

# **Luxury Handbags as an Alternative Investment?**

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<p>Abstract:</p> <p>The author researches the possibility of luxury handbags being classified as an alternative investment. Aim of the study is to find out, if there is a possibility for the classification or are handbags only a luxury, vanity item for consumers.</p> <p>The author faced limitations with the secondary data as well with primary data, since the subject is rather new. With the help of Heine's research on characteristics of luxury goods as well with Misner and McDonalds guidelines when choosing an investment purse, the author was able to define regulations for this kind of investment. She also researched the portfolio allocation, Knight Frank luxury investment index, AMR watches index, the risk and return rate as well the effect of what alternative investments can have to a well-balanced portfolio. The author calculated the appreciation rate as well the average rate of return for over 160 Hermès Birkin handbags from the Artcurial auction. Based on the secondary data research, comparison to other luxury goods that are classified as an investment as well to the primary data research, the author has come to a conclusion that, luxury handbags can be viewed as an alternative investment, given that set of objectives is met.</p>	
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# ***1. INTRODUCTION***

## **1.1 Motivation for topic choice & the aim of the study**

Some people spend their life collecting stamps, post cards or numerous other items. For some this might later on turn out to be a profitable investment and even generate profit rather than only being a leisure time activity.

The author herself has been fascinated by the world of fashion and design. Luxury leather goods, design jewelers and clothes have been admired from the pages of Vogue or fashion books lend from the library from the early ages. She spent time at the home-pages of fashion brands, which gave she the basic knowledge of the pricing of the luxury goods.

Around the time of her first purchase of a luxury handbag she paid attention to the increasing prices of the products. In one year she purchased two classical pieces from a well-known fashion brand. An occasional visit on the brands webpage made her aware of the increased pricing of the product. The prices were almost up to 100€ in a time of few months. It was still the same product with just a higher price.

The author has dedicated also some time to compare the prices in online auctions where the bags were sold for the same price or even for a higher one than in the stores. This made her think the possibilities what luxury leather handbags could have as an alternative investment.

The consumption, spending or “investing” money, for example on art, cars, stamps, other automobiles, technological devices, musical instruments is considered as a rather normal decision. If the person has the possibility why wouldn't he? Even if the money has been borrowed or the item of purchase is being paid back in monthly instalments, making the investor to take debt.

When the item of purchase happens to be a luxury good it tends to generate discussion and disapproval of the decision made. Why to spend ten times more money on a purse when there are similar ones for a cheaper price being sold. A passionate car collector

might not even bother to answer why to buy a Mercedes instead of a Toyota, since they are both made for transportation. Why should the purchase of luxury goods be questioned when the purchase of a different luxury good is socially acceptable.

Purchase of luxury goods is often a long-term commitment with the saving first the money to be invested in. These purchases should not be therefore viewed as impulsive consumerism. Instead they often include the collection of experiences from other users, comparing the products offered, getting informed about the product and brand, reviewing the product in store before the actual purchase is even made.

For the author the process of purchasing a luxury good is as mentioned above. And based on the different reviews, blogs, discussions found online she is not the only one looking for this kind of data before making the decision of purchasing.

The author studies international business administration despite her passion for fashion. Slowly among the studies and working experience her interest are proven to be in the field on finance and banking. The aim of this study is not to focus on the marketing aspect of luxury product but find out could luxury handbags be justified as an alternative investment. The research aims to give an understanding where the value is based at, what kind of product can be labelled under the title of luxury good and can there be profit expected from selling it.

The research also aims to give an academic support for the statement that luxury handbags are investments since the value does not depreciate. Proving this point can be useful for the author herself as well any other person being asked to justify the purchase of an expensive leather handbag. The results of the research might be useful for investors looking for outside the box investments.

After all this is a topic the author is determined to study and research. It personally inspires her, since she is already very interested in the fashion and luxury products and their markets and therefore she already appreciates these items because of the history behind them.

## 1.2 Research questions & Hypothesis

Can a luxury handbag be an alternative investment? Depending on the person who is being asked, there will be different reactions from amusement, pure interest and lack of understanding. People base their reactions on the assumptions what they have from luxury handbags and the consumers of luxury goods. The author herself does not see collectable stamps valuable and still there are collectors investing money into them or in bourbon wine for example. If these items can be collected as an investment why couldn't handbags be valued the same?

Clearly not an every handbag can be labeled under alternative investment, but the author has guided the research by the attempts of giving some guidelines what to look for in a luxury handbag. What characteristics need to be fulfilled, what should be kept in mind when making the investment?

In order to answer the main and sub questions, the author has done a primary data research. She has chosen an item, which after the secondary data research, can be classified as a luxury handbag qualified as an investment piece. The author calculates the possible profit of the investment, when the item is being sold using formulas to calculate the profit percentage and the rate of appreciation. She also includes other price data in order to calculate the store bought prices for different years as well the rate of return. The author provides the primary data from multiple points of view in order to give credible results. The outcome will be then evaluated and the profitability questioned.

The author does consider that luxury leather handbags can be a profitable alternative investment. Of course these should not be compared to traditional investments such as stocks and bonds and even in the group of alternative assets, they might not be the most profitable ones. But if the item is well chosen the investor can be sure the value will not go down and with time it could even appreciate.

The topic needs some kind of interest or involvement in the fashion and luxury industry from the investor, to have the knowledge and interest to make investments such as these. The author does not believe an investor focusing mostly on stamps, cars or wine would appreciate and comprehend the value of a luxury leather handbag as much as a person who is aware of the brand, history behind the product and other fine details.

The author is convinced that simply the main question, “can a luxury leather handbag be an alternative investment?” divides the answers to “Yes” and “No” groups.

### **1.3 Limitations**

As the author chose the topic she was already aware of the limitations of secondary data available. There are plenty of opinionated, not secondary data based writings online, why a handbag from a luxury brand is a good investment. But these are only focusing on the usability and how it will go together with other items of clothing. In Finland, there are only few stores from high-end luxury brands and the market is not as great as for example in Middle-Europe.

As a topic alternative investing seems a bit unknown for a person who is not that involved in investing. It is not that rare but it is normally narrowed down to a real estate purchase, which also qualifies as an alternative investment.

There are many researches and published secondary data about luxury brands. Most of these focus only on the aspect of marketing and branding. The author has chosen to stay more on the financial side of the research and has therefore struggled to get all the data necessary. Luxury market is also an interesting area of research and there are surveys made yearly from the entire market as well focusing on different continents, there are also indexes for different luxury goods. These reports and indexes are mainly for use of companies and cost over thousands of dollars, which made it impossible to have them included in the secondary data research.

For this kind of alternative investment it is also difficult to list any costs, which would occur during the period when the investment has been made and possibly sold. Since these objects are created to be used and do not necessarily need special care if not desired, which then could be done at the company’s store.

Given all the limitations, the author has been able to get enough data for the primary research and therefore was able to conclude this study.



## ***2. THEORETICAL FRAMEWORK***

In the following chapters of traditional and alternative investing the author reviews the established secondary data in order to give the reader a better understanding of the study as whole as well of the primary data research. Understanding the earlier researches and studies is necessary in order to achieve fundamental results for the study of luxury handbags as an alternative investment.

### ***2.1 INVESTING AND INVESTMENT***

The definition of investment can be described in many different ways, however the core meaning being the same. Investopedia (a, n.d) defines investment as an asset that is being purchased in order to generate income or value in the future. In economic meaning this is the act of purchasing goods that are not consumed at that point but utilized in the future to create wealth. From the financial point of view investment is considered as a monetary asset purchase with the initiative that it will provide revenue or appreciate and could be sold at a higher price.

Collin (2003) defines that investment can be either made in placing money on an asset, such as a building or by purchasing shares for example. Oxford dictionaries give a simple definition “A thing that is worth buying because it may be profitable or useful in the future”, which sums up the basic idea in few simple words.

#### **2.1.1 Traditional Investment**

Every investor has his or her own aims and target when choosing the investment objects and building a portfolio. Stocks, bonds and cash are considered as the traditional investments (Investopedia, b, n.d.).

#### **2.1.2 Stocks**

Collin (2003) defines stocks briefly as “the total number of shares issued by a company”. Investopedia ( c, n.d.) expands this explanation of stocks and defines them as “*a type of security that signifies ownership in a corporation and represents a claim on part*”

*of the corporation's assets and earnings*". Stocks can also be referred to as "shares" or "equity".

Stocks are often kept for a longer periods of time and exchanged when the circumstances develop. Investors should include different kind of stocks to the portfolio in order to keep it in balance. (For Dummies, n.d.)

### **2.1.3 Bonds**

Bonds are another typical traditional investment. They are a contract document, which promises to pay back the money originally borrowed by a company or a government. During the period of lending the money, the bonds have a fixed or floating interest until the date of maturity, when the borrowed amount is fully paid back. Bond prices vary according the interest rate and the length until maturity. (Collin, 2003)

The length of a bond can vary from 90 days till 30 years. Investopedia also point out that the credit quality of the entity affects the bond price. Basically bonds are used for entities to finance a variety of different actions and developments. (Investopedia, d n.d.)

Bonds are considered to be more conservative investments, since the investor is receiving a steady flow of income, for example the interest paid, and at the end of maturity the original amount paid. (For Dummies, n.d.)

A well-balanced, traditional portfolio, which includes stocks and bonds, generally, offers a return between 5 and 12 percent, this depending on the investments and risks taken (For Dummies, n.d.). CNN Money (2012) states that over a short-term period of time stocks can be hazardous to the balance of the portfolio, but they also point out that risky investments often pay more than safer ones.

## **2.2 ALTERNATIVE INVESTMENT**

Alternative investment do not include in the three main traditional asset types, which are stock, bonds and cash and there fore can also be called non-traditional investments (Hatters Funds, n.d.). Hedge funds, real estates, commodities and derivatives contracts are considered as alternative investments. Commonly, institutional investors or high net –worth individuals, because of the compound nature, hold these kinds of assets. (Investopedia b, n.d.)

### **2.2.1 Objectives & Risks of Alternative Investments**

Investopedia (e, n.d.) also defines “alternative asset” to “*have a potential economic value that would not be found in a standard investment portfolio*”. The valuation of alternative assets is complex due to the unconventional nature. Art, antiques, wine, precious metals, coins and stamps and other collectibles are some of the items considered as a typical alternative investment (Investopedia e, n.d.). This is a good example of the increased diversification that is among alternative investments (Hatters Fund, n.d).

There is also frequently a high minimum investment required on the alternative assets, but they face fewer regulations. This also means that they have lower possibility to publish verifiable data of the performance. (Investopedia b, n.d.)

The low liquidity also affects in this point of view. There are also great differences in the liquidity between and within the diverse alternative asset classes. (Macroption, n.d.)

Alternative investments are considered to have a benefit on the long-term portfolios, when the advantages of controlled risk, high returns and the benefits of diversification are taken into notice. (Macroption, n.d.)

Alternative investments are often favored due to the low correlation, when comparing the returns against those from the traditional assets. Some of the large institutional funds have allocated a small amount, approximately less than 10% of the portfolio, to alternative assets. Often this being hedge funds. For small investors looking for alternative assets commodities and real estates are generally accessible. (Investopedia, b, n.d.)

Hedge funds and private equity are mainly offered to the qualified investors due to legal restrictions, meaning that these investors need to have a net worth exceeding a specific amount. These investments and their risk exposure are complex to understand and law assumes that high-net-worth individuals have more experience from risk taking and investing. Of course this kind of assumption can be seen as an ethical question. (Macroptions, n.d.)

Alternative investments present unique features that can be unknown for the investors of the traditional assets. There is a great diversity between the alternative assets, which sets it apart from the bonds and stocks. The returns generated from the alternative investments are non-normal and non-linear ones. The amount and probabilities of profits and losses varies, and alternative assets have a tendency to record tremendous positive or negative returns than the traditional assets. (Macroption, n.d.)

