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ART AS AN ALTERNATIVE INVESTMENT: A SURVEY OF UKRAINIAN  
COLLECTORS

Bachelor Thesis

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I have written this Bachelor thesis independently. Any ideas or data taken from other authors or other sources have been fully referenced.

**Table of contents**

Introduction .....	4
1. Art as alternative investments – theoretical foundation.....	6
1.1. Alternative investments as an investment class .....	6
1.2. Collectibles theoretical Foundation.....	9
1.3. Art as alternative investment .....	10
2. Investing in art on the Ukrainian market .....	12
2.1. Data and methodology .....	12
2.2. Results and discussion .....	15
2.3. Suggestions for beginner investors .....	23
Conclusions .....	25
List of references.....	27
APPENDIX A.....	30
Resümee .....	32

## Introduction

In the modern era, art transcends its traditional role as a mere object of aesthetic pleasure or a collector's treasure; it has emerged as a formidable contender in the realm of alternative investments. This thesis is meticulously crafted for those who harbour a keen interest in the domain of alternative assets, with a particular emphasis on art objects, especially paintings. As the financial landscape undergoes a paradigm shift, the allure of art as a viable investment avenue has burgeoned, enticing a diverse cohort of investors to broaden their investment horizons beyond the conventional confines.

The crux of this thesis is to navigate the intricate dynamics that underpin the investment in paintings. It endeavours to unravel the potential yields, inherent risks, and pivotal factors that prospective investors must weigh before delving into the art market. The early 2000s witnessed a significant surge in alternative investments, capturing the attention of both institutional and private investors alike (Noël, 2002). Since then, alternative investments have cemented their presence in the global economy, influencing capital markets worldwide (World Economic Forum, 2015).

Art as a physical asset, holds an undeniable appeal for both the financially astute and the uninitiated, thereby fuelling the demand for such investments. Its low correlation with traditional financial instruments renders it an enticing prospect for portfolio diversification. Art stands out as a distinctive asset within the alternative investment category. Although empirical evidence suggests that art investments can eclipse the performance of more conservative options, the associated risks are substantial and warrant careful consideration. (Raya Mamarbachi et al., 2008)

The robust performance of the Masterworks All Art Index is a testament to the resilience and growth potential of contemporary art as an investment. Over the past quarter-century, the index has not only outpaced traditional inflation rates but also shown remarkable growth during periods of economic volatility. This is particularly noteworthy when juxtaposed with the average inflation rate in the European Union, which, as reported by TRADING ECONOMICS using data from the World Bank and EUROSTAT, stood at 2.43% from 2000 to 2023, with a spike to 11.5% in October 2022.

In comparison, the S&P 500's average growth rate of 8.09% during the same period underscores the relative stability and steady appreciation of art as an asset class. Furthermore, the 2022 Art Basel and UBS Global Art Market Report highlights a significant resurgence in the art market, with aggregate sales by art dealers and auction houses surging by 29% in 2021

relative to the previous year. This rebound reflects a renewed confidence in the art market and suggests a vibrant ecosystem for collectors and investors alike.

The data underscores the dual appeal of art investment: the aesthetic and cultural value of the artworks themselves, and their potential for financial appreciation. As such, art continues to solidify its position as a compelling alternative investment, offering both tangible and intangible returns to those who engage with it. This dynamic interplay between art and finance forms the cornerstone of your research, providing a rich tapestry of inquiry into the multifaceted nature of art investment.

The aim of the thesis is to explore constraints, return, risk opportunities for people who are interested in investing in art on the example of Ukraine. Such topics as if art could be reasonable hedge against economic instability particularly war and price formation on art will be touched as well in Bachelor thesis. In the thesis studies which explored data on pricing, sales and value over time for art pieces during and after conflicts, economic instability and in normal market conditions in various countries will be analysed, consider alternative investment theoretical foundation, collectible art and other collectibles, for qualitative data author will conduct interview with multiple Ukrainian collectors, investors, artists and galleries to cover all industry participants.

