Wealthy Indians prefer tangible assets as passion investments

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Mumbai, Oct 10: Around this time two years ago, an elite group of 10 was invited for a wine-tasting session off the Mumbai coast. Aboard an Italian yacht with Mozart symphony playing in the background, the high net worth individuals (HNIs) got to savour some of the world's finest wines. The three hour event struck a chord with the group, which liberally signed up for some of the labels. The icing on the cake: one of them struck a deal to purchase the exotic yacht as well. Call it the craving for passion play.

With rising disposable incomes, more and more HNIs are turning to passion investments to diversify their portfolio and satiate their weakness for the finer things in life.

It's a fine balancing act between the heart and the head.

Passion investments fall under the category of alternative investment, which typically makes up 5-8% of an HNI's portfolio, wealth managers said.

According to Asia-Pacific Wealth Report (APWR) by Capgemini and Merrill Lynch Wealth Management, Indians invest the most in jewellery, gems & watches followed by art and luxury collectibles. Interestingly, Indian HNIs mostly restrict their passion investments to tangible asset classes as they are wary of sophisticated financial instruments and are more conservative in their investment strategies, the report stated.

Gold—be it jewellery, bars and coins or luxury purchases—is one of the favourite investment avenues. "Indians have a strong affinity towards jewellery, especially gold," Karvy Private Wealth CEO Hrishikesh Parandekar said.

Of course, it helps that gold prices have run up substantially because of the uncertainty in the global economic meltdown. The fact that it's a liquid asset which can act as a hedge against inflation and currency risk,has sparked a renewed rush for the metal. "Gold is seen as having an intrinsic value, which might appreciate in the long term," Deutsche Bank head (private wealth management) Ajay Bagga said. Notably, despite the growing popularity of gold ETFs, Indian HNIs still prefer to hold physical gold, wealth managers said.

Despite the collapse of the art market in 2008, the interest in art is still alive. "There's a resurgence in the art market," Parandekar said. "Mature investors are turning to it as they can both consume and look for meaningful appreciation from their investments." India's art market grew 6% in 2009 and is currently estimated to be between Rs 800-1,000 crore.

File photo of a visitor at the Jehangir Art Gallery in Mumbai BLOOMBERG

Wealth management firms are doing their bit to help their clients pick up authentic art works. "We source works of art for our clients depending on their investment timeframe and the price they are willing to pay," Burgeon Wealth Advisors MD Maneesh Kumar said.

Besides jewellery and art, investment in vintage and luxury items is common. Wealth managers tie up with firms specialising in selling luxury items, which offer them heavy discounts if they manage to get enough HNI buyers. Interestingly, both the luxury and art market are not regulated and the price that clients are willing to pay often depends on their personal likes and dislikes. Not all investments are done with an eye on returns. "Several clients may buy a painting and keep it with them for years even if their value has doubled or trebled during that time," Kumar said.

That's one reason why all things vintage — be it cars, bags or cigar cases — have a huge fan following among the nouveau rich. Vintage cars, for example, are often kept in their pristine state as showpieces and brought out for display during car shows. "Unlike jets and yachts which depreciate in value because of regular use, the value of vintage cars goes up with time," Kumar said.

Treading the fine line between indulging in one's passions and meeting investment targets can be tricky sometimes, though. The opaque nature of the luxury and art markets doesn't help either. Little wonder, then, that the measurement of portfolio performances remains one of the key challenges for wealth management firms. A case in point is the art market. While the demand for works of art and their valuations soared between 2005 and 2007, prices came crashing down in 2008 in the aftermath of the global meltdown as demand fell and several art funds came under redemption pressure.

The other requirement is dealing with issues of taxation that come with passion investments. Most wealth managers admit that they don't offer full-fledged tax advisory services to clients and that's a lacuna that needs to be addressed. "Whatever we recommend is 'tax-optimized' but we don't provide active tax advice," Parandarkar said. The confusion regarding wealth taxation in the new DTC regime is another impediment.