



Classic cars – values of top-end classics have increased nearly 500 percent in the last decade

## Drag experts in confidence to avoid bad investments

The result of the Brexit – the vote on the withdrawal of Britain from the European Union (EU) – dominated the news in financial markets. The ongoing global debt issues, the economic slow-down in China and geopolitical trouble spots faded into the background. UK voters confounded expectations and the dire warnings of many politicians and business leaders by choosing to leave the European Union (51.9% leave vs 48.1% remain).

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Most market participants have been surprised by this result. Therefore this outcome will lead to uncertainty and volatility in the financial markets. The pound sterling fell sharply. This vote leads to increased economic uncertainty in the UK and the euro zone, as many multinational companies will halt investing, in particular in Great Britain. Furthermore, deteriorating terms of trade are likely to subtract 2% from UK GDP, and experts now expect the economy to narrowly avoid a recession.

In November, the outcome of the elections is hard to predict and the market believes that Hillary Clinton will be the next President of the USA. Nevertheless, both politicians are likely to pull out all the stops in the next few months in order to be in the news. This is likely to provide additional volatility in financial markets.

Regardless of some uncertainties, the global economic recovery will remain moderate. Despite a possible single rate hike in the US, bond yields are likely to continue to persist at historically low levels. This is supported by the expansionary monetary policy of most other central banks and a low inflation outlook. Collector cars outperform hedge funds with triple-digit returns, please check the low volatility of classic cars compared to other assets in the image below. Values of top-end classics have increased nearly 500 percent in the last decade.

It will be a while before free trade is restricted if indeed it is at all but let's assume it will be. How will that affect the classic car market? It's fairly simple – buying or selling in EU countries will become more expensive due to additional tax and duties. Around 10-20% of UK dealer and auction house sales are made to buyers outside the UK – so in the medium term that could affect that trade. In the short term however, exchange rates could actually stimulate sales into Europe.

While the pound remains weak against the Euro the UK could become a very attractive place for EU buyers to purchase cars – assuming owners wish to take their cars to market. However, the UK has been spending a lot of money on bringing cheaper European cars into the domestic market while less well-off Europeans have been unloading them, so it is unlikely the tide is suddenly going to start running the other way – particularly considering the margins some sellers have been levying ... Looking beyond Europe imagine how attractive high value cars in the UK must look to American buyers right now.

Exchange rates are not a factor that we see affecting the UK domestic market to any great extent although we may see more cars leaving our shores. Those people who are planning to bring a car into the UK with the intention of flipping it in a matter of months may be concerned, but for most this will not be an issue.

Conclusion: Therefore we believe that classic cars will remain an interesting alternative investment not correlated to the financial markets. The market today is full of traps and pitfalls of which we all must be very careful; yet there is more and more information out there to use or misuse, according to one's experience in the matter.

By Filippo Pignatti Morano (\*)

### Highlight of past auctions

'Auctions America' generated \$14.2 million in sales at annual Santa Monica collector car auction, June 25-26 in California. The top-sellers were the 1995 Ferrari F50 that achieved \$1.95 million, as the 1988 Porsche 959 'Komfort' realizing \$1.25 million. The Riverside International Automotive Museum Collection drew competitive bidding, with numerous lots exceeding their estimated price. This two-day event attracted bidders from 16 countries and 39 states across the United States.

Collector car buyers continue to find something special about ratty barn finds, as 'H&H Classics' recent sale of this 1966 Costin Nathan works prototype shows. The little racer needs a complete restoration before it can hit the track again. However, bidders clearly saw something special about the vehicle because the hammer dropped at 81,224 pounds (\$105,340) after fees, and 71,000 pounds (\$92,070) of that was just for the car. H&H Classics originally estimated a price of 25,000 to 30,000 pounds (\$32,420 to \$39,000).

The 'Artcurial Motorcars Le Mans Classic' auction was held Saturday 5<sup>th</sup> July 2014 at the Le Mans 24 Hours Circuit in France, resulting in total sales of €13.2 million and an 82% sell-through rate. Artcurial assembled a selection of 111 collector cars and 148 lots of automobilia for the 2014 Le Mans Classic auction, with 37 motor cars selling for more than €100,000 and 80% sold within or above their pre-sale estimate. The top result went to the 1961 Mercedes-Benz 300 SL Roadster that brought €1,115,600 (\$1,516,574), followed by the 1964 AC Cobra 289 Mk II at €761,000 (\$1,034,522) and the 1991 Ferrari F40 that made €691,400 (\$939,906).

The Jaguar D-Type that won the 24 Hours of Le Mans in 1956 is expected to set a new record price for a British car when it goes under the hammer at 'RM Sotheby's Monterey sale' in August. RM Sotheby's hasn't made the estimate public, but it is expected to break the auction price record for a Jaguar and for a British car. The Jaguar record currently stands at \$13.2 million, paid last year for the C-Type that finished fourth at Le Mans in 1953. A 1962 Aston Martin DB4GT Zagato set the British car record at \$14.3 million, also last year.

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