No studies have been conducted on the Ukrainian market on the risks, potential rewards, and limitations of investing in art, however there are a lot of studies conducted worldwide on the subject for example Mei and Moses (2002) in “Art as an Investment and the Underperformance of Masterpieces” were first to discuss art as way to diversify portfolio with art investment to be standing beside other more common ways of portfolio diversification.

The following research tasks will be undertaken in order to fulfil the thesis's goal:

- to provide a theoretical framework for alternative investments and identify art as alternative investment object;
- to present overview of earlier research;
- to create questionnaire for interviews with investors, galleries, artists, and collectors who have owned art pieces;
- to conduct interviews with market participants, conclude of the findings of the interviews and analyse the results.

The first two tasks will be implemented in the theoretical phase, which will consist of both theoretical and empirical approaches. The final three tasks will be completed in the

thesis's empirical section. The theoretical portion of the thesis will draw from academic journals and serve as the foundation for the empirical research, in which the author will combine information gleaned from interviews with the theoretical section. The empirical section will involve the author conducting interviews with Ukrainian art investors, collectors, and museums. These interviews will provide first-hand insights into the motivations, challenges, and experiences of individuals and institutions involved in the Ukrainian art market. The author will employ a structured questionnaire to ensure a systematic collection of data, covering aspects such as investment strategies, risk perceptions, and views on the future of the art market in Ukraine. To provide an overall picture of how simple, risk-free, and lucrative investing in collectible art is on the Ukrainian market. The author wants to accurately analyse the returns for art pieces and provide relevant information for investors seeking profit and ways to avoid high risk. Furthermore, the thesis author aim is to present an overview of the primary art trading platforms in Ukraine, as well as potential dangers and limitations that may arise during and following transactions between buyers and sellers.

The author believes that the thesis will benefit society by contributing valuable insights into the dynamics of art investment in Ukraine. Beyond financial considerations, the thesis aim to be a resource for investors seeking profitable opportunities and collectors who view art not just as an investment but as a source of adoration. By bridging the gap between theory and practice, the thesis aim to empower stakeholders in the Ukrainian art market to make informed decisions.

Key words: Alternative investment, capital market, collectibles, art, contemporary art, conservative investment, risk, return, constrains.

## **1. Art as alternative investments – theoretical foundation**

### **1.1. Alternative investments as an investment class**

Defining 'alternative investments' often involves referencing traditional listed investments with readily determined values and good liquidity, highlighting the term's implication of unconventional assets lacking easy market valuation and liquidity, it is common knowledge that a liquidity imbalance indicates risk and danger, but over time, it may also present a chance for generating more profit (Skully, 2007). Saad Riaz (2020) ads that among the distinguishing characteristics of alternative investments are particular risk factors and H. Kent Baker & Greg Filbeck (2013) ads that some of alternative investments common characteristic is high cost per asset. On the flip side, World Economic Forum (2015) provides the broadest interpretation possible, meaning that alternative investment assets are

those that don't fit into the traditional categories of cash, stocks, or bonds—the investment classes that ordinary investors are more accustomed to. Examples of alternative investments, under these broad interpretations, include:

- **Real Assets:** Real assets come in several varieties. Real assets include things like land, farms, and timberlands, real estate, as well as intellectual property. Real assets, commodities are mostly natural resources including agricultural products, oil, natural gas, and industrial and precious metals. However, commodities goes out of Skully's (2007) definition since there are immediate market for trading natural resources Harvard Business School (2020) and Baker et al (2013) refers commodities to alternative investment category what supports broadness of definitions for this term. Real assets the most prevalent kind and largest asset class in the world. (Harvard Business School, 2020).
- **Private Equity:** Investments in private companies or ventures that are not publicly traded venture capital, with an emphasis on early-stage and fledgling businesses. Growth capital facilitates the expansion or restructuring of more established businesses. Buyouts: the outright acquisition of a business or a component thereof. (Harvard Business School, 2020)
- **Hedge Funds:** These are pooled funds that employ various strategies to generate returns, often beyond the scope of traditional investments. Only institutional investors, including endowments, mutual funds, pension funds, and high-net-worth individuals, are able to access hedge funds. (Harvard Business School, 2020)
- **Collectibles:** Investing in collectibles entails making purchases and keeping tangible assets in the hopes that their value will increase over time. Collectibles could be: Rare wines, Vintage cars, Fine art, Mint-condition toys, Stamps, Coins, Baseball cards, e.t. (Harvard Business School, 2020)
- **Structured products,** which are frequently associated with derivatives and fixed-income markets, include securities that are valued by underlying assets, such as credit default swaps and collateralized debt obligations. These products provide investors a customized investment mix, usually created by investment banks and provided to hedge funds, organizations, or retail investors to fulfil unique individual demands, even though they can be complex and risky. (Harvard Business School, 2020)
- **Cryptocurrencies:** Any form of currency that is solely available digitally, typically lacks a central bank or regulatory body, and instead depends on a decentralized

