

# Inside Information

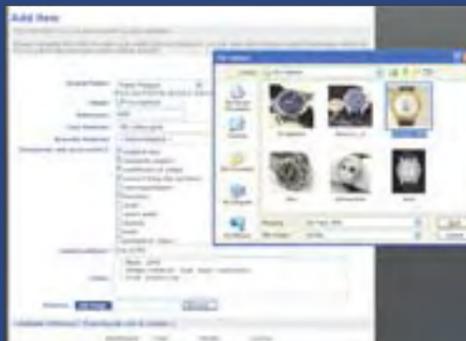


Osvaldo Patrizzi has played a major part in establishing worldwide interest for horology and collecting wristwatches. He founded Antiquorum in 1974, quickly positioning it as the world's leading horological auctioneer: of the 62 watches ever sold by major auction houses above SFr.1,000,000, Antiquorum can claim 44. This year, joining Patrizzi's long list of world firsts (theme sales, the watch grading system, real-time online bidding, etc.) is 'myCollection', designed to keep track of your watches' current performances at auction.



No, 'myCollection' isn't Antiquorum's bid to capitalise on the teenage online networking fad. Nor is it yet another watch forum for touting brazen wristshots of your latest purchase. It is in fact a convenient means of tracking the financial trends relating to your 'portfolio', taking into account auction performance and the critical minutiae that distinguish one watch reference from another. But, asks *QP* of Antiquorum CEO Osvaldo Patrizzi, how closely does myCollection tread that thin line between collecting and speculating? Doesn't this confirm the wristwatch's growing status as a tradable, liquid asset, rather than a passionate indulgence?

Alan Downing



Speculation? Osvaldo Patrizzi, Founding Chairman of Antiquorum, the world's leading horological auctioneer, recoils at the very suggestion.

It's passion, he explains, that prompted a collector to buy a rectangular triple-date Patek Philippe wristwatch for some SFr.12,000 from one of Antiquorum's earliest catalogues, to be rewarded some 25 years later with two million francs to retire on. It's the collectors' great love of watches that has propelled the price of a ref. 1518 from SFr.16,000 in 1981 to SFr.250,000 in 2007. And it's presumably the same emotions that motivated a Patek Philippe retailer to realise a profit of 12,000% on a 1961 perpetual calendar when he sold it in 1998 for \$1.1 million.

Thus the purpose of Antiquorum's newly launched online watch-price tracking system, myCollection, is definitely not to encourage speculation, stresses Patrizzi. "It's to allow certain clients to get an idea of the financial trends regarding their collection." But he adds: "They can of course use this information how they like."

**All in the detail**

MyCollection relies on Antiquorum's formidable database of watches and the results of some 25 horological sales a year staged by the major auction houses. Enter the watches in your collection and myCollection gives you their latest price at auction, historic highs and lows, volumes and comparative performance.

"The information is accurate and very valuable to a collector," says Patrizzi. So valuable in fact that it costs \$1,000 to join and enter up to 100 watches plus a \$200-per-year subscription after the first year.

Much of that value lies in the identification of seemingly minor details that add significantly to the value of a watch. For example, a yellow-gold Rolex 6062 triple-date with moonphase made in the early 1950s (estimated in Antiquorum's 1981 catalogue at SFr.4,500 to SFr.5,500) sells today for more than SFr.100,000. With

star-shaped hour markers instead of darts the price doubles; it doubles again with a black dial and diamond hours. Successful bids for Rolex 'Paul Newman' Cosmograph Daytonas range from SFr.35,000 to SFr.120,000 depending on the colour scheme of the dial and on whether the tachometer is graduated to 200 or 300 units per hour. On the Patek Philippe 3450 perpetual calendar, an Arabic-numeral or red-dot leap-year indication can increase the price by up to 40%.

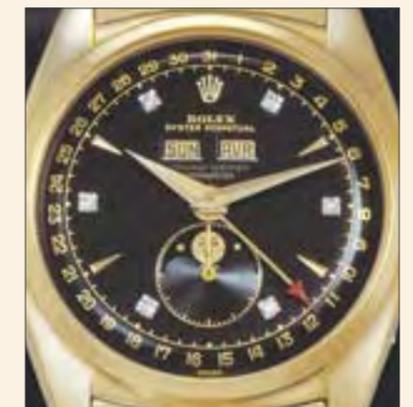
Arnaud Laubhouet agrees entirely with Patrizzi's view. He is a 42-year-old watch collector and also first Vice President of a private genevois bank that manages the assets of 'high-net-worth individuals' - the bankers' euphemism for the exceptionally rich. "Watches are definitely not investment assets," he declares. "The number-one motivation for a collector is emotional." Nevertheless, he does recognise that some of his clients diversify into watches - for the pleasure of collecting, of course. "They're not trying to make money, they've already got money." He also acknowledges that an Omega moon-landing anniversary watch he bought because he liked it has turned out to be very valuable since Antiquorum's Omegamania sale. Nor will he deny that the collection of Patek, Jaeger-LeCoultre, Girard-Perregaux, Rolex and FP Journe wristwatches he has acquired since 2001 has increased in value.

