

Collectible Violins Attract Investor Attention

Hedge fund managers see potential in the fine-violin market

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By Louise Lee

IF SUPERWEALTHY INDIVIDUALS can invest in fine art, why not fine violins? And while they're at it, why not get those instruments into the hands of deserving, ambitious violinists?

So goes the pitch by Florian Leonhard. In the latest twist in so-called passion investments, the London-based restorer and dealer is establishing the Fine Violins Fund, which plans to buy fine violins and loan them out free. Having already secured \$20 million from a handful of individuals in Europe, Leonhard says the fund is well on its way toward a goal of raising a total of \$50 million from more investors by year's-end.

The fund intends to acquire as many as 50 fine Italian violins and, over time, sell them at what it hopes will be a tidy profit.



WEBBER ON BOARD: British cellist is advising hedge fund. COPYRI-1.tif

Violinists, including teachers who routinely work with students who want a fine instrument but can't afford one, are enthusiastic about the idea. "I applaud anything that gives an opportunity for emerging artists to play great instruments," says Axel Strauss, violin professor at the San Francisco Conservatory of Music. "If I were looking for a fine instrument, I'd be excited about this fund and the opportunities it might open."

To Leonhard, the fund is as much a service to musicians as it is a business venture. "It hurts me to see musicians who don't have violins to help their careers," says the 45-year-old, who restored instruments at W.E. Hill & Sons and other shops before going solo in 1995.

"I thought that it'd be so nice if the rich could share a bit," he adds. "In the end, it's often the bankers and industrialists who enjoy classical music. If you think about how much violinists and cellists and others put into it to please people culturally, we have to try to help them."

LET'S DO THE NUMBERS

Wall Street's current woes notwithstanding, there are a growing number of candidates who might want to pour money into the Fine Violins Fund. According to a recent report by Merrill Lynch & Co., about 9.5 million people worldwide hold \$1 million or more in assets, representing a gain of 8.3 percent over the 2005 level. The wealth of the richest individuals totals \$37.2 trillion, an amount expected to grow at 6.8 percent annually to reach \$51.6

trillion by 2011, according to the report.

And interest in passion investments in general is on the rise. Some financial firms have created funds that invest solely in fine wine. In the summer of 2007, London-based Diamond Circle Capital launched a fund investing in polished diamonds, while giant Societe Generale Asset Management launched one focused on visual art. For the superwealthy, investing in art or other collectibles could be appealing "if you enjoy it, or because maybe you're an enthusiast," says Jonathan Satovsky, CEO of New York financial advisor Satovsky Asset Management. With the stock market in the doldrums, "money needs to find a home, and some wealthy people are likely more and more willing to get creative about their investing," he says.

RATE OF RETURN

Indeed, violins certainly could be a legitimate investment. Brandeis University economics professor Kathryn Graddy studied sales data on more than 2,000 Italian and French violins, from both the Old and Modern periods, and found that real average annual returns between 1850 and 2006 were about 3.3 percent. That's worse than the 6.5 percent return for the Standard & Poor's 500 Index, but better than the 2.2 percent for US Treasury Bonds during the same period, according to Graddy. She also found that since 1980, violins provided a stable annual return and didn't track the swings of the stock market, providing a way to diversify an investment portfolio.

The Fine Violins Fund, which will purchase pre-1800 Italian instruments, is aiming for an ambitious 10 to 15 percent annual return, says Leonhard. The fund, whose board and staff include the British cellist Julian Lloyd Webber as well as professionals in financial services, requires a minimum investment of \$500,000. Leonhard, who plans to oversee the selection of instruments for the fund and any needed restorations, says he has already identified some possible purchases but declined to elaborate. He thinks there are 2,200 violins in existence that the fund might consider.

Convincing potential investors to buy into the fund "is a big uphill struggle," says Leonhard, who has given lectures on the topic at investment conferences. "The idea of investing in violins "feels exotic, and most people, when you first talk to them, need to be educated."

Candidates for loans will be selected by audition and an overall assessment of professional potential. The candidates "need the full package: the personality, the ability to cooperate with other musicians, charm, stage presence," says Leonhard, adding that if a violin is played by a rising star, its market value is more likely to rise. Violinists of any age may apply and candidates will not be required to have signed with professional management or have won a competition. And the fund plans to pay the thousands of dollars required to insure the instruments.

"To charge \$10,000 to a 19- or 22-year-old who's struggling to make contacts and still getting low fees for concerts is a huge burden," Leonhard adds.

SUPPLY & DEMAND

Professionals say the fund could help address the never-ending demand for fine loaner instruments. "It's fabulous," says Glen Kwok, executive director of the International Competition of Indianapolis, who estimates that three-quarters of the participants in that event play borrowed instruments.

The downside: not all candidates will get to borrow their instruments from the fund for years on end. And, of course, the fund doesn't solve an ongoing fundamental problem of the financial inability of most violinists to own a fine Italian instrument outright. But even so, borrowing isn't all bad. Musicians "get to perform concerts and auditions on a great violin, which is a big advantage," says Won-Bin Yim, violin professor at University of Cincinnati's College-Conservatory of Music.

"Even if they have to give it back, they find the possibilities and ranges of what they can do with such an instrument. Their ideas about what's possible will be expanded."