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ART–MARKET FOR CULTURAL PRODUCTS HAVING INVESTMENT POTENTIAL

Cătălin GHEORGHE, Flavius Aurelian SÂRBU

Transilvania University of Brasov, Romania

Abstract: A development has been noticed in the last years in the art market of Romania from point of view of efficiency obtained, investors' number and traded amounts. This paper proposes to identify particularities in the art market of Romania in the last decades, market performances and prospects in evolution for the next years. The traced targets are identified by purchase of Romanian art items and their investment prospective.

Keywords: art, market, investment, efficiency, prospect

1. Coordinates of Art Market in Romania by in 1990

The art market of Romania was poorly represented until 1990. That was due firstly to the status of isolation and missing communication during almost 50 year-time. Within this entire interval of communist regime backgrounds, artistic goods did not circulate and their value was artificially established, depending on interests and in some cases on political actions. To demonstrate these general coordinates, the features of art market of Romania are hereinafter considered, as resulted out of a review of the legislative environment within years 1960-1989.

The patrimony law had protectionist character at that age thus assuring certain tightness against communication with exterior. The law spirit induced such a condition that did not allow for any patrimony sale. The national patrimony was defined by law as including [8]:

- Goods having outstanding artistic value;
- Goods having historical and documentary particular value;
- Goods having scientific value of a peculiar importance monument of nature.

The State was ensuring knowledge, centralized records and full safety preservation of all goods belonging to the national cultural patrimony. All goods taking part in the patrimony were under centralized state records, being subject to maintenance, preservation, scientific stocktaking with marking and release into circulation.

In order to ensure due records and also protection, preservation, scientific research and valorisation of the national cultural patrimony, the following bodies were established in 1974: the

National Cultural Patrimony Central State Commission, the National Cultural Patrimony Direction, as well as county offices and the Municipality Office of Bucharest for the national cultural patrimony. Attributions, mode of structuring and operation of those organizational structures were established by Decree of the State Council.

The State was acquiring goods of the national cultural patrimony by donations or by their purchase to such prices as set out by the National Cultural Patrimony Central State Commission. Sale, exchange, or donation of the goods held by natural persons could only be carried out upon 60 day-written notice delivered by the appropriate national cultural patrimony office. In every sale of such goods, the state could exert the purchase related priority (pre-emptive right) to buy against the price fixed by the National Cultural Patrimony Central State Commission. Criteria for setting the price of purchase for goods belonging to the national cultural patrimony were regulated by Decision of the State Cabinet Office. At the same time, utilisation of national cultural patrimony goods was forbidden in other purposes and conditions than provided by the law.

Alienation of goods belonging to national cultural patrimony by foreign natural or legal persons was completely prohibited. Goods could be sent abroad for presentation within Romanian or international exhibitions, as well as for performance of some restoration works or specialty experts' appraisal audits with approval by the President on proposal by the Culture Counsel. There was pretty none opening to the world, contemporary artists had difficulties to travel to neighbouring countries and

beyond contemporary art, art goods were sold on illegal ways. Taking out of border, cultural goods other than belonging to the national cultural patrimony could only be done with endorsement by the National Cultural Patrimony Central State Commission. Works of painting, sculpture, graphics, ceramics, porcelain, glassware, textiles, art-featured furniture, books and other prints came under this category except from those released to public circuit. Competences of above-mentioned authority bodies are not presented because not showing any interest for the current paper. Their nomination was only done in order that the centralized mechanism of establishing the value of an art work and its making known to public could be understood.

The beforehand presented aspects result in the conclusion that before 1989 the Romanian state was buying without observance of the actual criteria of a market. The proper market was not existing, so that to provide for the values traffic. There were misunderstandings between the state establishments and artists, and unspoken or induced agreements regarding control on creation, a subtle scenario of communication required by the internal mechanism of the system. Before 1989 the only high financial power purchaser was the Romanian state and the state used to discretionary acquire depending on their needs that were for certain cases propagandistic. The artist was looked at rather as a simple propaganda and influence agent, some kind of "laic apostle of the negative theology the communism stood for so exemplarily" [19].

This way, the patrimony was taken out of its legitimate context and excluded from the market control area. That led to situations when great Romanian artists enjoying in Romania mythological status be almost negligible presence abroad. The generated discrepancies led to occurrence in time of hilarious positions: "if a painter such as our Nicolae Grigorescu is situated in Romania some place to the limit of holiness and invested with incommensurable spiritual value, in western society he is to the level of some outlandish artist." [18].