As stated earlier, the evaluation of the liquidity of alternative assets is challenging. Especially private equity and real estate are among the most complicated ones from the perspective of liquidity. These alternative assets are commonly traded outside the public markets, which make it complicated to form a fair market pricing. Real estate and private equity prices are often based on theoretical models and appraisal. (Macroption, n.d.)

Also the creating of benchmarks to ease the evaluation is complex. There are some indexes introduced for the alternative assets, but they should be studied before using them in order to understand how they were created and constructed. (Macroption, n.d.)

### **2.2.2 Alternative Asset classes**

Traditional investments are divided into asset classes such as equities (stocks and shares) and fixed incomes (bonds) (What investment, 2014). Anson (2006) introduces three “super asset classes” for alternative investments: assets used as input to create economic value, capital assets and assets that store the value.

Capital assets establish a source of ongoing value and they can be valued based on the net present value and estimated returns. Credit derivatives, corporate governance funds, hedge funds and private equity funds are examples of this class because the value of

these funds is being established by the present value of the estimated future cash flows. (Anson, 2006)

Assets used as input in order to create economic value can be consumed as a part of the production cycle in order to manufacture other assets. Since these resources are transformable and consumable they can also be transformed into other assets. Commonly these assets consist of physical commodities such as metals, grains and energy products.

Usually these assets can not be evaluated using the net present value analyze, since for an example a metal itself does not yield economic stream of profit. These assets do not have dependency on future cash flows in order to create value and therefore have significant diversification potential. (Anson, 2006)

A well-known asset that stores value is art. There is no cash flows generated by owning a painting and therefore it is not a capital asset. Also it can not be used as an economic input since it is already a finished good and it can not be valued in discounted cash flow analysis. The value of these assets can only be realized through the sale and transfer of assets possession. Owner of the asset holds the item with the expectation of yielding a price that is equal or higher than the original price paid.

Estimating the price of the assets is complex since the price will increase or decrease because the value is based on subjective enjoyment. Therefore these assets can be viewed as a store of value, they do not give economic worth or can not be used as an input, but they do retain the value paid for the asset. (Anson, 2006)

## **2.3 INVESTMENT PORTFOLIO**

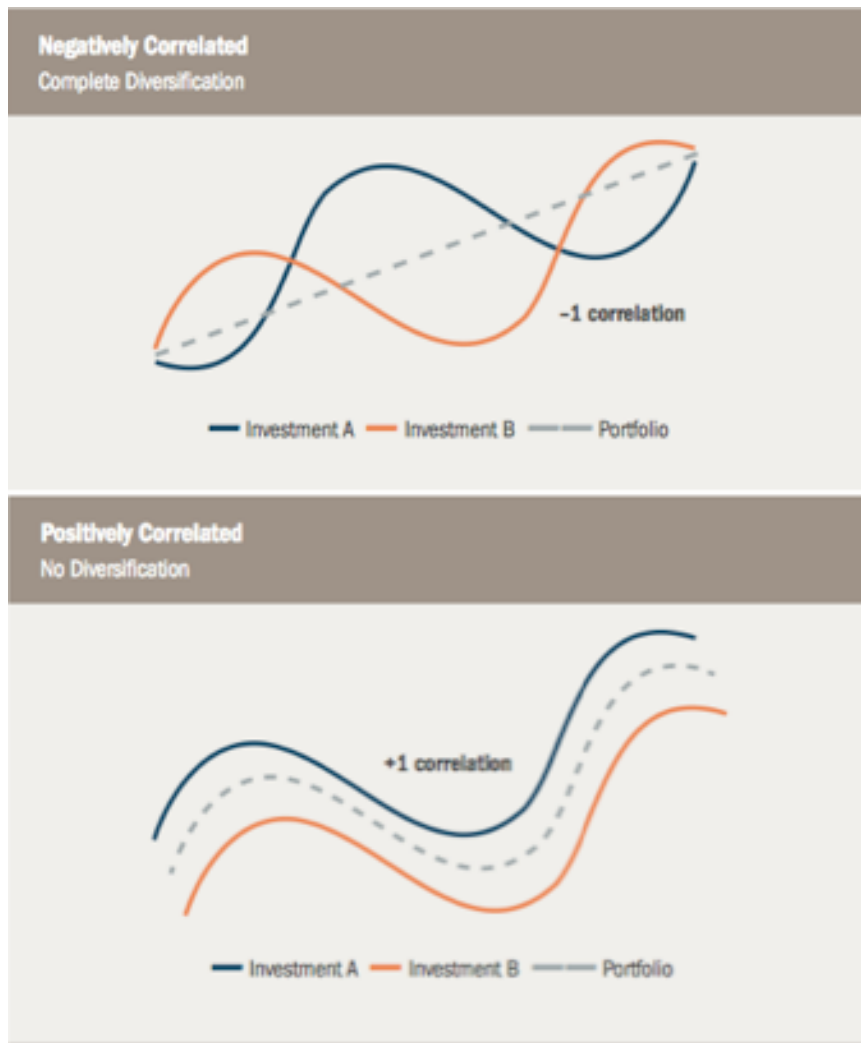
As stated in the explanation of traditional and alternative investments, portfolio should be diversified and include investments from different asset classes. When building a portfolio an investor should keep in mind the risk and return and choose the assets based on his own preferences. (What investment, 2014)

### **2.3.1 Asset Correlation, Volatility & Standard deviation**

Some of the basic terms linked to investing are shortly explained to make the presented secondary data more comprehensive.

Asset correlation measures how the returns made with two investments move together, are they moving the same or opposite directions. The scale of correlation varies between -1 and +1. If the assets move in the same direction at the same time, they are positively correlated, +1. When the assets are negatively correlated, -1, the one asset moves up as the other one goes down. If the correlation between assets is 0, the assets are independent.

Having a negative correlation between the assets can help counterbalance market conditions. (Pioneer investments, n.d.)



*Negative & positive correlation*

Volatility is a statistical measure of distribution of returns for a given asset. It can be measured by variance between returns from the same security or by using the standard deviation. A high volatility indicates that the assets value can potentially be divided among a larger scope of assets. A lower volatility implies that the assets value does not change dramatically, but rather in stable pace over time. (I, Investopedia, n.d.)

Standard deviation is the statistical measurement of the historical volatility of a portfolio. When the standard deviation is low, it indicates a smaller historical volatility. (Pioneer investments, n.d.)

In finance investments volatility can be measured by applying the standard deviation to the investments annual rate of return. (J, Investopedia, n.d.)

### 2.3.2 Risk & Return

Risk and return are the focal concepts in the selection of portfolio, since they are the main objective variables obliging the process. Return is the yield or profit, which is achieved as a result of an investment in a particular period of time. Risk is the possibility or chance that the return gained will be different than expected when making the investment. It can also be described as the uncertainty involved in the investment decision. (Vásquez, Losada, Osorio, 2008)

Risk can also be classified as a systematic or specific risk. Financial markets dynamics produce the systematic risk and it influences on a large number of securities, for example political reports can affect the stock prices. It is impossible for an investor to protect against it or try to forecast it. Specific risk affects on individual or a specific set of assets. Through diversification and choosing large, well-diversified portfolio the influence of specific risk can be reduced. These risk compounded form the total risk of a security. (Vásquez, Losada, Osorio, 2008)

An investor thriving for a great return must also be able to take the risk that comes with it. High levels of return are related to high levels of uncertainty, meaning high risk, whereas lower levels of uncertainty indicate lower returns. The money invested can only provide great profits if it is being put under the possibility of being lost. (h, Investopedia, n.d)

An example of low risk, low return investment would be a bank account. Bankrate.com (quoted in Maranjian, 2013) has estimated that an average bank account has been yielding approximately 0,5 percent. When the inflation rate, average 3 percent annually, is considered it can be said that this kind of investment is actually affecting negatively. (Maranjian, 2013)



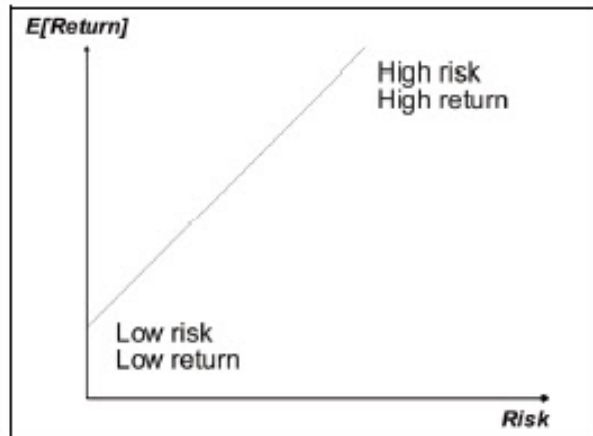


Figure 3: Risk/Return trade-off

*Risk & Return trade-off*

The picture of the risk and return trade-off ratio shows clearly how the higher risk affects the return as well as the choice of lower risk.

## **2.4 ASSET ALLOCATION**

With asset allocation is meant, when an investor divides his portfolio among a number of asset classes. With the help of asset allocation the portfolio can be constructed based on risk and return measures. Originally asset allocation was based on equity, cash, fixed income and real estate asset classes, which should all be included in a diversified portfolio. Each of the classes can be separated to further subclasses. The alternative assets introduce a new asset class, which can make asset allocation confusing, because of the diversification properties of the asset as well on their impact on a diversified portfolio. (Anson, 2006)

Asset allocation can be strategic or tactic. With strategic asset allocation is meant a long-term asset mix, where the main point is to accomplish a goal set in the future. The current market situation is not concerned in the decision-making but risk aversion is.

Tactical asset allocation is for a shorter period of time, where the aim is to take an advantage of the current situation at the market that might be positive for an asset class over another. Achieving the maximum return is the goal of tactical asset allocation. Al-

ternative asset have here a great possibility to add value, since the tactical allocation of the resources depends on the possibility to expand within an asset class. (Anson, 2006)

#### **2.4.1 Basic asset allocation**

Instead of having the majority of the portfolio devoted to a particular asset, it should be build by choosing different type of investments. Each asset class will have a different reaction and outcome to a given event. The assets included in a portfolio should be chosen based on the economic environment, risk taking ability, personal investment objectives and other factors. An example portfolio could consist of fixed income, real estate, cash and cash alternatives, equities, foreign equities and alternative investment. (Raymond, n.d.)

#### **2.4.2 Advantages of Alternatives in asset allocation**

Alternative investments have a vast potential when it comes to diversification. The returns from these assets present a low correlation to the traditional asset classes such as bonds and stocks. Adding alternative investments to a portfolio can decrease volatility without giving up part of the return. Diversification is one of the main reasons investors choose alternative investments. (Summit financial corporation, 2013)

Alternative investments can also be used as a protection against inflation since their returns sometimes are highly correlated against inflation. Investments such as infrastructure provide a low, stabile, long-term return.

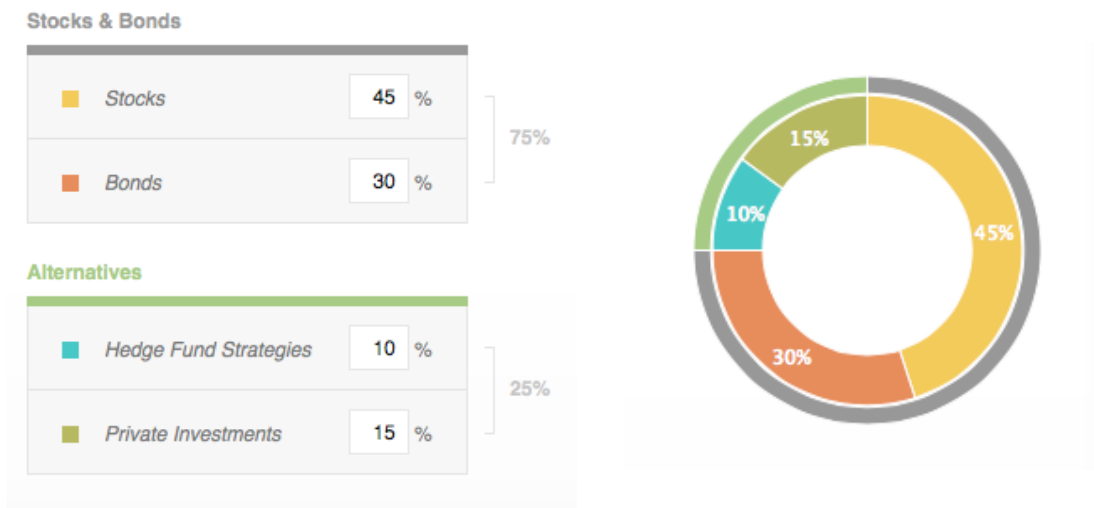
Because of the diverse nature of alternative investment, there are various opportunities to find new assets that can not be reached with the traditional investments, creating new kind of exposure and opportunities.

