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STAMPS DELIVER TOP INVESTMENT RETURNS

Vikram Barhat / January 14, 2013



Few hobbies are pursued as universally as stamp collection.

Year after year, millions around the world build, become bored with, and bequeath small fortunes in stamps before moving on to other pursuits.

But while dabblers come and go, only seasoned stamp collectors—philatelists, if you prefer the technical term—know their passion is among the top four investments of the 20th century, producing double-digit returns annually.

Few alternative asset classes can match the portability and profitability of postage stamps. Nor has the long-term performance of any other class of collectibles been so closely monitored and painstakingly documented.

A 2009 study by two finance professors, Elroy Dimson at London Business School and Christophe Spaenjers at HEC Paris, tracked the investment performance of British collectible postage stamps between 1900 and 2008.

Their study, *Ex Post: The Investment Performance of Collectible Stamps*, pegs annualized return on stamps at 7% in nominal terms, or 2.9% in real terms.

Investors like the idea that collectibles diversify their portfolios and may provide some hedge against inflation and uncertainty, says Spaenjers.

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-Superior Auctions.

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ng the 2008 bear

HASSLE FACTOR

Many fakes exist

Buying and selling involves high transaction costs (up to 25%)

1912 RARE TITANIC COVER IN PREMIUM CONDITION

The auction estimate is up to \$500,000. The country seems low. But investment-grade postage is pricey, says Spaenjers.

“As with other collectibles, you probably want to invest at the higher end of the market,” he says. “The rare stamps in excellent condition will always be sought after by philatelists and can, therefore, serve as a store of value.”

Still, investors must perform careful due diligence.

“Buying through qualified dealers or auction houses can minimize the risk of buying fakes or stamps of lower quality,” says Spaenjers. “Catalogues and recent auction results are tools that help in estimating valuations.”

Another good rule: stick to high-end, rarer examples. Cheaper ones are seldom worth more than face value and postal services worldwide are flooding markets with commemoratives in an attempt to cash in and sell product that’s never used for its intended purpose—mailing letters.

“Transaction costs can be very high in this market; auction houses may charge up to 25%,” he says. “In the case of very cheap items, you are basically buying a worthless stamp, and paying [several dollars] in transaction costs.”

Despite what auction houses and online auction sites will have you believe, there are attendant risks.

“Stamp collecting may fall out of fashion, so the fundamental values of stamps go down,” says Spaenjers. “And since stamp collecting is ultimately a form of luxury consumption, prices may be correlated with the movements of the equity market, providing less diversification than hoped.”

Auction houses like UK-based Stanley Gibbons, famous for its devotion to collectible stamps, insist the opposite is true. Its investment director, Keith Heddle, provides clients with reading material that “outline[s] the rationale for diversification into tangible, heritage assets, uncorrelated with other asset classes and therefore largely immune to standard economic and market swings.”

The auction house, which has offices in London and Hong Kong and a royal warrant from Queen Elizabeth II, uses numbers to deliver its message. “Whilst many other asset classes continue to flounder in the current worldwide economic crisis, the world’s most sought-after stamp [the Penny Black, the world’s first

Insurance and storage costs can outweigh value of stamps

FACTS AND FIGURES

About **12%** of all stamp collectors own stamps purely as an investment, finds a Barclays report.

Art-dealer Henry J. Duveen’s stamp collection, displayed at the **1913 International Stamp Exhibition in New York**, was worth more than **\$250,000**.

The world’s most valuable stamp collection was worth **\$2.5 MILLION** in **1955**.

Stamp collecting reached its zenith in the **1960s and 1970s**.

In **1966**, riots broke out in London for a limited issue of stamps celebrating England’s soccer world cup victory.

Despite the **1980s bust** and the lower interest among younger generations, stamp collecting remains one of the world’s most popular hobbies.

The tens of millions of stamp collectors worldwide annually spend up to **\$10 BILLION** on their hobby.

Bill Gross, money manager of PIMCO and a noted stamp collector, sold his collection of early British stamps for **\$9.1 MILLION** at a New York auction in **2007**.

Stamps also have their own history of scandal. In May **2006**, **TWO STAMP PONZI SCHEMES ROBBED 350,000 INVESTORS** in Spain of about **5 billion euros**.

Courtesy: Elroy Dimson and Christophe Spaenjers, Stanley Gibbons, CNBC.com. All figures in \$US.

adhesive postage stamp] went up in value this year by 17%,” asserts Michael Hall, CEO, Stanley Gibbons. “Over the last 10 years, it has shown a rise of 243%—an enviable consistency of performance.”

There’s a reason why the Penny Blacks have proven to be one of the safest ways to store and grow wealth. “You can print more money, mine more gold, create more unit trust, [but] you can’t print more Penny Blacks,” says Hall. “The Penny Black isn’t aware of any economic chaos; [it] doesn’t panic when the media get excitable about end-of-the-world-as-we-know-it scenarios.”

Heddle reckons equities have their place in diversified portfolios, but insists “if your investment does not include truly non-correlated assets, be prepared for a potentially bumpy ride.”

Much like equities, it’s hard to pinpoint the best time to get into the game, says Spaenjers. “[Now] may not be a better or worse time than [any] other; every market is hard to time,” he says. “In any case, given the importance of transaction costs and the long waves in this market, a long horizon is necessary.”

Hence, almost all the popular stamp indices track long-term performance while calculating price growth annually.

The most popular indices include Stanley Gibbons’s GB30 Rarities Index, SG100 Rare Stamp Price Index and Commonwealth Rarities Index, and Fraser’s Rarities Index. Some are even listed on Bloomberg terminals.

Even if a client gets excited about this asset class, though, it’s important to retain a sense of balance and proportion during portfolio allocation.

A recent Barclays Bank study, in fact, finds affluent people have about 10% of their wealth in collectibles. The same study reveals about 12% of collectors own stamps purely as an investment.

“Having a small part of your net worth invested in stamps seems reasonable if you’re getting both a non-financial dividend from the pleasure of owning [them], as well as some portfolio diversification,” says Spaenjers.

“But don’t allocate money to a collectible you’re not interested in at all, because then you’re not getting utility from ownership.”

CANADIAN STAMP CATALOGUES:

- <http://www.canadianstamps.info>
- <http://www.collectionscanada.gc.ca/archivianet/0201>
- <http://www.vistastamps.com/products/stamps/canad>

5 REASONS TO INVEST IN STAMPS

1. Stamps are a tangible asset, largely unaffected by standard economic vagaries.
2. Rare stamps are stable assets, rising in value through World Wars, economic crashes and periods of hyperinflation.
3. Stamps have shown an average annual return of 11% over the last 40 years.
4. The rich and famous have used stamps to protect and grow their wealth for centuries. Notable collectors include the British Royal Family, the Rothschilds, Eli Lilly, Warren Buffett and Bill Gross of PIMCO.
5. Stamps are valuable assets, rich in history, available to be traded and not at the mercy of the market, changing consumer trends or poor management decisions.

Courtesy: Stanley Gibbons



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