For sure, notionally, an artist is as valuable anywhere he could exist. However, one shall consider that his perception is firstly subjective. The paradox does not focus on the artist himself or his creativity but the different assessment of creativity by means of monetary instruments is due to the audience who come in touch with his work. The fact that Nicolae Grigorescu is little known abroad is due to the fact his work did not circulate, not being promoted in the big museums and in great extent

cultural events and audience did not come in direct touch with his work. There are plenty of specialists recommending the art acquisition as hobby and not mandatory as investment [2].

With no specific market mechanisms compliant with the western society's long ago stabilized legislation, the commercial status of the art work had been fluctuant and unforeseeable in Romania. A same author could then sell on certain day against ridiculous give-away price and in a few more days against outrageous one.

Differences between dealing prices were enormous. Such difference was not measuring the value distance between works but was rather the result of spontaneous action. The fact that there had been no actual regulation, juridical and institutional, for the art market narrowed so much the option range thus directing the buyers' interest, for their most part towards name of artists and not towards works.

Upon prices resulted from bidding sessions, Romanian artists are but a few in number, or, Romania holds much more important artists than a prejudicial marked insight would let to understand. There are in the history of Romanian art hundreds of remarkable artists having clearly defined works that could be listed in any big museum in the world.

To sum it up, it could be stated that the Romanian art market had operated so far within a restrained framework and partially clandestine during the communist regime period.

2. Development and Evolution of Art-Market after 1990

After 1989 the Romanian art market was subject to a continuous process of evolution. As economical activities generated available cash flows, they got out of the range of productive activities under the form of savings for which the best placement was searched as for efficiency, risk and liquidity.

Immediately after 1990, art acquisitions were done for their greatest part with no specialty consulting. The choice was practised upon arbitrary criteria and the work quality used to be more often than not doubtful. Selection of important name of Romanian art under the promise of low price determined occurrence of forgery in private collections while other works stayed unknown due to culture and information deficiencies.

The actors of Romanian art market are: auction houses, art galleries, art critics and historians, museographs and art restorers, artists and collectors.

In 1990 the first art auction house was opened in Romania. Romanian art market is at the present supported to the level of the public art sales by means of local auction houses that regularly undertake sessions of auctions. Monthly six art auctions are achieved within which approximately 700 plastic art works and author's graphic works are placed on public sale.

Within 1990-2011 period several auction houses and galleries were operating that conducted auctions having occasional feature: Art Alliance, Alis, Araart, Artmark, Călușari (traditional Romanian dancers), Djaburof, Ana Gallery, Numismatic Gallery, Goldart, Hanul cu Tei, Him, Lux Art, Luxor, Monavissa, Preda's, Pogany, QuadroTopart, Association Friends of Minovici museums, and so on.

A change is noticed in Romanian investors' position versus art. The capital owners stopped doing exclusive investments only in business area, real estate or on the capital market; instead they have considered the art market. A similar phenomenon appeared in Australia [16] and, more recently, in India, state where there are 51 top artists standing for 88% of sales by auction [4, 10].

3. Trends in the Period of Economic Crisis

For the art market of Romania, economic crisis generated different evolutions. The decrease in efficiency and the increase of the risk related to other placements in financial market determined investors to review the opportunity of investment in art. Consequently, some of the auction houses recorded a considerable increase in the number of transactions while other ones faced a decrease in sale prices. Although the acquisition prices of the items placed on auction lowered, the collectors' number increased. Auctions held in Romania began receiving ever more guests while the number of new clients constantly increased. Investors track likewise on any other market safe and valuable assets in which keep their savings. Art objects may quickly enhance their value in time, given the incipient present-day status of art market in Romania.

The efficiency of art market can be established similarly to that of an investment on financial market:

$$R = \frac{P_1}{P_0} \cdot 100, \quad (1)$$

where R is the efficiency expressed in percentage; P_0 the acquisition price of the art works on purchase, and P_1 the acquisition price of the art works on sale.

To overall level the efficiency may be established likewise as weighed arithmetic average or by setting out an index that reflect the assembly trend of the market. The second variant is frequently used on the developed art markets.

This sort of coordinates determined within 1995-2009 period of time, an annual medium efficiency of 27.04%. In 2010 the efficiency raised until 40%. Concerning year 2012, a significant increase occurred as for the number of transaction as a result of demand increase, respectively of the tender feedback, by raising the number of actors. Even if substantial increases were recorded, the plastic artists of Romania enjoy a low presence in international sale directories with a market share difficult to establish.

The development of the art market led to occurrence of databases that went continuously growing with new information about sales achieved in auction halls of Romania, with biographical data related to each artist apart, with new signatures and documenting sites on internet. Thus the possibility was generated to review art works depending on prices, size or date of sale.