Above mentioned advantages of alternative investment do not apply on all of the investments that can be classifies as a non-traditional. Like the returns earned on traditional investments, also the profits made on alternative investment vary based on economic cycle and market conditions. (Summit financial corporation, 2013)

## 2.5 ALTERNATIVE INVESTMENTS IN A PORTFOLIO

The author has chosen to use the alternative allocator tool provided by Hatteras Funds (n.d.). The allocation tool includes data from January 1<sup>st</sup> 1990 till December 31<sup>st</sup> 2013. Information for calculation is from PerTrac and the model portfolios are being calculated by using quarterly returns and are rebalanced annually.

The author compares the portfolio provided by Hatteras Fund, which includes 60 percent stocks and 40 percent bonds, with a portfolio that includes 45 percent stocks, 30 percent bonds, 10 percent of hedge fund strategies and 15 percent of private investments.



*Portfolio allocation with alternative investments*

Hatteras Funds provide a table of portfolio statistics, which include both of the above-mentioned portfolios.

**PORTFOLIO STATISTICS**

	60% Stocks / 40% Bonds	My Portfolio
<b>Cumulative Return</b>	646.72%	802.48%
<b>Annualized Return</b>	8.73%	9.59%
<b>Annualized Std. Dev.</b>	9.57%	8.78%
<b>Correlation (vs. S&amp;P 500)</b>	0.98	0.98
<b>Best 12 Months</b>	33.18%	32.85%
<b>Worst 12 Months</b>	-21.57%	-21.43%
<b>Growth of \$10,000</b>	\$74,672	\$90,248

*Portfolio statistics*

**2.5.1 Annualized Return**

The annual return shown in the table is calculated with the compound annual growth rate formula:

$$((\text{Ending value} / \text{Beginning value})^{(1 / \# \text{ of years})}) - 1$$

This gives as a result the rate of annual return. The portfolio including alternative investments had a better annual growth rate, with a difference of 0,86 percent. (J, Investopedia, n.d.)

### 2.5.2 Standard deviation

Standard deviation is calculated with the following formula:

$$\sigma = \sqrt{\frac{\sum(x - \bar{x})^2}{N}}$$

*Standard deviation formula*

If the formula were written down into words it would be following: standard deviation = (((observations – mean of the sample)^2)/(number of observations-1))

There can be multiple observations meaning that they all need to be included and added to each other at the first step of the calculation. (Absolute returns, 2014)

The annualised standard deviation can be calculated by

Standard deviation \* square root (the number of periods in a year).

As the statistics shows, the portfolio with alternative investment had a lower standard deviation, difference in total of 0,97 percent.

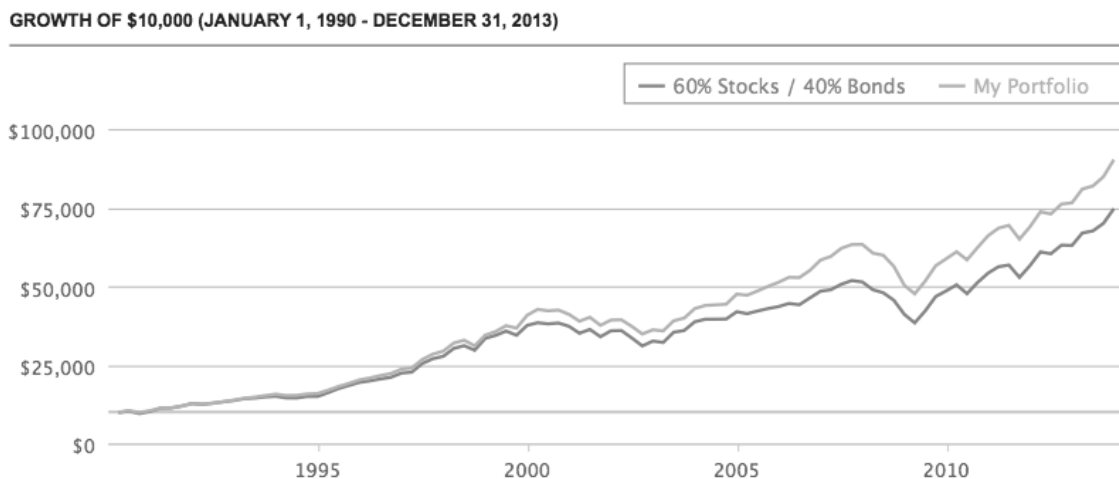
### 2.5.3 Correlation

Correlation measures statistically how two securities move in relations to each other.

Hatteras Funds (n.d.) uses as a comparison Standard & Poor's 500 total return index, which is unmanaged and includes 500 stocks chosen for the market size. The correlation of both example portfolios was 0,98 when compared to S&P 500 index.

Since the correlation between these assets is positive, it indicates that increasing values in other variable corresponds to value increasing of the other variable (Yale University, n.d.).

#### 2.5.4 Summary of the portfolio comparison



*Growth of the portfolios*

The graphic above illustrates how an investment of \$10 000 could have turned out. The portfolio with alternative investments achieved better return, \$90,248, than the portfolio of bonds and stocks, \$74,672. In total the difference was \$15,576.

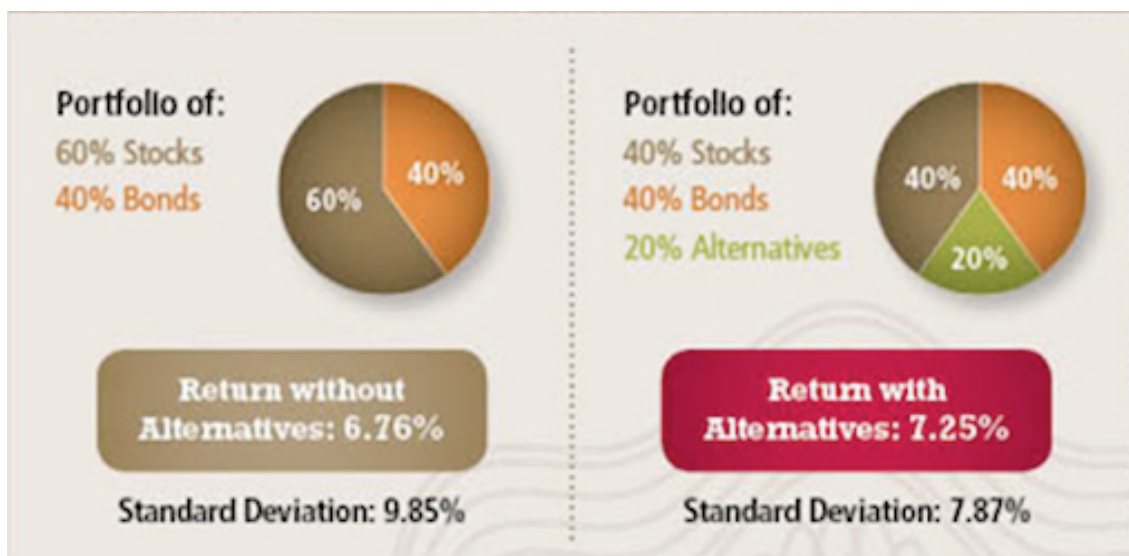
The comparison made with the example portfolio calculations shows that adding some alternatives to a portfolio, which includes bonds and stocks, can have a positive effect on the risk and return rate. Based on this evaluation it would be recommendable to have a portion of a portfolio for alternative assets. The investor, based on his risk appetite, should decide size of this portion.

#### 2.5.5 Further examples of alternatives in portfolios

There are also other examples where alternative investments have a positive effect on the statistics of a portfolio where they are being included in.

In a comparison of two portfolios, one consisting 60 percent stocks and 40 percent bonds, and other one consisting 40 percent stocks, 40 percent bonds and 20 percent alternatives, the alternative investments had a noticeable effect on the return and risk.

Return, without the alternatives, was 6,76 percent as where with them the return was calculated to reach 7,25 percent. Having 20 percent invested in the alternative investments increased the average annual return by 0,49 percent and the risk was being reduced by 1,98 percent standard deviation. (Summit financial corporation, 2013)

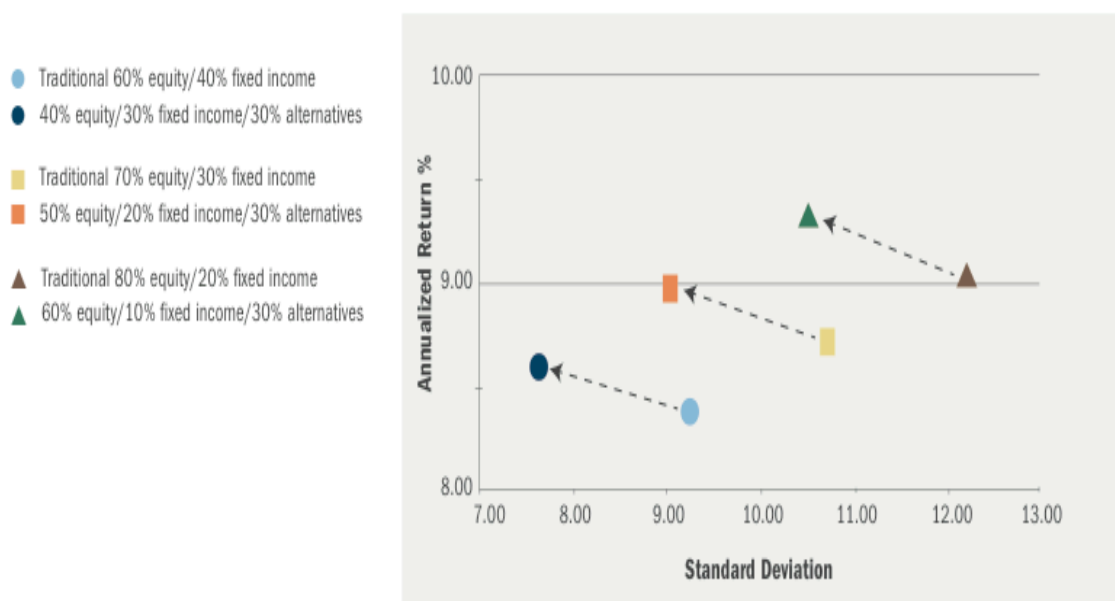


*Greater return with less risk*

The results of the example are based on the Sharpe ratio, where higher the ratio the better the historical risk-adjusted return of the portfolios. Sharpe ratio is calculated using the standard deviation and excess return in order to determine the reward per unit of risk. (Summit financial corporation, 2013)

Also the graph below shows the improvement of risk-adjusted returns over 20 years of time when 30 percent of alternative investments are being added to traditional investments. (Pioneer investments, n.d.)

### Improved Risk/Return for Portfolios That Included Alternatives Over a 20-Year Period



*Improved risk and return*

In this comparison equities characterize S&P 500 Index, bonds Barclays U.S. Aggregate Bond Index and alternatives are represented by Credit Suisse Hedge Fund Index. The time period of 20 year used in this index ended in 31<sup>st</sup> of March 2014.

The following chart presents the asset allocation preferences of high net individuals discovered in the Knight Frank wealth report 2013 attitude survey.

