violins and violas

As investment behaviours and attitudes change, wealth management professionals adapt to new trends. Millennial investors, in particular, are informed and have opinions. They also look at the world in a certain way, seeing value in places – socially, culturally and environmentally – that may not have been of interest to their parents. They are also wedded to tech and believe passionately in the positive impact that it can have on the world.

Specialist advice must also adapt to the changing nature of the market, as well as the investor. This is particularly true in the art market, where valuation is a delicate process requiring refined expertise. And, as ever, advisors need to stay abreast of the tax rules, and be able to answer questions around liquidity and exit strategy.

But above all, know your market. A Stradivarius violin may be valued at USD16 million. A viola? USD45 million. ■



Jean-Michel Basquiat's *Untitled* (1982) sold for USD110.4 million at auction in 2017

Contemporary art

The contemporary art market has been burgeoning for 15 years. This has been driven by an increase in wealth among a certain demographic – the rich are younger, as are their tastes. We have also seen the internationalisation of art from China, south Asia and Latin America.

Coinbase CEO Brian Armstrong, 35, has built a fortune in crypto assets



Nostalgia and novelty investments

'Nostalgia investments' are enjoying a surge in popularity. In July 2018, a Dubai-based collector auctioned the world's rarest prototype *Star Wars* action figures, including mint-condition Luke Skywalker, Princess Leia and Han Solo figures. Elsewhere, a rare poster for *The Empire Strikes Back* sold for USD26,400.

Political memorabilia is also enjoying increased attention. At the Christie's sale of the estate of Ronald and Nancy Reagan, the top lot was a diamond, sapphire and ruby ring by Bulgari that realised USD319,500 against an estimate of USD5,000–8,000. Nancy Reagan wore the ring on 4 July 1986 for the Liberty Weekend celebrations.