system to record transactions and oversee the creation of new units is known as cryptocurrency using encryption to stop fraudulent and counterfeiting transactions, like Bitcoin or Ethereum. (Saad Riaz 2020)

- Infrastructure Investments: The allocation of financial resources for the creation, enhancement, and upkeep of vital physical systems and structures that facilitate economic activity such as roads, bridges, or utilities. (Tamplin, 2023)

Baker & Filbeck (2013) divides alternative investments in two categories: ‘Traditional alternative investment’ (Real assets, Private equity, Commodities,) and ‘Modern alternative investments’ ( Managed futures, Hedge funds, Distressed securities). Through low correlation with traditional assets, alternative investments offer diversification benefits, inflation-hedging advantages, and scalability to absorb substantial investment sums. These unique characteristics are not typically found in traditional assets like public stocks or government bonds. Instead, alternative investments often encompass long-term, high-risk, or illiquid options associated with potentially higher returns. (World Economic Forum, 2015)

The benefit of alternative investments is that they are thought to be able to diversify an investor's portfolio and vary risk because they are seldom associated or uncorrelated with standard investments (Kim Oosterlinck, 2013). Adding on alternative investments positive sides, the risk-adjusted performance of current standard investment portfolios may be improved by these type of asset (Baker et al, 2013). The majority of alternative investments, particularly those in commodities, have “nonpecuniary rewards”, which could yet another advantage for a lot of people over traditional investments (Laurs, 2017). By this term Laurs (2017) means an emotional delight that comes from owning an alternative investment, for example pleasure or having a piece of art or comfort of having own real estate to live in. Giampiero Favato (2008) explains that art, beyond being esteemed for its monetary value, holds a profound significance as it is appreciated for its intricate aesthetics that evoke emotions and its rich historical context, contributing to a deeper understanding and connection with the cultural tapestry of human civilization but these values are less interesting for people now.

Despite their potential benefits, alternative investments are not without drawbacks and inherent risks. A notable concern lies in the illiquidity of many alternative assets, characterized by infrequent and limited trading volumes. This lack of liquidity poses significant challenges in monitoring returns and can be exacerbated by the disproportionate influence that a few investors may exert on prices due to the scarcity of market activity. Such factors contribute to the complexity and potential volatility associated with alternative

investments. The majority of alternative investments involve large minimal investments and cost structures, which may potentially be a limitation and disadvantage for some investors, especially when compared to mutual funds and exchange-traded funds (Baker & Filbeck 2013). The Masterworks data on sold pictures support this claim because the highest growth in value could be noted in already expensive works. In case of art difference in price growth could be explained by increasing interest in assets that are already shown to perform well.

### **1.2. Collectibles theoretical Foundation**

Since according to Harvard Business School Art is part of collectibles category we will dive deeper in what term represent. Collectibles transcend traditional financial instruments and are frequently linked to passion and aesthetic appreciation (Deloitte, 2017). A wide range of physical objects fall under the category of collectibles, such as artwork, antiques, rare coins, stamps, vintage automobiles, and memorabilia (Korteweg & Kräussl, 2015). Collectibles' value is not entirely based on cash flow or earnings, in contrast to more conventional financial assets like stocks or bonds. Rather, things like scarcity, historical relevance, aesthetic appeal, and cultural value are closely linked to their value (Mei & Moses, 2002). Collectibles are distinguished by their non-homogeneous nature, which gives each piece distinct and frequently irreplaceable. Investors and aficionados are drawn to the unique stories and histories associated with each object, which adds to the subjective and emotionally charged nature of collectibles (Velthuis, 2003).