<b>ATTITUDES SURVEY</b>	
<b>INVESTMENT PORTFOLIO ALLOCATIONS - GLOBAL AVERAGE</b>	
Investments of passion	4%
Commodities	5%
Venture capital	5%
Gold/precious metals	6%
Currencies	7%
Government bonds	8%
Cash	12%
Corporate bonds	15%
Equities	15%
Property bought as an investment	22%

Source: The Wealth Report Attitudes Survey

*Portfolio allocation among alternative assets*



The majority of the assets are divided between different traditional investments where the investments of passion have an average share of four percent. The passion investments are for others purely investments but for others they are a personal enchantment. For many it is also the combination of these two. The survey showed that art, watches and wines, in that order, were the most favored ones. When comparing the allocation percentage, the part of passion investments seems rather high when compared to commodities or precious metals. In the wealth report this amount is seen as a relatively low proportion, because of the grey area in this kind of investments. (Knight Frank research 2013)

Pownall (2013, quoted in Knight Frank research 2013) estimates that passion investment might not ever become typical asset class for considerable institutional investors. This is due to multiple reasons, such as the fluctuating performance, liquidity, plagiarism etc. Despite the difficulties, Pownall (2013, quoted in Knight Frank research 2013) explains how passion investment have become more available to private individuals who seek for an investment for a longer haul, that is sustainable and needs less active management.

### **2.5.6 Summing up the theory**

In order for the investor to evaluate the alternative investments, being familiar with the concepts of risk and return, correlation as well asset allocation can help the decision-making. As mentioned in the explanations of the investment terms, there are not any given objectives, for example for the correlation or rate of return for alternative assets.

The portfolio examples above display the positive results achieved with investing in alternatives. But like in traditional investing this does not mean, that this would always be the case. It is estimated that bonds tend to have steadier rate of appreciation, even though the rate might not be the highest and with stocks a higher rate of risk and return can be obtained. Most of the time this is the case, but the future can not be predicted. Therefore being familiar with the different concepts around investing is important. Depending on the investment goals, investors should evaluate the importance of risk and return, correlation, asset allocation etc.

### **3. DEFINITIONS**

The author defines key concepts in order to provide the reader with necessary information.

#### **3.1 LUXURY**

Luxury is word that is associated to expensive goods. In every day life it refers to a certain lifestyle (Shukla, n.d.). Collin (2012, p.120) defines luxury products as goods, which consumption is affected by the amount of disposable income a person has. People with lower income spend less on luxury items than wealthier. Investopedia (f, n.d.) describes luxury goods also as an item that is not necessary for the living but is highly desired in the society or culture. Luxury items are also recognized as “positional goods”, since they signal the wealth or achievements of the owner.

Shukla (n.d.) has another take on the definition of luxury. The concept of luxury has been known from begin of civilization, when it used to be the clear differences between social classes and the consumption of luxury goods was restricted to the elite classes. Nowadays the luxury consumption is divided more in to categories such as “accessible luxury” and “masstige luxury”. These changes have occurred due to the higher grade of democratization. Shukla (n.d.) sees that defining luxury is more complicated as the masses have access on it. Also Berry (1994, quoted in Heine, 2012) states that the word luxury is nowadays related to almost anything. Some discount markets or brands are promoting their goods as “luxury for everyone”. Prof. Bernard Dubois (n.d., quoted in Shukla, n.d.) refines luxury as a high-priced offer in almost any product or service category from the modern marketing perspective.

The word luxury originally comes from the Latin expression “luxus” indicating “extravagant living, magnificence, indulgence and majesty” (Shukla, n.d.). Prof. Jean-Noel Kapferer (n.d., quoted in Shukla, n.d.) sees luxury goods praising all senses at once. The different viewing points of the term luxury can be defined under dimensions such as exclusivity, price-quality, uniqueness, quality, and exclusivity. The entirety is extremely multidimensional and the efforts of giving it a definition often sum up the above-mentioned aspects. (Shukla, n.d.)

Heine (2012) sums up in his research how there is no agreement in the business literature about the correct definition of luxury product or a brand. But he defines after his literature research that the basic definition could be summarized, as “Luxury is anything that is desirable and more than necessary and ordinary”.

### **3.2 LUXURY PRODUCT**

Being familiar with the definitions of luxury, it might be considered easy to define consumer products into luxury and non-luxury goods. Heine (2012) introduces six major characteristics that luxury goods should obtain; aesthetics, rarity, price, quality, symbolism and extraordinariness. Luxury goods have more than the common and essential characteristics when comparing to other products from the category including the above mentioned characteristics. The features set the minimum dimension that a luxury good needs to obtain and they are depending on each other.

Heine (2012) also divides luxury brands into four different levels for luxury brands and certifies for example Louis Vuitton as a “*top-level luxury brand*”, this being the third level. The highest level, “*Elite-level luxury brands*”, targets the clientele who does not only have the financial possibilities but also “*culture intellectuel*”. This level includes niche brands that thrive for the best quality and highest exclusivity in their category.

Through the time and the changes in economy, also the meaning of luxury product vary. In the beginning of the 20<sup>th</sup> century pianos, radios, cars and transatlantic travels were luxury. During 1905's to 1970's TVs, designer jeans, credit cards and VCR's were on demand. Champagne, yachts, Maybachs are desired luxury goods in the 21<sup>st</sup> century. (Heine, 2012)

### **3.3 CHARACTERISTICS OF LUXURY PRODUCTS**

In his research Heine (2012, p.53) summarized luxury products definitions as “*luxury products have more than necessary and ordinary characteristics compared to other products of their category, which include their relatively high level of price, quality, aesthetics, rarity, extraordinariness and symbolic meaning*”.

The six characteristics of luxury he introduces are based on the literature and empirical study that he reviews in his study of luxury brands.

#### **3.3.1 Price**

Is well-known characteristic of luxury goods, since it is rather objective and makes it easy to measure. Some people see the pricing criteria really important since it signals a status. (Heine, 2012)

#### **3.3.2 Quality**

This characteristic can be compared to price. Superior quality is to be assumed from a luxury product. The quality relies on multiple criteria such as manufacturing, product attributes and product benefits. Manufacturing includes the technical and stylistics competence, without these the product nor the manufacture will not stand out from the luxury market. The process of manufacturing is often time consuming which makes it also complex. (Heine, 2012)

Product attributes, such as the chosen material of manufacture, also show the value. When the material classifies suitable for a luxury good also the function and construction of the product needs to be functional and well thought-out. Quality control is also vital and there is no room for mistakes. Exception make the “*planned imperfections*” that result from the handmade manufacture, these prove the quality rather than reduce it.

Luxury goods have features desired by the target group, which sets them apart from the ordinary products. Nevertheless these features should not reduce the usability. Depending on the category of the product, also the size should be as functional as possible. (Heine, 2012)

Quality also comes from the service a customer gets. Valtin (2004, quoted in Heine, 2012) list the most important task of service to be customer advice, personalization and product modification and reparation. Luxury brands such as Louis Vuitton applies these guidelines in their service. The author has own hand experience from getting helpful advice from the sales personal, having a product send to France to be repaired, being given an extra package material for the storing of products as well having an item personalized with her initials. All the above mentioned was offered for free of charge.

There are also abstract product characteristics such as usability, value, durability, performance, functionality and safety. These characteristics rely on the mixture of concrete characteristics of a product. Combining the sophisticated manufacture with functional principles may increase the practicability of luxury goods. When these are being met this results in value and durability. The aim is to manufacture everlasting products that may appreciate over the time and products that are rather being repaired after a defect or a long time of no use. (Heine, 2012)

### **3.3.3 Aesthetics**

Heine (2012) states that in his research aesthetics was the most common characteristic to be mentioned. Kapferer and Bastien (2009, quoted in Heine, 2012) dispute that the price alone is not good enough to define a luxury product, since it does not evaluate the taste. Dubois (2001, quoted in Heine, 2012) accentuate that luxury product should be enjoyable to taste, touch, hear or smell and not only to be nice to look at. Aesthetics is also the most vital strategy for luxury manufacturers to differentiate themselves form the mass-market manufacturers (Kapferer, 2001, quoted in Heine, 2012).

### **3.3.4 Rarity**

Kisabaka (2001, quoted in Heine, 2012) states that “*luxury products are by definition not ordinary, but rather a rarity*”. Companies limiting the production and the possibilities of individualization of the products have ensured the rarity. Natural limitations also occur with the choice of product components as well launching limited or special edition lines.

### **3.3.5 Extraordinariness**

This characteristic was being mentioned the most in Heine's (2012) research. Despite it is stated to be the most overlooked on in the written literature. This characteristic mostly only results from a different manufacturing or a design principle. Extraordinariness can arise from small details, which makes the product stand out from the rest as well from the manufacturing process, history and brand image. This characteristic can be also achieved by "innovative functional attributes" (Heine, 2012). Many technologies are introduced to consumers of luxury products before they spread into mass-market production.

### **3.3.6 Symbolism**

There are numerous abstract associations that are being created by the luxury products. These symbolic benefits often even exceed the functional benefits of the product. Symbolism refers to the lifestyle and values of the consumer. It can be transmitted through the design or specific product information, for example indicating it to a celebrity. (Heine, 2012)

All the above detailed characteristics should be obtained in a luxury product. With a sufficient marketing and communication these can be achieved. (Heine, 2012)

## ***3.4 KNIGHT FRANK LUXURY INVESTMENT INDEX***

Knight Frank Luxury investment index includes watches as well eight other assets such as art, wine, jewellery, stamps and coins. The index shows that watches have a growth rate of eight percent in 12 months and in a ten year period the rate rises to 76 percent.

Below is shown the Knight Frank luxury investment index for 2013. It also includes few more mainstream asset classes as well for the comparison. (Knight Frank research, 2013)

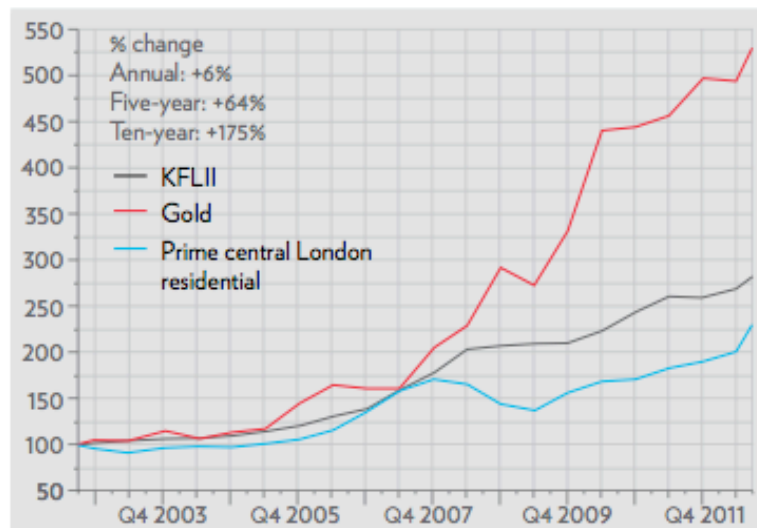
# THE KNIGHT FRANK LUXURY INVESTMENT INDEX (KFLII)

% change in sterling value to end Q3 2012

	1 year	5 year	10 year
Classic cars	+23%	+115%	+395%
Coins	+25%	+93%	+248%
Stamps	+9%	+72%	+216%
Fine art	0%	+92%	+199%
Fine wine	-19%	+7%	+166%
Jewellery	+9%	+77%	+140%
Chinese ceramics	+0.4%	+54%	+85%
Watches	+8%	+27%	+76%
Furniture	-9%	-12%	-18%
<b>KFLII</b>	<b>+6%</b>	<b>+64%</b>	<b>+175%</b>

## Benchmarks

Prime central London residential prices	10.0%	18.6%	103.5%
Gold	5.6%	200.9%	433.6%

