



Buying at Auction? *Some Do's and Don'ts*

— Douglas Wolford, CEO

For collectors of all kinds—whether of art, collectibles, watches, or wine—buying at auction has never been easier, more fun or, perhaps, more dangerous.

So here is the first item up for bid. In exchange for a few minutes of your time, I hope to give you a sense of how to play the auction game and win—not only win the collectible items you want, but to do so prudently and with a view designed to maximize both your enjoyment and potential profit. (And help you avoid some of the costly mistakes I made when I first got excited about auctions!)



Have a Plan.

As with all investing, the first step is to have a plan—one you can stick to. Decide what you want to collect, specifically. Don't just go to an auction or flip through an auction catalog without a goal (even if the goal is simply to educate yourself and not buy a thing). Going to an auction house is like going to a fabulous museum, except that you get to pick up and handle all the works of art! You can hold a sword once brandished by Napoleon, sit in a chair that Lincoln sat in, or look through the lens of Marilyn Monroe's camera. It can be quite intoxicating—and it can lead to discovering an endless number of things that you never knew you needed so badly.

If you find an item in an auction catalog that fills a hole in your collection (or your heart), that's when the real work begins. So go when you know what it is you want, and only after you've done your homework.

Before You Go to an Auction:



Have a Plan.



Do Your Homework.



Set a Budget.



Do Your Homework.

- Obtain a thorough 'condition report' from the auction house so that you can gauge condition and any issues or 'stories' that might detract from the value of the item. Ask for additional photos and talk to the auctioneer. Visit the auction house prior to the auction to inspect the goods personally. You will find that auctioneers are often 'enthusiastic' or 'optimistic' about the condition of the items they are offering, and their photographers can work miracles. If the item is anything valuable, either you or a hired expert needs to see it to believe it!
- Hiring an expert is worth considering. First, you may not have the time to visit your favorite items in various cities. Second and more important, there's a reason they're called experts—it's not a hobby for them, while it is a hobby for you. They will be able to advise you on condition, price, and authenticity. There is an enormous amount of counterfeit goods selling every single day, for big money. Online auctions, in particular, make it easy to pass off spurious items as genuine.

Remember: There is no substitute for seeing an item in person—if, that is, you have the time and can discern the real from the fake. If you don't, send an expert to look for you. Yes, that will cost you an additional 10-20%, but the cost of buying a fake is a 100% loss. And the expert may be able to advise you on what the 'right' price is—more on that in a moment.



Decide what you are willing to bid before the auction—all in!

When you find an auction that includes items that you might like to acquire, you'll want to consult the auction catalog, which is offered either online or in print form. Each item in the catalog will feature a photo or photos, some background information about the piece, and an estimate of what the auctioneer thinks it will sell for. The estimate is usually shown as a range, as in 'Estimate: \$1,000-\$2,000'. The 'low estimate' is just that: the bottom of the range of possible prices, and the 'high estimate' is the top.

Estimates can be useful, but beware! To generate interest in their items, certain auctioneers will set estimates well below what the items will likely sell for. They do so hoping more people will pile in and try to get a bargain, or to set expectations low for their consignors. Other auctioneers are more realistic. To determine which is which, you'll have to formulate your own idea of what the market price is for the items you are interested in. Research prior sales (artnet.com or the auction houses will post sales figures), talk to experts, and speak to your friends in your collecting community. As with any asset, demand changes daily, so you'll only have a rough idea of what the market will bear on the day of the auction. If the stock market craters the day before an auction, for instance, prices in general may take a haircut. Or, if an artist you are interested in suddenly becomes the subject of a major retrospective at the Met, expect to pay more!

Most important: decide what you are willing to pay long before you are at the auction! If you do not set a limit for yourself, you will pay more. When budgeting for auction purchases, remember to calculate what the item will cost you 'all-in' or 'final price'. When an auctioneer calls 'sold for \$1,000!' remember that is the 'hammer price'. The price you pay will be the hammer price, PLUS:

- A 'buyer's premium' (to cover auction house fees) between 12.5% - 25%, depending on the auction
- Sales tax (if you are taking delivery of the goods yourself or keeping them in state)
- Shipping/delivery cost to your location
- Customs duty, if the items are coming from another country
- And any fee you pay to an expert for helping you

These additional fees can sometimes nearly double the hammer price! So don't think you got the buy of the century if you bought an item worth \$1,500 for \$1,000. With all of the other costs associated with the final price, you may only have broken even, if that. At an auction, you have to try to buy low!

