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How to Manage Collectible Investments

For Starters: Make Sure You Aren't Underinsured

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Investors can be obsessive about tracking the value of their stocks, bonds and other financial assets, checking their balances every day. But when it comes to the value of their collectibles, many don't have a clue. And that can lead to all sorts of trouble.

"Often clients don't view their art, jewelry or antiques in the same way that they view marketable securities," says Deborah Montaperto, an adviser at Morgan Stanley Private Wealth Management in New York.

As a result, she says, she has seen people casually give away valuable collections in divorce settlements, not realizing how much they were worth. Others didn't consider the fact that the items formed part of their taxable estate, with implications for gifting and estate planning.

And many collections are underinsured, leaving their owners vulnerable to significant financial losses, says Kevin M. Lynch, assistant professor of insurance at the American College of Financial Services in Bryn Mawr, Pa.

Taking Stock

To get their physical assets in order, investors first need to start with the basics:

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knowing what they have. They should tally up all those antiques and paintings, record their details and value, and gather together all the related paperwork. Then keep it all somewhere safe.

The next step: making sure they're properly insured. Many collectors think they're covered by their regular homeowners policy, says Prof. Lynch. But these policies are usually designed to cover everyday household items, and valuable collectibles can quickly blow through the limit of a policy's coverage.

"If you have art, if you have collectibles, if you have wine or other specialty items, you're probably underinsuring them if you rely on a simple homeowners policy," Prof. Lynch says. Instead, he says, investors need to get their high-value items properly appraised and insure these items for their replacement value.

And then, after no more than five years, investors should do it again. After all, that painting that was insured a few years ago for \$20,000 could be worth twice as much today. That's why experts recommend that collections be reappraised at least every three to five years, and more often if there's a particular reason why prices could have changed.

Keeping It Safe

Investors should also take basic steps to keep their investments safe, from installing a strong security system to ensuring that they're not damaging any items by exposing them to things like too much sunlight or humidity.

Bob Courtemanche, chairman of ACE Private Risk Services, a division of insurer ACE Group, knows of one expensive wine collection that survived a hurricane, only to bake in the subsequent heat because the owner hadn't installed a backup generator.

Some collectors also arrange background checks on staff or contractors who will have access to their collections, Mr. Courtemanche says.

And investors should take particular care when transporting valuable artwork: The No. 1 cause of loss or damage to fine art is the packing and shipping process, Mr. Courtemanche says.

Getting Help

If all of this sounds like a lot of work, that's because it is. But help is available.

There are a number of services that let investors store information about each item in their collection, update its value and keep track of its location, and will generate reports for their insurance company. Some examples are Collectify, Art Systems, Collector Systems, Trov, and Capture My Assets from Virtusoft Solutions.

Investors can also hire a professional collection manager for an hourly fee, to handle things like cataloging a collection, keeping the inventory up-to-date and arranging for appraisals. But Prof. Lynch says a financial adviser should also be involved—to help investors manage their collections as part of their overall investment portfolio and make decisions on estate planning—as well as an insurance agent who can offer advice on the right policy for a particular collection and regularly remind investors to get new appraisals. "Bottom line: If you have an agent who's not advising you on things like this, get a new agent," he says.

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