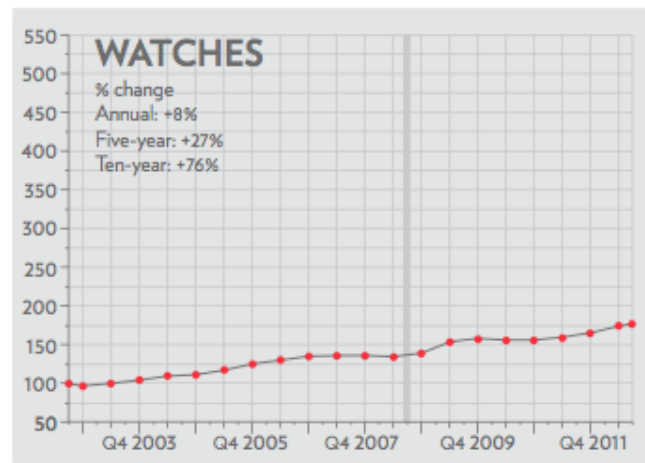


*Knight Frank Luxury Investment Index 2013*

It is based on the weighted performance of existing indexes of these nine collectable assets. In order to create the Knight Frank index, the whole individual indexes were weighted based on its relative value and the popularity of the asset. Over 10 years time, by the end of the third quartile in 2012 the index had grown by 175 percent. Despite the economic slowdown the index has been able to have a solid growth of 64 percent during the last five years. (Knight Frank research, 2013)

The wealth report attitude survey of Frank Knight (2013) also explains that the performance of the asset does not necessarily make it the most popular one. Watches were the second most preferred asset with a 76 percent rise in value during a ten-year time period, where as coins and stamps having increase in value over 200 percent were the least collected ones. This shows the line dividing investors between passion and investment. (Knight Frank research, 2013)

### 3.5.1 AMR Watches Index



*Watches index between Q3 2002 and Q3 2012*

The Knight Frank luxury investment index uses the AMR watches Index (Knight Frank research, 2013). It is created by the Art market research and it is used as a measurement of the pricing of art and related markets worldwide. The index for watches is made by using 40 components, which include 10 Cartier, 10 Patek Philippe, 10 Rolex and 10 other watches from high-end luxury brands. The data used to generate the index is the most vital 80 percent of it. AMR has removed the outliers in order to give a more even graph. The index is being created on a 14 month moving average in order to eliminate the seasonality and its effects. (Harvey, 2014) These indexes provided by Art Market Research are being used by financial and art institutions and guide buyers and sellers in the alternative markets (AMR, 2010).



The Knight Frank Index shows a steady growth for the watch index, annually rising by eight percent (Knight Frank research, 2013).

### **3.5 LUXURY MARKETS**

Despite the struggle in the global markets, that has been going on for a while, luxury markets are still booming. From 1980s the luxury market has steadily grown ten percent a year, the rate being higher than the rate of world economy growth. (McKinsey 2011, quoted in Heine, 2012). In year 2010 the estimated size of the luxury market, including jewellery, fashion and tableware, varied from approximately 150€ to 200€ billion Euros (Bain & Company 2011, quoted in Heine, 2012). Bain & Company (2011, quoted in Heine) also estimates the luxury market to grow by five to six percent worldwide and up six percent in Asia. The luxury market makes itself attractive for incomers because of the high growth rates and possibilities of high margins.

This does not mean that all the luxury goods are thriving. For example car- and steel manufactures have withered in the market where companies such as Hermès, Salvatore Ferragamo and LVMH have flourished. When including cars and other luxury services, such as Hotels, in the comparison of the size of the market, it approaches approximately 1 trillion Euros. (BCG, 2011 p.1, quoted in Heine, 2012)

Neville (2013) explains how the Hermès and Salvatore Ferragamo sales rose by 11% during the year 2013. Due to China, being an emerging market, which had an effect on this. The novel consumers in China have been willing to purchase pricy luxury goods that are promoting a brand or a logo. (M.S. , 2014)

Bain (n.d., quoted in M.S, 2014) has researched that even though luxury companies have achieved customers from the new markets they are facing the problem of losing the old consumers.

The number of luxury consumers has increased and tripled its size in less than 20 years recording nowadays approximately 330 million people. Also the rate of spending has grown and was estimated to be 217€ billion in 2013. Each year more than 10 million new consumers are entering the market every year and many of the existing infrequent customers are becoming more loyal to the luxury brands. (M.S, 2014)

D'Arpizio (n.d., quoted in M.S, 2014) evaluates that the consumers of luxury goods can be feeling betrayed by the companies, since the prices have been raised in the developed markets. Main reason for the higher prices is the reduced price gap between china and western countries. The differences can be up to 60-70%. The higher prices have pushed some of the domestic buyers towards more affordable premium brands. The lost of these consumers can be vital since they may never return.

### **3.5.1 Handbags and Purses market**

Handbags and Purses market includes companies manufacturing the goods from leather and other materials, except precious metals. Consumer buying habits have changed due the development of economics, preferences in products and buying habits. Most of the purchases are made in boutiques and department stores but outlet and discount stores are also holding a fair share of the market. (Highbeam Business, 2014)

In the luxury market premium handbags and accessories are one of the rapidly growing segments. The market share declined in 2009 because of the economic slowdown, but grew in 2012 when compared to previous years. This growth is due to the increased amount of disposable income, customer demand of branded products, expanding middle class and the number of wealthy consumers increasing worldwide. The demand has increased in the emerging markets and also the luxury brands are performing rather strong, which even increases the consumer base. Countries such as India and China have a rising amount of net worth individuals and working women's with high purchase power. Online shopping and E-commerce are also making new channels of distribution possible. (Reuters, 2013)

The market of high-end luxury handbags is extremely competitive and Coach Inc is leading the US luxury handbag market. They have competitors such as Louis Vuitton, Prada, Gucci, Hermès, Chanel and Burberry. Companies are responding to the growth by affecting the purchase experience by investing in stores and shop-in-shops at department stores as well stimulating the purchases with effective promotions. Also the development of high profile product launches is used. (Reuters, 2013)

### **3.5.2 Short history of Handbags**

Handbags are evaluated to have roots in the ancient Egyptian times, where women and men wore pouches around the waist. The early modern Europeans had pouches made of fabric or leather to carry coins. Women in the 17<sup>th</sup> and 18<sup>th</sup> century had separate fabric pockets under their underskirts for their essentials. By the 19<sup>th</sup> century the pouches had evolved into more visible purses made of velvet or silk. The modern handbag is assumed to have been invented in 1841 when Samuel Parkinson, a British confectioner, had to take part on a long train journey and ordered a travel bag for his wife. HJ Cave, the manufacturer of the handbag, came up with a tote bag, which got a lot of criticism and was an unpopular handbag design. During the last century, the handbags became popular. The famous Hermès Kelly bag was firstly made in 1930s, but 1956 Grace Kelly made it well known when she was photographed with the bag. Before that, the bag was actually called sac à dépêches, but Hermès decided to rename it. In the 1980s the Birkin bags followed. (Yaqoob, 2012)

### **3.5.3 Vintage and its valuing**

In the article from Business of Fashion, Tay (2012) defines valuing of vintage part science, part art. Age is no longer the only criteria for vintage goods, since the changes in the fashion market. Silver (n.d., quoted in Tay 2012), a owner of a Los Angeles based vintage store Decades, agrees with Tay and explains that in 1990's the goods needed to be at least 30 years old where nowadays the items still seem current but are collectible. Frost (n.d., quoted in Tay 2012) defines vintage as "anything up to the '90s- but it means different things to different people". The director of luxury accessories at Heritage Auctions, Matt Rubinger (n.d., quoted in Tay 2012), divides vintage consumers into two groups, one, which appreciates the patina shown in the pieces and second group, which prefers the goods to be unique and possible they are the only ones owning them.

Tay (2012) discovered that most vintage shops do their pricing based on the ongoing events in the auction world and the given estimated and final bids. Frost (n.d., quoted in Tay 2012) sees that pricing of Hermès handbags is based on supply and demand. She also states that the coloring also affects the price and other colors are more admired, but this also varies depending in which part of the world the buyer is. Rarity and the condi-

tion of the good are also important criteria for the determining of the price. Good condition, unusual color or exquisite leathers add value. A far from Hermès handbags Rubinger (n.d., quoted in Tay 2012) lists desirability of the good, market size, rarity, still produced, collaboration, discontinued, re-released as factors that are considered when valuing. In his opinion the five most important factors are brand, model, condition, material and color in the given order.

### ***3.6 LUXURY HANDBAGS AS AN ALTERNATIVE INVESTMENT***

Oil paintings, 18<sup>th</sup> century French Bordeaux, Faberge eggs, coin collections, Louis Vuitton Luggage and Hermès bags are alternative assets, which are called high-ticket pieces in the world of finance and investment. (Misner, McDonald, 2011)

Luxury handbags are often seen as thoughtless purchase and the investment of money in them is questioned. They are not longer considered only as a fashion statement or an eye candy. Bag collectors are proving that a well-chosen investment bag can create excellent returns in the long run. (Yee, n.d.)

A Hermès Birkin bag has made the world record for being sold for \$203,150 at the Heritage Auction in Texas. It was estimated to sell for approximately \$80,000. Yee (n.d.) also describes that there are also other Hermès Birkin bags that have recorded high selling price in the Heritage Auction, varying from \$80,000 all the way up to \$113,525.

The director of luxury Accessories at Heritage Auction, Matt Rubinger (n.d, quoted in Yee, n.d.) explains that many of these articles came from collectors and the bags were in mint condition. Many of the Birkin bags sold were also unique pieces, which can not be found in a Hermès store, regardless of the customer. Rubinger says that there is a great market for Birkins and immediately after the purchase they appreciate. The value never goes down and most of the cases it increases. Angela Calman-Wonson, New York public relations executive, (n.d, quoted in Passy, 2011) also states that the value of her own collection of vintage handbags continues to grow. She has half of her portfolio invested in traditional investment and the other half in alternative investments, ranging from limited-edition photographs to rare books.

Of course Hermès is not the only brand in the market benefitting from this kind of position. Chanel bags tend to increase in the price from 8-12 percent per annum. Yee (n.d.) states that a Chanel 2.55 bag bought today could increase in value by over 30 percent just in a time of four years. The value depends of course on the condition and maintenance of the handbag.

Passy (2011) points out the negative aspects of investing in handbags, such as that the investing in hard-assets creates other expenses, such as storage and insurance or the risk of liquidity. There is also no stock exchange for the luxury handbags.

### **3.6.1 What needs to be taken into consideration in luxury handbags?**

Misner and McDonald (2011) advice that an investment handbag needs to be chosen carefully. The decision can not be made by an impulse and the market should be reviewed and all the options compared. When choosing the best investment piece a great care should be paid on the longevity and craftsmanship. If the handbag is worth the investment of a years tuition fee it should be one where the designers made an effort and spend extra time when creating. Solid hardware, stitching that will last a lifetime and fine details, whether inside or outside of the bag, need to be characterized in an investment bag. Misner and McDonald also point out that fabric and canvas handbags will never be qualified as long-term investments. The material should be leather, which develops a patina trough the years. The more exotic the leather is, the valuable the item is. Crocodile, snakeskin, alligator, pony and other animal skins are easy to maintain and durable. One eyeing for an investment bag should not mix them with “It” bags, that are new on the market or have the latest design. It is the iconic bags that have never gone out of style, which make it possible for great a return. One can also speculate to sell an “It” bag in a special color that is available only a short period of time, on Ebay for a higher price that purchased. Investors looking for the high-ticket pieces choose the neutral colors, that are classic for the long-term. (Misner and McDonald, 2011)

Misner and McDonald (2011) also recommend to go for the big named brands when choosing an investment handbag. Companies such as Louis Vuitton, Gucci and Hermès have a steady reputation and the luxury items have become their heirloom pieces. Investors will know for sure what to expect from the quality from big named brands. It is also underlined, that an investment piece should not be bought online, since it is always

good to be able to go back to somewhere reliable when in a need of advice of the care etc.