Ready to Take the Plunge?

So, you've decided what items you want to bid on, done your homework, and set your budget. Now you just have to decide how you want to bid and register. Today you have many options to bid, including:



In Person

at the auction house



Telephone

they will call you a few items before yours comes up for bid, and you will bid live on the phone with a member of the auction staff



Online

through LiveAuctioneers, ProxiBid, or one of many other auction platforms



Absentee Bid

in which you tell the auction house to bid for you in absentia, giving them a maximum bid in advance

Which is best? I recommend bidding in person or on the phone. You get to participate in the action, which is the fun part. In person you also get to watch and learn from other bidders. If on the phone, you are still bidding live. And the buyer's premium for live and phone bidding is usually the lowest rate the auction house charges.

While online is convenient, it can be dangerous. Like all online shopping, there is a tendency for impulsive buying, and the buyer's premium for online bidding is typically a hefty margin above live or phone. Additionally, unless you have a high-speed internet connection and a computer you can depend on, you can't be certain your bids will be recorded in time. I tend to recommend against online bidding, if it can be avoided.

Absentee bid should be used only as a last resort. If you absolutely can't be there in person or on the phone, have a proxy to bid for you, or be in front of a computer, then by all means place that absentee bid. But the auction house will likely use your 'order bids' to bid the price up in the room—and the majority of the time you will learn that you lost your items by one increment, or higher bid. Order bids typically serve as sucker bait!

Whatever method you choose, you'll have to register with the auction house to get permission to bid. Registering will also ensure (if you choose phone or absentee) that the auction house will contact you at the appropriate time and phone number, or follow up with you after the auction. Allow some time for approval if you've not bid with an auction house before. Some houses will want proof that you can afford the things on which you plan to bid. Some others will limit how much you can bid based on your past purchases, or on their own risk assessment of you bidding on something you may be unable to pay for.

The Auction Begins.

When you check in at the auction house, you'll pick up a 'paddle', which is usually just a large card with a number printed on it. This card is your bidder number, and all of your bids will be recorded by this number.

Next, find a seat and make yourself comfortable. The long wait between the items in which you are interested can be quite boring, so either follow along with the action if you can, or if you can't, take a break and pass the time elsewhere. Just be sure to calculate when to get back to the auction house—most auction houses go through 80-100 'lots' (items) per hour. So if the auction starts at 10 a.m. and you want to bid on Lot #325, be back in your seat within three hours—say by 1 p.m. at the latest. Make sure you get back in enough time to settle down again. You don't want to bid when you are rattled or distracted.

Have your paddle in hand when your item comes up, but keep it down until you are certain you are ready to bid. Let the opening bid or two go by, if you can, before you hold your paddle up, numbered side facing the auctioneer so that they can identify you. After you make your first bid, another bidder will likely outbid you. A good auctioneer will normally look in your direction to see if you want to counter. At this point either a nod of your head yes (if you wish to raise your bid) or a shake no (if you are out) will suffice—you generally will not have to raise your paddle again unless you are declared the winning bidder. Still, have it available just in case the auctioneer has multiple bidders in the room and on the phones—you may be overlooked by accident. So if you are uncertain about whether your bid has been noted, throw up that paddle!

Some buyers like to get up before their items come up for auction and wander to the back of the room. Bidding while standing in the back has a couple of advantages. The auctioneer will definitely see you—and any competing bidders in the room likely will not. Being ‘invisible’ is a good thing at an auction, as the less you telegraph your interests (and the thickness of your wallet), the better you will be at preserving some mystery about when and how much you might bid.

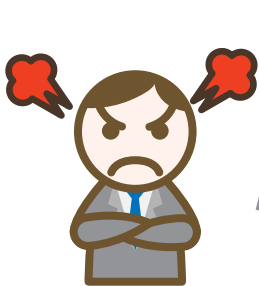


If you use your expert as your proxy bidder—and many wealthy and busy collectors do—you will enjoy more anonymity. That can be beneficial, since the auction world (like all businesses) is really less a ‘world’ and more like a small town or club.



Auctioneers are smart people, and they will get to know you quickly if you are a recurring visitor to their auctions. Nobody can do a ‘wallet biopsy’ as effectively as an auctioneer. They will quickly figure out whether you are subject to the ‘red mist’, and work the room or the phones against you. If they know you are coming to the auction, they may even call other people who like the things you do and encourage them to attend. There’s nothing dishonest about any of this by the way. The auctioneer is at work for the seller, and his job is to get the seller the best price possible.