The databases offer the possibility to access information concerning the schools attended by an artist, professors he studied with, exhibitions, prizes awarded, presence in museums, exhibition events and private collections. There are complete references available to the ones interested in profiled dictionaries, books, directories, treaties, encyclopaedias, catalogues, periodicals and publications in this range. Another trend of development tracks the artists' signatures and monograms.

During the period 2010-2011, 65% of the art market of Romania was composed of the activity of the auction houses the sales of which are formal and measurable. Unlike this period, in 2012 a significant raise was noticed for private sales, usually not accompanied by documents.

Investors focused on artists of national importance as they continued standing for a safe investment. Works signed by the great name of Romanian art were tracked by traditional collectors in order to replenish their collections but also the newly comers on the market they who are in search of either place their money in a safe investment or more risky but profitable investments.

In 2011 artists of the first value rank faced substantial raises (Nicolae Grigorescu 58.61%, Nicolae Tonitza 48.49%), and year 2012 stood for a year of consolidation in which prices were around

the won market value with minor fluctuations. Therefore the important works by Nicolae Grigorescu framed the interval EUR 100000-200000, while paintings of small size by the same author reached around EUR 50000.

If in 2011 Nicolae Tonitza engaged the first position in the rating order of art market in Romania, with his thesaurus painting "În iatac" (In the alcove), adjudicated in the Winter Auction conducted by Artmark house against EUR 290000, in 2012 it maintains to a level of EUR 150000-200000 for significant works. At the same time, technical drawings and sketches not less complex by the same authors had a start price of several hundred EUR-ss.

The activity of auction houses continued growing in 2012, offering a monthly medium number of 400 art items, upwards by 15% versus year 2011 and over 35% versus year 2010. Investors preferred in 2012 the patrimony artists represented in auctions by less significant works having start prices below EUR 1000. Their works quickly reached spectacular raises exceeding turn and turnabout, the record of bidding steps.

The small size (22.5×29 cm) work belonging to Romanian artist Mișu Teișanu, entitled "Sedusă" (Seduced), started in the Auction of Mărțișor (March 1st) with Artmark from a price of EUR 250 and was adjudicated for EUR 10000. Another example to such respect is the sculpture entitled "Vânzătorul de covoare" (Carpet seller) by artist Bruno Zach, that started in auction from EUR 900 and was adjudicated after 39 bidding steps with EUR 9500.

The mitigation of economic activity determined a cut-down in investors' savings. On such background, more accessible works were searched from financial point of view. Artist dedicated to interwar painting stayed for the central search in 2012, their prices being more accessible than those of national artists. An example to such respect is artist Gheorghe Petrașcu that knew in 2012 a raise by 5.25%, with the majority of works adjudicated against several thousand EUR-s but also peaks over EUR 50000, such as "Atelier din Târgoviște" (Workshop of Targoviste), adjudicated against EUR 62914 with auction house Alis in July 2012. Within the same segment of market, painter Theodor Pallady was known in 2012, by 8.56% raise, against a maximum price of EUR 56240 gotten by painting "Dormind" (Asleep), within Alis auction in May 2012.

Contemporary art still placed to affordable values compared to patrimony artists' increasing shares, succeeded in gathering in 2012 the highest amounts versus the short history of auctions exclusively dedicated to post-modern and contemporary art.

The market of art auctions in Romania situated in 2012 to EUR 14.6 million with significant raise on the most affordable segments of the market. Should components of private sales be added that were not recorded in documents and warranty certificates but growing, the market may be estimated to over EUR 25 million.

4. Index of Art Market in Romania

Indices of art market occurred by the desire to compare the art investment against other direct or financial investments. They have a scope in highlighting the market general trend and as a consequence shall meet cumulatively the following requirements:

- be representative for the entire market;
- be easy to establish;
- allow for setting of comparisons in time.

The scope of building an index is to measure the evolution of an asset or group of assets. The easiest way to measure changes in price is to calculate an average sale price for a rank of artists in at least two subsequent periods. The majority of indices are based on mathematical model upon which the price of an artwork at a given moment depends on the fixed features of the concerned work as well as on the elements varying in time.

The index of Romanian art market stands for the finality of a stock exchange jobbing with history and efficiency reviews. It allows any people concerned to monitor the market value of Romanian artists: annual market shares, annual efficiency, average raise, comparisons between variations in annual raises between various artists. It stands for an information instrument contributing in decision making related to the opportunity investment in the work of a given artist listed on Romanian market.