### **3.6.2 Luxury Handbags vs. Watches**

Alternative assets, that hold the value, include many more items than just art, wine and stamps. Luxury watches are also considered as an investment and they are achieving positive returns when auctioned. (Kazakina, 2010)

Adam Lindemann (quoted in Kazakina, 2010) advises watch investors to purchase rare and special or vintage pieces. Aaron Rich from Sotheby's (BID) department head of watches says that there has been a bubble at the watch market from 2004 to 2008 when an investor could make a 10 percent profit in a month (quoted in Kazakina, 2010). Sam Hines, head of watches and Christie's vice-president, explains investors to prefer investments such as watches because they are not earning money with the bank investments and this way they can enjoy their investment and be sure it to hold its value (quoted in Kazakina, 2010). In 2009 at a Christie's auction a watch, 18-karat gold in model of 1942, was sold for \$2.77 million, nearly doubling the estimated high resale price.

In her article Kazakina (2010) also has listed some characteristics for investment watches. They should be made by some of the top brands such as Patek Philippe, Audemars Piguet, A. Lange & Söhne, have a complex mechanics and preferably are limited in number. Contemporary men's timepieces are more preferred than ladies' watches. Roberto Chiappelloni (quoted in Kazakina 2010, n.d.), who sells luxury brands to hedge fund managers in Greenwich, recommends an investor who buys a new watch to wait approximately 20 years to realize a return on the investment. Luxury watches and handbags have some similarities, both have special characteristics that need to be taken into consideration when purchasing them on investment purpose. They both hold the value and appreciate from the point of purchase onwards. For watches there already is an existing index, which indicates that they have been considered as an alternative investment for a longer time. Luxury handbags, at the moment without an index, are still a new, but upcoming alternative investment option. Other investors prefer luxury watches over bank investment because of the different aspects what these investments offer. (Kazakina, 2010)

Since men's timepieces are according to Kazakina (2010) more preferable, handbags could offer a more suitable alternative asset for females or investors who are more interested in other luxury accessories.

#### ***4. LUXURY GOOD FOR THE RESEARCH***

The author has chosen Hermès Birkin bag to be used as an example in the study and explains her choice of object in the following chapter. She has also included an appendix with introduction to the company Hermès as well more information about it.

##### **4.1 Why Birkin?**

Hermès Birkin is named after Jane Birkin who originally told the Hermès CEO Jean-Louis Dumas what she expected from the handbag. The bags are produced in France and they takes hours to manufacture, are handmade and finished bags are being signed by the craftsmen. There is said to be a waiting list for these bags and it can run for years. (Roberts, 2013)

The head of luxury-goods research at Euromonitor, Fflur Roberts (n.d, quoted in Roberts, 2013) says that since Hermès has not spread them too wide or made them too available protects them. Also the waiting list and the non-accessible price for most consumers makes Birkins even more exclusive.

Misner and McDonald (2011) state Hermès Birkin bags as a high-ticket piece and the characteristics of this bag also fit in the set qualifications such as manufacturing standards and well-known brand. As well Matt Rubinger (n.d, quoted in Yee, n.d.) states that the Birkin bags are excellent investment bag choices when considering the possible returns. Considering the levels of luxury that Heine (2012) introduces, Hermès brand could be included in the top-level.

There are other companies and handbags as well that could be used as an example in the research. Based on the facts and guidelines for identification of investment bag provided above, author evaluates, that the Birkin bag offers the best possible base for a primary data research and therefore she has chosen to use it in her work.



## **5. METHODS**

The author used different methods in the primary data research in order to provide as valid data as possible for the study.

### **5.1 PRIMARY DATA RESEARCH**

The author has chosen to use auction data available from the auction house Artcurial | Briest - Poulain - F. Tajan as a primary data. She has listed 168 Hermès Birkin auction objects with their estimated prices, manufacturing years and the prices they were actually sold for in the auction. The auctions were held between July 2014 and May 2012 located in Paris and Monte Carlo, these including total of eight auctions.

Artcurial | Briest - Poulain - F. Tajan is a company organising voluntary auction sales located in Paris (2014, Artcurial). They are devoted for multiple different auction objects, one of them being goods from Hermès. They do not only auction Birkins, but they also have a variety of other Hermès pieces. (2014, Artcurial)

Artcurial | Briest - Poulain - F. Tajan had given an estimated price for all the objects, which could be for example 8 000 - 10 000€. On their homepage it is stated that “*Estimates are provided for guidance only and cannot be considered as implying the certainty that the item will be sold for the estimated price or even within the bracket of estimates. Estimates cannot constitute any warranty assurance whatsoever.*” and “*In the event where a reserve price has been stipulated by the seller, Artcurial | Briest - Poulain - F. Tajan reserves the right to bid on behalf of the seller until the reserve price is reached. The seller will not be admitted to bid himself directly or through an agent. The reserve price may not be higher than the low estimate for the lot printed in or publicly modified before the sale.*” (2014, Artcurial). Like Tay (2012) wrote, is the pricing based on multiple factors and characteristics of the product as well on supply and demand.

In research the author has chosen to calculate the revenue based on the lowest and highest price given by the auction house as well use an average price calculated from the given estimations. This way the research is not one-sided and does observe an average return that could be obtained by reselling this kind of investment. The author has also

listed the production years when the goods were manufactured too see how they appreciate with time and how this effects on the possible profit outcome.

The author does not take in count any cost occurred from storing or maintenance of Birkins, since the items are suitable to be stored in a normal closet in their pouches and maintenance, if needed, can be done in a Hermès store. The author also assumes, that an investor does not use Birkins as the only alternative investment, presuming that the amount of Birkins is marginal and this way keeps the other costs low. The study is conducted from the point of view of reselling the Birkin and by that generating profit. Therefore the costs occurred from buying the Birkin from the Artcurial | Briest - Poulain - F. Tajan auction has been left out. Artcurial | Briest - Poulain - F. Tajan does not state the prices that have been paid for the handbags when purchased from the Hermès. The data research focuses solely on the possible profit made from reselling the item.

## ***5.2 DATA EVALUATION***

For the processing of the primary data the author has chosen to calculate the net present value in Euros in the above-mentioned three scenarios. She used the present values, the resell prices, minus the price estimation and this resulted the net present value. After that the average difference against estimated resell price was conducted by calculating the average net present value divided by the estimated price of an item. In the appendix is included a preview of the table and the Internet address where the excel sheet can be viewed online.

### **5.2.1 When taken the lowest estimated price**

In the first variety for net present value calculation, the author made the calculation by using the estimated lowest reselling price provided by the Artcurial | Briest - Poulain - F. Tajan. Even tough as stated above, these prices do not imply the certainty that the items will be sold for the price.

When taken all the 168 items and their lowest reselling prices, the average bag cost 13 288,69€. These items average resell price was 18 591,11€, which gave net present value of 5 302,44€. The average difference against the estimated resell price was 33,27 per cent.

### 5.2.2 When taken the average estimated price

An average estimated price for a Birkin at the Artcurial auction was 15 601,19€. The average selling price of the bags staying the same, the net present value in Euros would reach approximately 2 970,51€. The average difference against the estimated resell price was 22,85 percent.

### 5.2.3 When taken the highest estimated prices

Using the estimated, highest price for the items, an average item cost a 17 913,69€. The average auction price being the same in all three scenarios, the net present value was 677,42€ and the average difference against the estimated resell price was 12,99 percent.

	Average estimated price	Average reselling price	Average Net present value in Euros	Average difference against estimated resell price
Lowest estimated price	13 288,69€	18 591,11€	5 302,42€	33,27%
Average estimated price	15 601,19€	18 591,11€	2 970,51€	22,85%
Highest estimated price	17 913,69€	18 591,11€	677,42€	12,99%

The research was conducted in above-mentioned ways in order to provide data that would not be one-sided. If the author had only chosen to use the estimated lowest resell price the outcome would be distorted. Using only the highest estimated reselling price, would give a small profit in comparison. The average difference against estimated resell price shows how almost every time the items received a higher resell price than estimated. Having the value increase more than first expected, is also favorable for the auc-

tion house and for its marketing. This might affect the price estimation given for the items.

Brealey, Myers and Allen (2001) provide the Net Present Value rule, which states that an investor should accept investments, which have a positive, above zero, net present value.

#### **5.2.4 Manufacturing year of the product and appreciation**

The author has used the calculated average price of the items in the further processing of the data to estimate the percentage of appreciation. Appreciation means that the value of an asset increases over time, this can occur due to multiple reasons such as declining supply, increasing demand, changes in interest rate. Normally appreciation is calculated for assets such as bond, stock, currency and real estate. (Investopedia, n.d.)

The author has chosen to use the appreciation calculating in the evaluation of primary data. She has used the formula shown below to calculate the annual appreciation rate for the goods and from the results she calculated the average appreciation rate in four different time periods. For the number of periods author calculated the differences between the handbags being manufactured and resold at the auction. There were six objects that were manufactured and sold in 2014, where the appreciation rate resulted as zero. Despite that the author chose to calculate the appreciation in a yearly rate in the research.

The author used the following formula:

$$i = (FV/PV)^{(1/n)} - 1$$

$$\text{Interest rate} = (\text{Future value}/\text{Present value})^{(1/\text{number of periods})} - 1$$

Based on the primary data she had the following outcome:

Manufacturing year	Number of items	Average age of an item	Average rate of Appreciation
Before 2000	30	16	2,27%
2000-2005	29	10	4,21%
2006-2010	58	5	9,69%
2011-2014	51	1	18,05%

As the table shows, the rate of appreciation increases when the age of the items decreases. As stated earlier in the study the valuing of vintage goods, the age of an item is not a factor, which solely increases the profit. The results also indicate that the prices have not increased the same rate as 15 years ago as nowadays. The newest, all most straight from the store, resold bags had the highest rate of appreciation. Hermès Birkin bags aged between 5-10 years also had a rate of appreciation, between 4,21 percent to 9,69 percent.

### **5.2.5 Hermès auction and store prices**

Artcurial | Briest - Poulain - F. Tajan offer price estimations of the handbags, which the author used in the calculations. Since Hermès does not have a pricing list of the Birkins for public, the author searched for store bought prices online. From to different handbag focused forums she was able to find price data, from year 2014 and 2010. Hermès customers, who want to share the pricing information, provide the data given in these web pages. They do note that the prices may vary depending on country, currency and other conditions. The author chose two items listed in the Internet with prices, which also were found in the Artcurial auction data. These items were similar, from the same manufacturing year and the prices were provided in Euros. She calculated the appreciation of the items by using the formula provided in the chapter above. In the calculations she used for the future price the “sold for” -data from Artcurial auction.

First example is a Hermès Birkin bag that is being bought and resold in year 2014.

<b>Source:</b>	<b>Brag my Bag</b>	<b>Artcurial Nr. 16</b>	<b>“Sold for”-price at auction</b>
<b>Price data:</b>	7 100,00€	7 000,00€	16 250,00€
<b>Rate of appreciation</b>	7,14%	7,27%	

**Hermès Birkin 35 cm Togo manufactured and resold in 2014, monthly rate of appreciation**

In the calculation, the author used for Artcurial the average estimated price for the item that is number 16 in the data and from the web page of Brag My Bag (2014) she took the pricing data for a similar item. The difference between these two handbags was only 100€. In the auction the bag was sold for 16 250€, making the rate of appreciation to vary between 7,14 percent and 7,27 percent. For the number of periods the author used 12 months, since the bags are being bought and resold during a time period of a year.

Another example is a Hermès Birkin bag bought in 2010 and resold at an auction in 2013.

<b>Source:</b>	<b>Pursebolg</b>	<b>Artcurial Nr. 76</b>	<b>“Sold for”-price at auction</b>
<b>Price data:</b>	6350,00€	6500,00€	10 392,00€
<b>Rate of appreciation</b>	17,84%	16,93%%	

**Hermès Birkin 35 manufactured 2010, resold in 2013, p.a. rate of appreciation**

The chosen example is also Birkin 35, which was similar to the item sold at Artcurial auction, number 76 in the auction data. The difference in the pricing is 150€ and like in the example above the author took the “sold for”-price that was achieved in the auction during 2013. For the number of periods she used three as in the years the item was being held before reselling. The rate of appreciation does vary between 16,93 percent to 17,84 percent.