Because collectibles are subjective and qualitative in nature, valuing them can be quite difficult. In the collectibles market, conventional financial measures like discounted cash flow models and price-to-earnings ratios are frequently useless. To determine an estimated value, appraisers and experts instead use a combination of provenance, condition, historical sales data, and cultural significance. Collectibles are difficult to value due of their illiquidity. In contrast to publicly traded stocks, the collectibles market is sometimes characterized by a small number of transactions and an absence of established pricing procedures. This makes determining a fair market value difficult and increases the dependence on professional judgment and auction outcomes. (Zohar, 2015)

Table 1

*Characteristics and challenges of collectibles as alternative investments*

<b>Subjectivity</b>	Valuation based on subjective factors such as scarcity, historical relevance, aesthetic appeal, and cultural value.
<b>Non-homogeneous Nature</b>	Each piece is distinct and frequently irreplaceable.
<b>Emotional Value</b>	Unique stories and histories associated with each object contribute to emotional attachment.
<b>Difficulty in Valuation</b>	Traditional financial measures are often inadequate; valuation relies on provenance, condition, and sales data.
<b>Illiquidity</b>	Limited number of transactions and absence of established pricing procedures, making fair market value estimation challenging.
<b>Portfolio Diversification</b>	Minimal correlation with financial markets makes collectibles attractive for portfolio diversification.
<b>Risks</b>	Market movements, shifts in cultural preferences, and illiquidity pose risks to investors.

Source: Compiled by the author

Despite these difficulties, investors looking for diversification outside of standard asset classes have been drawn to collectibles. Collectibles are a desirable option for portfolio diversification due to their minimal correlation with financial markets. Investors, however, need to be very aware of the dangers related to market movements, future cultural preference shifts, and illiquidity (Mei & Moses, 2002). Finally, a deeper understanding of the theoretical underpinnings of collectibles becomes paramount for informed decision-making in this fascinating world of alternative investments. The theoretical foundation of collectibles as an alternative investment underscores their unique characteristics, valuation intricacies, and the multifaceted considerations that come into play as investors increasingly recognize the value of tangible, culturally significant assets (Deloitte, 2017).

To visually represent the characteristics and challenges of collectibles as alternative investments, a table summarizing key points Table 1 created:

### **1.3. Art as alternative investment**

The convergence of art and economics has created a fascinating space in alternative investments, elevating artworks to the status of priceless collectibles. There has been a noticeable increase in interest in recent years from investors looking to diversify outside traditional assets (Kapoor & Riedl, 2017). This investigation explores the special qualities,

approaches to valuation, and financial factors related to art as an alternative investment. As a collectible, art has unique qualities that distinguish it from traditional financial assets. Its worth is closely related to subjective elements like artistic origins, cultural relevance, and aesthetic appeal rather than being exclusively evaluated by conventional financial criteria (Velthuis, 2003). The non-correlation of art with typical financial assets, such as equities and bonds, makes it an attractive option for portfolio diversification (Kapoor & Riedl, 2017).

Because art is subjective and qualitative, valuing it can be difficult (Mei & Moses, 2002). In the art market, conventional valuation models, such as those applied to stocks or bonds, are mainly insufficient. Instead, appraisers rely on a combination of elements, including the artist's reputation, provenance, historical sales data, and prevailing market trends (Korteweg & Kräussl, 2015). Due to the art market's illiquidity and rarefied transaction patterns, valuation is made even more difficult (Velthuis, 2003).