The benefit of a proxy bidder is he or she is not subject to any emotion, and thus not at risk of calling ‘audibles’ at the line of scrimmage with your money. You’ll agree with your proxy ahead of time on what you should pay, and your proxy will bid up to the agreed upon amount for you, and no higher. Yes, that’s less fun than mixing it up in the room, but it is a safe play when the stakes are higher than just a few dollars.



Danger: Red mist ahead!

Probably the biggest danger for the buyer at auction is the ‘red mist’—the fog that comes over you when you realize that other people with equally good taste want to buy your chosen item! It can become a little personal, and when it does you are likely to keep bidding long after your bids make any economic sense whatsoever.



Auctioneers love to exploit this tendency. They make their money by creating competition, and they will egg you (and your competitors in the room or on the phones) on. When you get attached to the item you’re bidding on, it can seem as though the auctioneer will wait for what seems an eternity after your bid, if you are the high bidder, and move along quickly if you’re not. A good auctioneer will sense the mood of the crowd and stir up the excitement—excitement means bidding and bidding means money! And in truth, it only takes two people who want the same thing to bid it up beyond any reasonable market value (if it’s a true rarity you are certain to face this problem). Forewarned is to be forearmed. Beware of the red mist—it can prove to be expensive for your wallet.

“Just watching what items sell for, and in what condition, is the best education you can get as to the state of the market.”

The Hammer.

By now the bidding has slowed, and let's say you are in the lead and close to your maximum price. You are expecting to take home a treasure, and then...

Of course—at that moment someone in the room or on the phone bids again! You will feel a moment of disappointment, but there is no time for tears now. You have to decide whether to go 'one more increment'. A smart under-bidder (a bidder who is not in the lead) will sometimes bid just as the 'increment', or dollars between acceptable bids, is about to change. Let's say that the increment between acceptable bids is \$100 at the start of the bidding and that the item opens at \$500. Bids will typically rise by \$100 each time—\$600, \$700, \$800 and so on. At some future value, maybe \$2,000, the increment will change to \$250. A smart under-bidder may time their last bid when you are at \$1,900, so that now they are at \$2,000 and your next increment has to be to \$2,250. As value rises, so do increments.

“If you don't win, though, remember my *First Rule of Collecting*: There will always be more stuff.”

If you decide to bid again, let's say this time no one else jumps in. The auctioneer will look around the room, look at the bank of phones or the person watching the computer screen, repeat your bid, and call 'fair warning', then, usually, 'going once... going twice, sold to Bidder #...'. At that prompt, you will again hold up your paddle so that the auctioneer can read your number. Now you can settle down again and wait for the next item of interest. You're a winner!

If you don't win, though, remember my *First Rule of Collecting*¹: There will always be more stuff.

No matter what you want—I suppose outside an authentic Van Gogh—you will always be able to find another one, or something else you love just as much. There is an endless supply of collectible items out there, and more will come your way. Don't cry over the one that got away... besides, if you win too often, it means you are paying too much.

Finally Time to Pay.

The only thing left to do now is to 'pack out'—or pay for the things you've bought and arrange for shipment. That's pretty easy in most cases. The one thing you should never do is back out on a win. You'll be barred from any respectable auction if you make a habit of that. Now, if something is materially different from its catalog description, damaged, or turns out to be fake, all responsible auction houses will take the goods back, no questions asked. But if you are just feeling post-auction buyer's remorse, don't inflict it on the poor auctioneer or the consignor of the goods you bought! It's just bad form.

Pay by check, in cash, or by wire. Auctioneers often will tack on 3-5% for credit cards—not worth it! And pay timely—you will endear yourself to the auctioneer, and find that over time a good auctioneer can make a little magic happen in the room for his or her good clients.

I hope this overview excites you to live the auction experience yourself. The key is to do your homework, set your strategy ahead of time instead of at game time, and then have some fun! Auctions are great entertainment—the beautiful works for sale, the characters you'll meet, and the (mostly friendly) competition with other people who are as passionate about your interests as you are. Some of my most prized possessions were acquired at auction—and I remember the 'story' of how I won them every time I look at them. I've learned more about the things I collect from my time spent at auction houses than I could have ever learned by reading books or watching 'Antiques Roadshow'!

So have some fun out there, be careful, and reach out if you have questions.

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