### 5.2.6 Hermès price increase

As well as other luxury brands Hermès also increases the prices of the goods. By the end of January 2014, they did increase the prices of every item sold approximately six to ten percent across the globe, handbags having the highest price increase (Mizhattan, 2014). Mull (2014) also expected the handbags to be the target of the ten percent increase as well leather goods and accessories. Sherman (2013) gives in her article “*Fashion inflation: Why are prices rising so fast?*” an example of Hermès Kelly bag, which cost in the year 2000 \$4,800 and in the year 2013 \$7,600. There is a 60 percent increase on the price, but this is typical for luxury fashion. The prices of luxury, fashion goods have increased twice as high than the general inflation rate. Mull (2012, 2013) has also written in begin of the year 2012 and 2013 how Hermès is going to increase the prices average ten percent.

Based on the above-mentioned articles the author uses ten percent as assumed annual rate of price increase. She uses the following formula of compound interest in order to calculate the prices going backwards:

$$PV = FV / (1+r)^n$$

$$\text{Present value} = \text{future value} / (1+\text{growth rate}) ^ \text{number of years}$$

The author uses the store bought price, provided by the Internet site Brag my Bag (2014), for a Hermès Birkin 35 cm, which cost 7 100,00€. She has then calculated the present value going backwards and got the following results:

<b>Year</b>	<b>Price</b>	<b>Number of Years</b>	<b>Growth rate</b>
<b>2014</b>	7 100,00 €	0	10%
<b>2010</b>	4 849,40€	4	10%
<b>2005</b>	3 011,09€	9	10%
<b>2000</b>	1 869,65€	14	10%
<b>1995</b>	1 160,91€	19	10%

The result from the calculation show how a Birkin bought in 2005 could have, by far, doubled the value in nine years.

### **5.2.7 Rate of Return**

Based on the earlier results a 35 cm Birkin is estimated to have cost 4 849,40€ in 2010. In the Artcurial auction data there is a 2010 35 cm Birking listed to have an estimated average price of 5 000€. The object was sold in 2014 in the Artcurial auction for 7 800,00€.

The author has calculated the rate of returns for the 35 cm Birkins from Brag my Bag and Artcurial auction. As a future value she has used the Brag my Bag 2014 Hermès store price for a 35 cm Birkin, which is 7 100,00€.

	<b>Artcurial</b>	<b>Brag my Bag</b>
<b>Price estimation (2010)</b>	5 000,00€	4 849,40€
<b>Rate of appreciation</b>	42,00%	46,41%

The calculation shows the rate of return, which could be achieved by having the purse to be resold at least for the same amount as the ones bought from the store in 2014. A higher resell price would of course affect the rate of return. If the author had used the



sold for -price from the auction, that is 7 800€, the rate of return for Brag my Bag would be 60,84 percent and for Artcurial 56,00 percent.

The rate of returns for both of the items is rather similar and varies on average four percent.

## **6. RESULTS OF THE STUDY**

The research was based on the question “Can a luxury handbag be seen as an alternative investment?”. The author approached the problem by explaining the main definitions and studying the necessary secondary data available. She continued by collecting primary data, studying it and providing other portfolio examples to show the effect of alternative assets.

### **6.1 Luxury and handbags**

In begin of the research the author gave definitions for the word investing. One of them stating that an investment is a monetary asset purchase where the aim is to have the asset appreciate or create profit when sold. (a, Investopedia, n.d.)

Clearly handbags have nothing to do with traditional investments, but from the alternative asset classes they fit in the description of assets that hold value. As stated, the value of these kinds of assets can only be realized when the item is being sold. It is also hard to have price estimation for the resale, since it bases on subjective enjoyment. (Anson, 2006)

Luxury handbags can be reviewed with this kind of approach since not all people appreciate them and if they are chosen right they do store the value.

As mentioned above, the evaluation of the value of the asset is complex, because of the unconventional nature. This is one of the characteristics listed for alternative assets.

The liquidity of these assets is also hard to define and it varies between the asset classes. Alternative assets also have a tendency to have remarkable returns or losses when compared to traditional assets. (Macroption, n.d)

As shown in the research of the data from Artcrurial auction some of the bags had a high return, more than expected, as where some of them where sold for less than estimated.

The author compared the luxury handbags to watches, which do have an own index. Luxury handbags showed similarities to the characteristics that are used when luxury watches are being defined as alternative investments. For luxury handbags there is no index of their own, but that is also typical for alternative investments. (Macroption, n.d.)

The author was aware of this when starting the research and it proved to be the most difficult to be able to provide valid data in order to have the calculations and comparison. Articles do have estimations that luxury bags “can appreciate up to 12%” but they did not provide any actual show or sources for this statement.

Studying the definitions of luxury and luxury product made it easier for the author to narrow the research into one brand, which almost every time was given as an example. Chanel and Louis Vuitton were also used ones, but Hermès has been able to create such a strong demand around Birkin and other luxury goods of the brand, which make it a good choice to be used as a case company and item.

The author used the luxury product characteristics presented by Heine (2012) in order to define and to find out if Hermès Birkin could be valued as a luxury item. It does fit all the characteristics: price, quality, aesthetics, rarity, extraordinariness and symbolism. The author estimated that Birkin does have all the characteristics needed to be a luxury product.

There have been also some researches which state that a luxury handbag can create returns and appreciate during the time. (Yee, n.d., Rubinger, n.d.). Not every handbag can be given the label “luxury” and therefore the author included the guidelines of Misner and McDonald (2011) in order to define and narrow down the handbags by their characteristics. These forced the assumption, which the author got from Heine’s (2012) definition of the characteristics of a luxury product. The Birkin bag suited them both perfectly.

## **6.2 Financial aspect**

The author explained the theory of risk and return and asset allocation. These are useful methods to be aware of when creating a portfolio. The studies show that alternative assets have a large potential when it comes to diversification of a portfolio. The volatility

of a portfolio can be increased without reducing the amount of return. (Summit financial corporation, 2013)

The primary data research done by the author shows, that the Hermès Birkin bags generated a profit when resold in an auction. Depending on the item and manufacturing year and reselling year, the results varied. But on average all the items generated positive return.

Since there is no price list provided by Hermès the author searched the purchase prices provided by the customers. Based on results from this, the author was able to calculate the prices going backwards and compare them to the data from Artcurial auction. The comparison resulted in an appreciation rate of ten percent, which the author also obtained from the secondary data research. The author also included a comparison of the rate of return, which resulted in rather similar results between the objects. The data comparison and calculations support the statement that luxury handbags do not depreciate and they tend to generate noticeable profits.

### **6.3 Portfolio allocation**

When comparing a traditional portfolio to a portfolio with alternative investments added into it, the author got results showing that alternatives have a positive affect on the performance of a portfolio.

Overall the return of a portfolio with alternative investments included in it was higher, in the example calculation the difference in dollars was \$15,576. The standard deviation was also lower than in the traditional portfolio. (Hatters Funds, n.d.)

The author also included other examples of portfolios with alternative investments. These cases showed that adding 20 percent of alternatives to a portfolio increased the return 0,49 percent and reduced the standard deviation by 1,98 percent. (Summit financial corporation, 2013)

The other example showed how 30 percent share of alternatives in a portfolio affected the risk and return rate. The results were positive and courage to add alternatives in to a portfolio. (Pioneer investments, n.d.)

The research and study of secondary and primary data shows that alternatives do have a positive influence on the performance of a portfolio. Regardless of that the investment decision should still be made with a consideration and the investor needs to be ready to take the risk and accept the possible lost of the amount invested in.

## ***7. DISCUSSION***

The research of the data showed that alternative investments can have a positive influence on the performance of a portfolio. Ideal portfolio would consist mostly of traditional investments and partly from alternatives. Since the alternatives include a variety of assets it also needs to be considered what does this amount of portfolio include. As shown in the chart of Knight Frank wealth report 2013 attitude survey, the preferable amount of “passion investments” in a portfolio was estimated to be four percent. Luxury handbags can be included in the “passion investments”, since they often are purchased more based on the personal preferences than in the investment purpose.

Studying the characteristics of alternatives also confirmed that there is a great variety in the possibilities and that luxury handbags could as well be one item. Other luxury items already have an index of their own, such as watches, but currently for luxury handbags there is none. Based on the research of secondary data luxury handbags fulfill characteristics of alternative investments, which made it possible to continue the study. Defining the characteristics of luxury goods made it simple to narrow the study down to Hermès and Birkin.

The primary data research and the calculations showed that the items did generate positive return and appreciated. The calculations, with the data from Artcurial auctions, were conducted from the aspect of reselling the bag with a price estimation given to it. The author also included data where she used the store prices for two examples and calculated the appreciation rate for them as well comparing them to identical items from Artcurial auction. The differences between the item prices were 100 to 150 Euros. She also calculated the price of Birkin going backwards, using ten percent rate based on the secondary data research, showing how the purse could increase in value during the time. The author also calculated the appreciation rate for two Birkins that had been manufactured in 2010 and resold 2014. Based on these results it can be assumed that the price estimation provided by the Artcurial and the average estimated prices calculated based on them are near to the prices at Hermès stores. As mentioned on the sources used, the prices vary depending on the currency, country and other aspects. The author used only prices in Euros in order to avoid the currency fluctuation.

The author also compared luxury watches in the research. Knight Frank luxury investment index displays the appreciation percentage rate of different luxury items, including watches as well. Every item included in there has an own index, AMR Watches index is used, provided by the Art Market Research. The index of watches includes 40 components, divided among three main watch manufactures and other high-end brands. The index is also generated in a 14 months phase. A similar index for handbags could be generated, where the index would include main luxury handbag manufactures such as Hermès, Chanel, Louis Vuitton and then other high-end brands such as Celine, Gucci, Saint Laurent, that are also well-known and their products do fit in the characteristics of luxury goods and handbags. Also the handbags index should be generated in a longer period than a year in order to avoid seasonality as done with watches. Luxury handbags and watches have similarities and the author believes there will be a need for the handbag index and it could be composed in the same way as the index for watches.

The author contacted Art Market Research for detailed information about the watch index via email. She received a helpful answer as well as an interesting information, that Art Market Research might be interested as well to look in this area in the future. The author sees this supports the assumption of luxury handbags being labeled as alternative investments and the potential this market has, if set characteristics are met.

As stated earlier in the study, alternative investments can be illiquid. When the investor chooses to invest in alternative assets, especially on “passion investment”, the main idea might not be to generate a great profit by the purchase. It often is more about a personal want but it still is good to know about the possibility of resell and appreciation, if there comes a time point where the item is not anymore attractive to the investor.

The author believes that purchasing traditional pieces and avoiding the items, which are trendy at the moment, can minimize the liquidity problem. During the research she came across multiple web pages reselling authentic luxury handbags. Also the Artcurial organizes a Hermès auction twice a year and all the items listed have been sold. The author has also read a book from Michael Tonello (2008) who made a living by purchasing Birkins and reselling them online. All the research done shows that there is liquidity in the luxury handbags, but this can have a great variety among the bags.

Given all the aspects that influence the liquidity and the secondary data research, the author observes that the liquidity can be minimized and for the Hermès Birkin bags there is a high demand.

Getting the necessary data for the research proved to be more challenging than expected. As mentioned earlier in the research Hermès does not have the prices online for the Birkins, which affected the research a lot. In order to achieve even better results with the primary data research the author would have needed more actual values. The price data from the Artcurial auction was not sufficient enough for the research, but the author included other price data, which supported the using of auction prices of the Birkins. The prices and possible rate of returns are artificially calculated, but they do support the research. The author chose to use ten percent as an example rate of appreciation, when calculating the prices backwards. Even though multiple articles had estimated that rate during several years it still is an assumption.

More systematic data or even an index for handbags would have made the research more accurate and the results could have been even more precisely. Despite the limitations the author faced, she sees the research has resulted in new data, which can not be labeled unfounded. In the future the research could be continued, with Hermès or another source publishing the prices for Birkins from a longer period of time or taking another item that fits the characteristics listed in the study and has the price data available.