Understanding the nuances of the dangers involved in art investments is essential. Although art can help diversify portfolios, its lack of liquidity presents special difficulties. Artworks might not be easily exchanged for cash, and subjective elements like changing artistic trends or an artist's reputation might have an impact on the market. (Mei & Moses, 2002) Investing in art has more benefits than just financial ones; it frequently has cultural and aesthetic aspects as well. Investors should carefully assess their goals, risk tolerance, and the potential for long-term appreciation when stepping into the art market (Korteweg & Kräussl, 2015)

The vast historical and cultural relevance of Ukrainian art reflects the diversity of the nation's past. Ukrainian art is valuable in more ways than one; it tells stories of resiliency, identity, and artistic expression. This depth of culture gives the investment scene another dimension and draws people who understand the inherent worth of encouraging and safeguarding Ukrainian art in hard times. (Maziarczyk, 2019)

The geopolitical environment significantly affects the Ukrainian art market. Investor attitude, as well as the perceived stability and possible profits on art investments, can be impacted by geopolitical conflicts. Nonetheless, some people may view purchasing Ukrainian art during a conflict as a show of support or a conviction in the nation's cultural legacy's continuing resilience attracting new investments (Smith, 2020). Traditional market dynamics have been disturbed by the war, impacting investors and artists alike with supply chain problems, demand swings, and uncertainty. Overcoming these problems demands a detailed awareness of the market's complexity, highlighting the necessity of local insights and linkages (Maziarczyk, 2019). Because Ukrainian art has a distinct blend of innovation and

tradition, it has the potential to be appreciated over time. Because the Ukrainian art market is still relatively young in comparison to other established art markets, early investors may be able to help the market flourish (Smith, 2020).

The seminal work of Mei and Moses (2002) has been instrumental in reshaping our perception of art from merely an object of aesthetic value to a credible financial asset. Their research illuminated the robustness of art values over the long term, aligning them with traditional asset classes and challenging the preconceived notion that art's worth is solely in its beauty. This paradigm shift has opened avenues for investors to consider art as a strategic component of a diversified investment portfolio.

Building upon this foundation, Renneboog, Spaenjers, and Van den Steen (2013) further underscored the historical returns of art investments, bolstering its stature as a viable asset class. Their insights have sparked a surge of interest among investors, keen on incorporating art into their portfolios as a means to enhance diversification and potentially increase returns within the broader spectrum of investment strategies.

The art market, distinct in its behaviour from traditional financial markets, has been the subject of intense scrutiny. Pesando's (1994) exploration into the cyclical patterns of art prices has provided invaluable guidance for investors aiming to optimize their market engagement by identifying opportune moments for transactional activities. This perspective was further enriched by Fischer and Kampe's (2017) examination of the impact of globalization on the art market. Their findings revealed the intricate interplay between art valuations, economic indicators, and cultural shifts, offering a roadmap for investors to navigate the evolving landscape of the art industry.