**Boom**

Whether or not Patrizzi and Laubhouet can suspend the disbelief that collectors buy watches at auction without a thought for their future value, there's no denying that the price of vintage and modern wristwatches has consistently increased since 1981. Few other assets can claim a similar performance. Until that date, wristwatches were valueless to horological collectors. Nevertheless, Patrizzi had a few contemporary Patek Philippe complicated wristwatches in his catalogue of that year. Estimated at 40% less than similar watches new in the Patek Philippe store, they sold for

The following day, Patek Philippe's Geneva shop was cleaned out of complicated wristwatches. "Something clicked in the minds of collectors. They switched to wristwatches," recalls Patrizzi. The boom was on.

| Seven good reasons to invest in wristwatches                                                                                                                                                                                                                                                                                                    | Seven good reasons not to invest in wristwatches                                                                                                                                                                                                                                                                                                         |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. <b>Price maintenance</b> The Swiss watch industry is virtually the monopoly producer of investment-grade watches and is organised as an informal cartel. Swiss watch brands will never compete on price. Museums belonging to brands such as Patek Philippe and Breguet bid for their own past production at auction, driving up the prices. | 1. <b>High transaction costs</b> If you buy a watch at auction, commissions mean that its price will have to go up 25% before you realise a profit at auction. If you buy it in a store, the retailer's margin is likely to be at least 40%. Increasing control of distribution channels by the major brands is discouraging discounting.                |
| 2. <b>Liquidity</b> With 25 major auctions a year, let alone online auctions, it is becoming easier to sell your watch. More than 80% of lots at auction find buyers (i.e. the bidding exceeds the reserve price demanded by the buyer).                                                                                                        | 2. <b>Lack of transparency</b> Watch brands keep their records and archives secret. There is no independent audit of the production quantities of a given product, or of the 'extracts from the archive', meaning the history and glamour associated with brands is open to manufacture or spin.                                                         |
| 3. <b>Limited supply</b> High-grade watches are labour-intensive and the industry suffers from manpower shortages. An increasing proportion of resources is devoted to servicing and repairing previous production rather than making new watches.                                                                                              | 3. <b>High correlation with other asset classes</b> The watch market has proved vulnerable to stock-market slumps. Collectors quickly lose their enthusiasm when their shares go down.                                                                                                                                                                   |
| 4. <b>Growing market</b> New wealth generated by globalisation, growing awareness of watches and emerging economies such as China have seen an increasing number of watch enthusiasts enter the market.                                                                                                                                         | 4. <b>Forgeries abound</b> Forgeries at auction can be extremely sophisticated. Some have been unofficial products made by the workshops that supply the brands; others are composite watches, newly assembled from genuine old movements, cases and dials.                                                                                              |
| 5. <b>Transportability</b> Watches concentrate a great deal of value in a small portable object. They are a potentially handy way of transferring assets from one market to another without drawing official notice.                                                                                                                            | 5. <b>Cost of ownership</b> Due to the shortage of qualified watchmakers, it is becoming increasingly expensive to restore watches or to maintain them in good condition.                                                                                                                                                                                |
| 6. <b>Investment tools</b> The development of price-tracking systems (myCollection), projects to create watch-investment funds and credit facilities for watch investors indicate an increasingly sophisticated market.                                                                                                                         | 6. <b>Subject to changing fashions</b> Certain styles, categories or brands could become unfashionable. Plus, bubbles can burst: high prices for Patek Philippe World Time watches and vintage chronographs in the early Nineties brought more models out of the woodwork than were previously thought to have existed, resulting in a sharp correction. |
| 7. <b>Increasing range of stock</b> After Patek Philippe, Breguet, Rolex and Vacheron Constantin, Omega has become the latest mainstream brand to achieve blue-chip status. Investors in such new brands as Journe, Richard Mille and De Bethune have also realised profits.                                                                    | 7. <b>Watches that don't work</b> The watch boom has encouraged brands, many of them new, to produce increasingly complicated watches. Some of these highly priced and over-ambitious products function neither as watches nor as gadgets.                                                                                                               |