The assessment is based on the European method of identifying the price per unit of area (cm²), starting from the findings that price is offered within competition framework of public sale related to objective factors (area of the art work, its notoriety consisting of illustrations, being mentioned, taking part in exhibitions, its origin and accessories' quality). Related to subjective factors of quality (intrinsic quality of the work, assembly value of the artist's work) as they are perceived by

possible purchasers on a given market geographically and temporally circumscribed

The primary data used in view of electronic processing of the index values were results from public auctions conducted in Romania during 1995-2010 periods.

The method applies in several steps shown in Table 1. The index mentions distinctly exceptional

transactions the price of which varies by a plus 100%, respectively minus 90% against annual average but also isolated transactions for years when not sufficient transactions were conducted so that to be able to calculate an annual average. The index distinctly deals with eight groups of work achieving technique, be it plastic or graphic, grouped in Table 2 [3].

Table 1. Steps applied

Step	Description
A	National standardization of each technique size. Average size for Romanian easel painting is approximately 45×48 cm, drawing 26×25 cm, for other techniques than pictorial ones 33×33 cm, engraving 27×28 cm, sculpture 37 cm and photography 24×33 cm.
B	Adjustment and application of medium size for easiness of memorizing and its application. Medium size used by index are: drawing 25×25 cm, painting and other pictorial techniques 45×50 cm, other colour techniques 33×33 cm, engraving 25×30 cm, sculpture 35 cm, and for photography 25×33 cm.
C	Conversion of each dealt work having larger or smaller area than medium size within medium size prices. A special attention was paid to miniaturists rarely encountered in Romanian painting, as well as special formats of some of painting or graphics works.
D	Determination of annual averages in prices for public transactions of an artist in case there are sufficient public transactions a year so that to justify an annual average (a minimum three transactions a year was considered critical amount to generate an average).

Source: Romanian Art Market Index

Table 2. Groups of work achieving technique [3]

Group	Description
A	Drawing (crayon, ink, China ink, nib, graphite, etc.)
B	Painting and pictorial techniques (oil, acrylic, tempera, pictorial collages, etc.)
C	Other colour techniques (aquarelle, pastel, coloured crayons, etc.)
D	Engraving techniques (lithography, xylography, serigraphy, etc.)
E	Sculpture (stone, marble, wood carved, items, of gypsum, terracotta, earth, wax, clay, ceramics shaped or metal poured, etc.)
F	Photographic techniques (carbon, collotype, cyanotype, etc.)
G	Poster
H	Tapestry

Source: Romanian Art Market Index

The index lists, calculates and reviews during a period within 1995-2010, the annual average market shares and annual efficiency for all publicly dealt artists. In addition, it monitors and processes all public sales of Romania during 1995-2010. The medium annual efficiency of Romanian art market was 36% within the above-mentioned period, higher than annual average efficiency related to the same period of investment in gold, lands and Romanian securities. Application of the appraisal method in view of rating the annual efficiency led to the conclusion that the annual average efficiency for an artist frequently dealt is 20-30% per year, while their raise is relatively constant. Nicolae Grigorescu

is the best-sold Romanian painter, his painting „Tărăncuță odihnindu-se” (Little countrywoman resting) being painted against EUR 270000 record amount.

5. Prospective of Romanian Art Market

As beforehand mentioned the art market of Romania, with short-term history so far is quickly developing. On the background of investors' growing interest new market segments occurred being in progress of outlining that are relatively recently placed in the schedule of auction houses. Such diversifying segments completely new for Romanian market are as follows:

- Items of collection and decorative art. In this category there is the Auction "Art Nouveau and Art Deco – from jewellery to furniture" conducted by Artmark auction house in 2012 that summed up EUR 100495 in total and 78% adjudication rate. Other examples are Auction for Period and Collection Jewellery of November 2012 that obtained a total of EUR 118090 and a rate of adjudication of 74.5% or „Mirabilia – Cabinet of curiosities" held by Artmark auction house in May 2012 summing up EUR 36530;
- Collection and sports vehicles such as Auction for collection and sports cars "Memorabilia";
- Collection wines and champagne – an example of which is given by the event "Auction for collection wines and champagnes held by Artmark auction house, in August 2012, summing up EUR 1066240;
- Military and antique items: "Militaries & Antiques", held by Artmark auction house, in April 2012, finalised with EUR 73130 acquisitions.

Amounts and values circulated on his market commenced draw the investors' attention. Along with the classical market instruments on the background of their combining, other investment variants occurred such as investment funds in art. Year 2013 stands for the third year in the life of the fund Certinvest Romanian Art. The activity of the fund led to an increase in the investors' number up to approximately 50, with a total of over EUR 2 million funds drawn and 18.89% efficiency [21].