Luxury handbags have a good possibility of appreciation and generating profit, when chosen carefully. Given that a set of objects discussed earlier, such as the characteristics of luxury goods and qualities included in them, are taken into account luxury handbags could be labeled as an alternative investments. It needs to be considered what the aim is and how the does the handbag fit in the purpose in order to achieve the wanted goal. The author would recommend luxury handbags as an alternative investment, but in moderated amounts combined with otherwise balanced portfolio. Luxury handbags can offer other kind of restore of value than traditional investments or bank accounts.



## ***APPENDIX***

### **Appendix 1**

#### **Email to Art Market Research and respond 1/2**

Hazel Harvey <H.Harvey@artmarketresearch.com> kirjoitti 3.11.2014 kello 10.50:

Dear Rikka

Thank you for your query.

In answer to your questions, the index is made up of 40 components; 10x Cartier, 10x Patek Philippe, 10x Rolex; 10 other watches of high end brands.

The data used to create the index is the central 80%, the removal of the outliers giving a smoother graph. It is also created on a 14 month moving average to eliminate seasonality.

I hope that this answers your questions.

Kind regards

Hazel Harvey

Ps. I would be interested in seeing your analysis with regards to Luxury Handbags as this is an area we may look at in the future.

Art Market Research & Developments Ltd

[www.artmarketreport.com](http://www.artmarketreport.com)

01206 899654

## **Email to Art Market Research and respond 2/2**

-----Original Message-----

From: Riikka Piironen [<mailto:piiroinr@hotmail.com>]

Sent: 01 November 2014 11:54

To: support

Subject: AMR Watches Index

Dear Sir or Madam,

My name is Riikka Piironen, an international business administration student from Finland, and I am currently writing my dissertation on the field of alternative investment. I am studying the possibility of luxury handbags to be seen as alternative investments. In my research I am also including the luxury watches in order to give more valid data and to be able to have a proper comparison.

I am using the Knight Frank luxury investment index and because of that I came across your AMR Watches Index.

I visited your homepage and tried to find more information considering it. In order to have even more valid data in my dissertation I would like to know more about the Watch index. (How many observations does it include, etc.)

Could it be possible for me to have more information about the index? It does not need to go highly in details, but some basic points of the index would help me a lot.

Thank you already for your answer.

Sincerely,

Riikka Piironen

International Business Administration student at Arcada Helsinki, Finland  
[piiroinr@hotmail.com](mailto:piiroinr@hotmail.com)

## Appendix 2

### Hermès company presentation 1/3

Is a company founded by Thierry Hermès in 1837 in Paris and opened its first shop that year. By the year of 1867 Hermès received a First Class Medal at the Exposition Universelle, which was being held under the sponsorship of Napoleon III, who was a loyal client of the fashion house. (Suleman, 2014)

The company started as a saddlery business runned by the family (The Business of Fashion, n.d). At 1880 the son of Thierry, Charles-Émile Hermès took over the business and moved to 24 rue du Faubourg Saint-Honoré, which still remains as headquarter of the company. His sons Adolphe and Émile-Maurice helped him to provide the élite of Europe, Asia, the Americas, Russia and North Africa with Hermès goods. (The Business of Fashion, n.d.)

In the 1920s Émile-Maurice Hermès had the vision of applying the saddle- and harness-making techniques to making of bags and luggage's in order to stay in business (Suleman 2014). Nowadays it specializes in lifestyle accessories, leather, perfumery, ready-to-wear and luxury goods. Since the 1950s the company logo has been a Duc carriage with horse (The Business of Fashion, n.d.)

The former CEO Jean-Louis Dumas said in 2007 that Hermès does not have a policy of image but a policy of product. This ideology has attracted customers from the blue-bloods as well from arrivistes. Dumas also expressed that despite the changes in the designers Hermès has always the same basic initiative: “to make tradition live by shaking it up”. (Vogue, n.d.)

Dumas does not see Hermès belonging in the world of luxury nor fashion. In his opinion it is a family house with heritage that goes back six generations. He qualifies the company using old tradition and combining it with the desire of excellence and a hint of obsession. (Suleman, 2014)

Christophe Lemaire, the artistic director of women's ready-to-wear at Hermès, points out the vast goodwill the brand has among its customers. He describes the luxury and


## Hermès company presentation 2/3

fashion world as a bit like an war zone to which Hermès does not want to take part into. They are confident about their ideology and the excellence of their handcraft.

Pierre-Alexis Dumas, the artistic director of Hermès and the son of Jean-Louis Dumas, yearly give the creative team a theme, that's purpose is to challenge and inspire. In 2014 the theme is "Metamorphosis". Dumas described this as "the ability to reinvent ourselves season after season. He sees Hermès objects desirable because the customer can feel the presence of the person having manufactured the piece and trough this there is a connection to the their humanity and sensitivity. (Suleman 2014)

### 2.0.1 Financial figures

In 2013 Hermès recorded a consolidated revenue which totalled at €3.75 billion. This was a 13 percent increase compared to 2012 (Suleman, 2014). In the first half of year 2014 the consolidated revenue totalled €1,907 million, a rise of eight percent (Finance Hermès, 2014). 2013 Hermès had their highest recorded operating marging, of 32.4 percent. It has also outperformed its rivals Louis Vuitton and Gucci, who struggled in the Chinese market, by maintaining the growth. (Suleman, 2014)



**HERMÈS - 1st half 2014 results**


**CONSOLIDATED INCOME STATEMENT**

in M€	June 2014	% revenue	June 2013	% revenue
<b>Revenue</b>	<b>1,906.9</b>		<b>1,767.2</b>	
Cost of sales	-608.5		-554.0	
<b>Gross profit</b>	<b>1,298.4</b>	<b>68.1%</b>	<b>1,213.2</b>	<b>68.6%</b>
Selling, marketing and administrative expenses	-612.3		-569.8	
Other income and expense	-64.7		-59.3	
<b>Recurring operating income</b>	<b>621.4</b>	<b>32.6%</b>	<b>584.1</b>	<b>33.1%</b>
Other non-recurring income and expense	-		-	
<b>OPERATING INCOME</b>	<b>621.4</b>	<b>32.6%</b>	<b>584.1</b>	<b>33.1%</b>
Change	+6.4%			

Consolidated income statement 1st half 2014 results

### Hermès company presentation 3/3

Hermès estimates that the operating margin will be lower in 2014, because of the currency impact. The company achieved growth in the activity in all geographical zones of the world and leather goods and saddlery increased by 13 percent. (Hermès, 2014)



**HERMÈS – 1<sup>st</sup> half 2014 results**

**ACTIVITY BY GEOGRAPHICAL ZONE**

(in M€)	June 2014	change at constant rates
France	307.9	6.5%
Europe (excl. France)	370.8	7.3%
<b>EUROPE</b>	<b>678.6</b>	<b>6.9%</b>
Japan	220.8	11.3%
Asia-Pacific (excl. Japan)	662.3	17.2%
<b>ASIA</b>	<b>883.1</b>	<b>15.6%</b>
Americas	306.7	12.6%
Others	38.4	18.6%
<b>TOTAL</b>	<b>1,906.9</b>	<b>12.0%</b>

*Activity by geographical zone*

### Appendix 3

#### Primary data research – Artcurial auction

Artcurial calculation with the lowest, average and highest estimated prices.

First page of the data shown as an example.

<i>Date</i>	<i>Auction ID</i>	<i>#</i>	<i>Name</i>	<i>Color</i>	<i>YEAR</i>
Monte-Carlo 24.07.2014	1007	1	HERMES Birkin 35 cm	bleu Saphir	2013
Monte-Carlo 24.07.2014	1011	2	HERMES Birkin 35 cm	rouge	2011
Monte-Carlo 24.07.2014	1012	3	HERMES Birkin 30 cm	Tricolor	2011
Monte-Carlo 24.07.2014	1013	4	HERMES Birkin 35 cm	Tricolor	2013
Monte-Carlo 24.07.2014	1029	5	HERMES Birkin 35 cm	Améthyste	2008
Monte-Carlo 24.07.2014	1030	6	HERMES Birkin 40 cm	Blanc	2010
Monte-Carlo 24.07.2014	1031	7	HERMES Birkin 35 cm	6 colors	2012
Monte-Carlo 24.07.2014	1032	8	HERMES Birkin 35 cm	Tricolor	2013
Monte-Carlo 24.07.2014	1033	9	HERMES Birkin 35 cm	Orange	2005
Monte-Carlo 24.07.2014	1034	10	HERMES Birkin 35 cm	Gris	2005
Monte-Carlo 24.07.2014	1039	11	HERMES Birkin 25 cm	Noir	2007
Monte-Carlo 24.07.2014	1042	12	HERMES Birkin 35 cm	tadelack gold	2009
Monte-Carlo 24.07.2014	1043	13	HERMES Birkin 35 cm	Prune	2009
Monte-Carlo 24.07.2014	1045	14	HERMES Birkin 30 cm	Himalaya	2011
Monte-Carlo 24.07.2014	1046	15	HERMES Birkin 35 cm	Taupe	2014
Monte-Carlo 24.07.2014	1047	16	HERMES Birkin 35 cm	Coquille d'œuf	2012
Monte-Carlo 24.07.2014	1048	17	HERMES Birkin 35 cm	bleu jean	2005
Monte-Carlo 24.07.2014	1049	18	HERMES Birkin 35 cm	Tosca	2012
Monte-Carlo 24.07.2014	1060	19	HERMES Birkin 35 cm	Bicolore tosca	2013
Monte-Carlo 24.07.2014	1072	20	HERMES Birkin 35 cm	So black	2011
Monte-Carlo 24.07.2014	1073	21	HERMES Birkin 30 cm	Ghillies- Rouge	2012
Monte-Carlo 24.07.2014	1078	22	HERMES Birkin 35 cm	box bleu	2003
Monte-Carlo 24.07.2014	1079	23	HERMES Birkin 30 cm	bleu jean	2002
Monte-Carlo 24.07.2014	1080	24	HERMES Birkin 35 cm	Bicolore	2014
Monte-Carlo 24.07.2014	1081	25	HERMES Birkin 35 cm	rose tyrien	2012
Monte-Carlo 24.07.2014	1082	26	HERMES Birkin 40 cm	rose lipstick	2010
Monte-Carlo 24.07.2014	1083	27	HERMES Birkin 40 cm	rose crevette	2013
Monte-Carlo 24.07.2014	1094	28	HERMES Birkin 35 cm	alligator vert	2011
Artcurial 29.4.2014	46	29	HERMES Birkin 35 cm	noir	1998

The full calculations data is available online from:

<https://docs.google.com/spreadsheets/d/1YksWjArb41PHKJ5hFJbQooFt92GewpqlpDilpbyViuo/pubhtml?gid=508398462&single=true>

## Appendix 4

### Table of appreciation from primary data research

Table of appreciation based on the data collected from Artcurial auctions. The objects that had been auctioned, were divided into groups based on the manufacture year.

		<i>Average</i>	<i>Sold for €</i>	<i>Profit in €</i>	<i>percentage</i>	<b>AGE</b>	<b>Appreciation</b>
<b>BEFORE 2000</b>	total	178 250,00 €	245 909,00 €	67 659,00 €	840 %	485	68,24 %
	average	5 941,67 €	8 196,97 €	2 255,30 €	28 %	16	2,27 %
objects	<b>30</b>						
<b>2000-2005</b>	total	407 500,00 €	561 364,00 €	153 864,00 €	822 %	281	121,96 %
	average	14 051,72 €	19 357,38 €	5 305,66 €	27 %	10	4,21 %
objects	<b>29</b>						
<b>2006-2010</b>	total	966 250,00 €	1 112 117,00 €	145 867,00 €	1461 %	285	561,74 %
	average	16 659,48 €	19 174,43 €	2 514,95 €	13 %	5	9,69 %
objects	<b>58</b>						
<b>2011-2014</b>	total	1 069 000,00 €	1 203 916,00 €	134 916,00 €	763 %	70	920,53 %
	average	20 960,78 €	23 606,20 €	2 645,41 €	11 %	1	18,05 %
objects	<b>51</b>						

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