Produced from 1949 to 1953, with 350 examples in yellow gold, 50 examples in pink gold and very few in stainless steel, the value of the ref. 6062 triple-date moonphase greatly depends on the hour indexes. The rarest are diamonds, combined with a black dial on just two occasions (the example pictured here fetched SFr.469,700 at last year's Guido Mondani Rolex theme sale). Next rarest are star indexes (the example pictured was unsold at Antiquorum's November 2006 sale, but estimated between SFr.150,000 and SFr.180,000), then arrows (sold for HK\$800,000 at Antiquorum, Hong Kong last year - ca SFr.124,205).



'Spot' the difference: Patek's ref. 3450 perpetual calendar was made in 244 examples from 1981 to 1986, and its value at auction today is largely dictated by what appears in the leap-year indicator window; either a red dot (first series), Arabic numerals (second) or Roman numerals (third). Just one known example of ref. 3450 without leap-year indicator is thought to exist - sold in June this year at Antiquorum, Hong Kong for HK\$1,455,500 (approx. SFr.225,676)



Three variants of perhaps the most collectable Patek Philippe wristwatch of the modern era - the reference 2499 perpetual-calendar chronograph. Successor to ref. 1518, produced in 349 examples from 1951 to 1985, very few with tachometer dials, even less in pink gold.

(Left) A 'first series' yellow-gold example from 1953 with tachometer, sold in 2004 by Antiquorum for SFr.534,250.

(Centre) Ultra-rare, fourth-series 'pink tachometer' 2499 from 1957. Fetched an astronomical \$879,500 at Antiquorum, NY in 2005 (ca SFr.1m).

(Right) The ref. 2499-100 was snapped up by collectors (or should that be speculators?) in the early Eighties for just SFr.22,000. This example from 1984 was sold last year for SFr.424,900 despite a 'conservative' estimate of SFr.250,000-280,000.

40% more. Financial reasoning overcame emotion as collectors spotted the arbitrage opportunity. The following day, Patek Philippe's Geneva shop was cleaned out of complicated wristwatches. "Something clicked in the minds of collectors. They switched to wristwatches," recalls Patrizzi. The boom was on. The 'collectors' who bought those Patek Philippe ref. 2499-100 perpetual-calendar chronographs for around SFr.22,000 at that 1981 sale saw their investment treble by the mid-Eighties. In 1989, a five-year-old platinum model - one of two made - sold for SFr.418,000. In October 2002, Antiquorum sold a pink-gold ref. 2499 first-series perpetual-calendar chronograph for a record SFr.3,193,500.

Patek Philippe became established as the blue chip at auction thanks to another Patrizzi innovation - the theme sale devoted to a single brand. At the landmark Patek Philippe auction in April 1989, brand new wristwatches went for up to three times their official retail price. The company adjusted its prices

accordingly and has never looked back since. The ref. 3960 officer's watch and the ref. 3969 tonneau wristwatch with digital jumping hours are still traded at auction with their seals intact.

### One step ahead

Antiquorum has since done the same for Breguet, Rolex, Vacheron Constantin, and lately for Omega. Although he has sold his company to Japanese interests, retaining a minority stake, Patrizzi continues to innovate. Five years ago he opened his sale to online bidders, stealing a march on his more aloof rivals, Sotheby's, Christie's and Phillips. His annual turnover, approaching SFr.150 million, is more than that of all other horological auctioneers combined.

Online bidding has taken some of the excitement away from the auction room. "It used to take an average of 50 seconds to auction a watch. Now, because of the online and telephone bids it can take one and a half minutes for each watch," says Patrizzi. That amounts to 15 hours for a

600-lot catalogue, divided into four sessions over two days. To bring back the thrill, Antiquorum is planning to hold two sessions simultaneously in two adjoining rooms with two auctioneers and two price boards. The lots will be arranged to avoid the same kinds of watches being auctioned at the same time: while one auctioneer is selling antique pocket watches, for example, the other will be knocking down the modern wristwatches.

It's easy to see why wristwatches attract speculators. They are worth far more than their weight in gold, there is a wide variety of stock to choose from and the market is liquid, although transaction costs are high. Above all, you can wear a couple of million francs on your wrist through customs. Prices of fine mechanical watches are at their historic highs. But will the bubble burst? Not likely according to Laubhouet. He estimates there are up to 60 million millionaires in China - the population of France - many of whom will no doubt want to invest in something of intrinsic value. ●