The attraction for which the art market stands for the investment environment of Romania reflected also in the interest shown by "Capital" Romanian magazine. By its means in October 2012 a "Top of the most valuable Romanian artists" was launched in premiere which was a top established depending on the record gotten in auctions.

Another permanent activity stands in enriching the collection of artists' signatures and monograms. For the first time public sales of Romanian art are available to people concerned, selected per each artist apart, easy to orderly arrange depending on adjudication, technique, moment or place of sale.

The rapid rhythm of art market evolution will catch the worldwide investors' attention as it happened with other zoning or regional markets: China [7], Latin America [13] or South Africa [12]. Alternative products of investment will replace the stock exchange products on the background of cutting-down of the latter efficiency. The possibility occurs of getting return superior to other financial placements in case that their volatility raises or the

capital market is in setback [6]. As being an investment market in course of consolidation, it is necessary that the interested agents consider the following:

- a) Investment is not missing risk. As any other investment, placement in art works involves undertaking risk. Evolution of price on the market can bring about loss or gain to investor [11].
- b) It is a long-term placement. The investment period is as a rule in years that does not exclude immediate gains on emergent markets as for the case of Romania. Same way as in placement in securities, acquisition of art works is tracked to be at low prices and then resale of such against considerably higher prices [9].
- c) Placement is featured by low liquidity. Therefore, the art investment may appear as element in the investment portfolio [15].
- d) Knowledge is required related to the market, art fields and its operation. Even if the actual transaction be done on a market organized by intermediary, knowledge is recommended in the field [20].
- e) As an organised market it can be tracked by means of indices. There are statistic indices retaining a restrained number of values that are representative for the market that are grouped within one market sample. By tracking the dynamics of such sample appraisals may be done as for the market in its assembly. The developed art markets make available to people concerned representative indices. As result of research in the field, other informal indices occurred that succeed in developing grouping on various artistic fields on long periods of time [1, 14].
- f) In development of balance prices private sales contribute to a representative market share – those sales that are not concluded on the market. Usually, the private sale-purchase documents are established around prices resulted from formal market shares [17].
- g) Consulting is required to be offered by an expert. There are art-consulting companies that may take part in the selection of an art work or in order to offer consulting regarding the art genders offering good efficiency and their dynamics. More obvious the consulting company contribution becomes in identification of forgery or stolen works.

Besides the above-considered elements, the following shall be taken into respect, as well:

- a) Supplementary costs occur that shall be considered in the case of investments in art. They

shall be taken into respect because they contribute to lowering the efficiency of such placement as they occur under the form of periodical expenses for the holder. There are within this category the insurance premiums of art works and stocking costs [22]. The latter occur from the necessity to assure certain conditions of temperature, wetness, maintain, and control them during art works being kept. On developed markets there are companies offering storage rooms where temperature and wetness are permanently under control.

- b) If keeping art works at home, their insurance is mandatory. For small art collections, insurance may be included within the dwelling's insurance while for the large collections specialty insurance is required. Costs for special insurance vary depending on the size of a collection and fees are in cut-down trend within 0.15-0.3% of the combined value of works [23].
- c) Fiscal aspects shall be considered that are present concerning taxes on returns and forecasts concerning their evolution. Experience of states having tradition within art field show that changes of fiscal kind may lead to an erosion of the gains [24].
- d) On dedicated art markets private banks intervene in offering art consulting or conclude partnerships with consulting companies within art field [24].
- e) Art acquisition may be individual or part of a consortium with other collectors and investors. There are also a series of art funds that were established in the latest years on traditional art markets [5].

6. Conclusions

Investors are in permanent search of assets that could improve the efficiency of the held portfolios. Whenever economy crosses downgrade periods, the demand increases for assets having low correlation with traditional markets or assets such as shares and bonds (promissory notes). The idea that art would be an asset generating extremely attractive efficiency is real. However, one should not forget that art works are assets different from securities. Firstly, against traditional investment generating regular revenues under the form of dividends or interest, art may be rated as good offering permanently to its owner a certain degree of satisfaction. While shares and bonds are almost continuously in transactions, the period between two sales of a same artwork may last even more than a century. Compared to shareholding, art

ownership is subject to supplementary risks such as: theft, forgery or physical damaging.

At the present, an investment in a Romanian art item shows minimum risks given that the local artists are strongly under-evaluated. The price usually payable for a Romanian artist is at the current moment by far lower than the actual value of Romanian art.

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