



Classic Cars Outperform Gold, Stocks, and Art

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Passion Investing Outperforms

For those not familiar with Passion Investing, the label broadly describes a narrow slice of the investment world that appeals to an individual not simply for the capital appreciation potential, but also for its collectability and emotion. Examples include rare coins, art, jewelry, and one of my favorite topics, classic automobiles. For the few who have the capital and interest, rare and classic autos have the distinction of being at the top of Passion Investing categories over the trailing decade. As indicated below, classic cars have trumped both illiquid and traditional liquid investments, and not by a little. According to the UK’s Coutts and Company, classic cars as an asset class appreciated nearly 400% from 2005 to 2014.

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Performance 2005 to 2014	
Classic Cars	399%
Coins	176%
Gold Bars	170%
Jewelry	150%
Fine Wine	134%
S&P 500 Index	110%
Traditional Chinese Works	108%
Stamps	101%
Watches	86%
Impressionist & Modern Art	32%
Rare Musical Instruments	25%
Rugs & Carpets	7%

Source: Coutts and Company

Later this year, Coutts will publish its updated survey through 2015, and we expect the results to highlight another strong year for rare and classic automobile collectors. If you own a classic car and are ready to hang the “For Sale” sign on the window, we encourage you to read the next sentence. The Coutts survey is predisposed to the crème de la crème of the industry, and includes only cars that have sold for greater than \$500,000 at auction and have changed hands more than 10 times. Unless Carroll Shelby signed the glovebox of your vintage Mustang, chances are your car was not included in the survey.

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“I build engines and attach wheels to them.” – Enzo Ferrari

Although we do not know the exact constituents of the Coutts’ survey, we are confident that a large majority of them are Ferraris, and probably 1950s and 1960s Ferraris. According to Hagertys, the fortunate few to own a mid-1960’s Ferrari saw their collectible increase by more than 270% since the Financial Crisis. Even when measured from the financial market lows in 2009, the Ferrari investor has made more than twice the performance of the S&P 500. The rare individual fortunate to have sold his 1963 Ferrari GTO in 2014, set a new world record for car auctions at \$38 million. According to Bonhams, more than half of the top 100 most expensive cars sold in the world are Ferraris.



Record setting 1963 Ferrari GTO, courtesy of Bonham’s Auction

The astute car collector would point out that Ferrari manufactured approximately 40 GTOs from 1961 to 1964, and therefore the scarcity value would suggest that the few remaining should be highly prized. This is certainly true; however, the appetite and collectability of classic cars extends beyond rare Ferraris and into other higher production manufacturers such as Porsche and Mercedes. The German Car Index, also published by Hagertys, suggests that a basket of 1960s and 1970s German automobiles have appreciated by 200% since 2008 – also outpacing the S&P 500. Many of these cars were manufactured at higher volumes and are probably available for sale in your hometown – if you are still a buyer at current levels. In recent years, vintage Porsche 911s have moved into the collector category, and owners have experienced significant price appreciation since 2014.

American car collectors have not fared as well as their European counterparts. Owing to an aging fan base and the increasing popularity of American muscle cars, enthusiasts of the 1950s classics such as the Ford Thunderbird or the Chevy Bel-Air have

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seen little price appreciation since the mid-2000s. Instead, buyers have opted for classic American muscle cars such as the Ford Mustang, the Chevrolet Camaro, and the Corvette. This muscle car market was stagnant for several years following the Financial Crisis, but in recent years it has been as strong as its European counterparts, yet still affordable for many. While European classics have generally moved about the \$100k price point, American muscle ranks high on affordability with many fully restored classics still selling below six figures at auction. Private transactions, which are less reported, can offer even better value for those willing to take on the risk and diligence.

Is it too late?

After reading the above, investors are probably wondering how much is left in the tank (no pun intended), and how correlated classic car sales are to the broader economy. The good news (for some), is that many rare classics tend to hold their value during economic downturns. The simple explanation is that those fortunate to afford a rare European classic may have the ability to weather the downturn, and as a result, there are fewer recorded transactions during times of stress. In fact, another 1961 Ferrari (this time a GT), set an auction record in 2008 when it sold for just under \$11 million. As we mentioned earlier, Ferraris are an extreme example and not representative of the broader classic car market. Cars that did not fare as well in 2008 include those purchased by investors stretching financially to re-live their younger days. Many of these purchases were financed with excessive real estate leverage, and it is not a surprise that values for some cars declined by more than 30% during the Financial Crisis. Many classic American muscle cars are included in that category. During an economic slowdown, there is also a widening of recorded prices generated by similar vintages depending on the race history, restorer, and unique options such as color. Aside from the economic cycle, currency fluctuations can also influence gavel prices, but this is becoming less of a factor over time as collectible car auctions are now conducted on a global scale. Houses such as RM/Sotheby's, Christies, and Bonhams hold auctions in the US, London, Monaco, and other cities, where items are quoted and sold in numerous currencies.

Buyer beware, unless you can afford not to

Regardless of whether your passion is coins, rare art, or classic 1963 Ferraris, there should always be a balance of financial perspective and emotional attachment. For many of these items, sentiment and emotion can play a larger role in decision making than the long-term financial gain. Ask anyone who has been caught in the frenzy of an aggressive auctioneer and a shiny red object illuminated under bright lights. For these reasons, Passion Investing will always have its ups and downs. For some purchases, emotion can trump financial wealth while for others, financial wealth and the ability to hold an asset will supersede emotional behavior. Similar to financial investing, we encourage Passion Investors to consider value relative to peers – recent auction data is detailed and plentiful. Unlike financial investing, however, we remind investors to not lose sight of the personal interest or satisfaction that comes with owning a rare object and to enjoy the experience.

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We advocate the enjoyment in owning a slice of history because predicting the collectability or financial gain of any vintage automobile (or other collectible) is a fool's game. In many cases, value can truly be in the eye of the beholder.

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