## **2. Investing in art on the Ukrainian market**

### **2.1. Data and methodology**

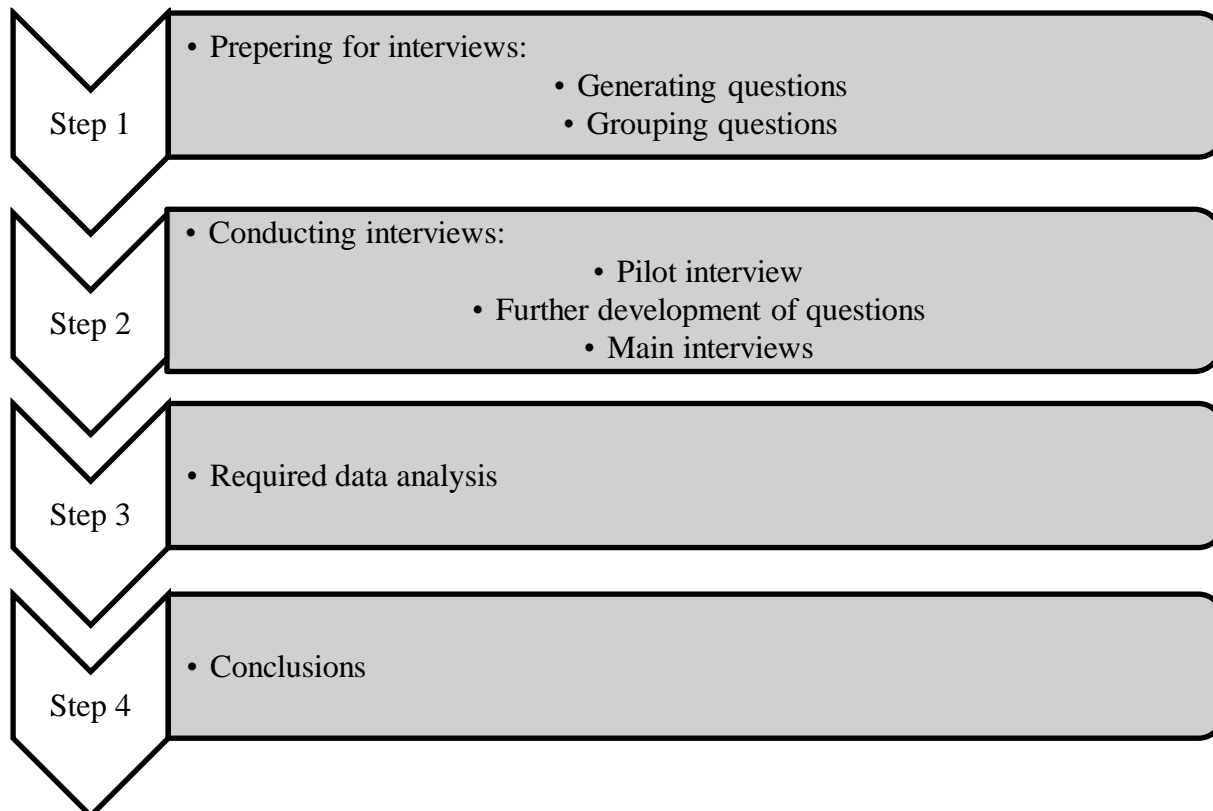
To comprehensively analyse the Ukrainian market for investing in art, the author will employ a qualitative approach, deemed most suitable for this research endeavour. The empirical phase aim to gather extensive insights into the investment landscape for collectible art, including their potential returns, as well as delineate the challenges and risks encountered by collectors, investors, and artists throughout the investment and ownership journey. Additionally, the study will delve into the nuances of purchasing, maintaining, trading, and selling art within the Ukrainian market.

To achieve these objectives, the author will conduct interviews with collectors, investors, and artists in Ukraine, possessing a diverse portfolio of art. Through qualitative analysis, the thesis seeks to uncover prevalent investment practices within the Ukrainian

market, optimal platforms or marketplaces for sourcing art pieces, the feasibility and costs associated with art, and the inherent risks and limitations faced by stakeholders. Furthermore, personal insights will be sought regarding the most promising segments for investment and potential capital appreciation.

In addition to interviews, the author will scrutinize previous empirical studies, referenced in the theoretical framework of the thesis, that have explored investment opportunities, constraints, and methodologies within the realm of art investment. This secondary analysis aim to discern avenues for investing in art with minimal risk and enhanced returns, while identifying segments poised for future price appreciation. Ultimately, the gathered data will be meticulously analysed to furnish conclusive insights, recommendations, and comparative analyses with preceding empirical research.

Given the relatively modest size of the Ukrainian market for art and current war ongoing in the country, sourcing suitable interviewees poses a challenge. Despite initial efforts to identify potential respondents through online platforms yielding limited results, collaboration with the market participant facilitated the identification of suitable participants. To elucidate the achievement of the thesis objective, the author has devised Figure 1, delineating the empirical research plan's processes.



*Figure 1: Explanatory research plan diagram*

Source: Compiled by the author

The author conducted a total of five interviews for their bachelor thesis. These interviews comprised two with artists, Respondent 4 (Honoured Artist of Ukraine) and Respondent 5. Additionally, there were three interviews conducted with collectors and investors, including physicist Respondent 1, and two collectors Respondent 2 and Respondent 3, who is an IT company director. The interviews were conducted online via Zoom and Viber, and video recordings were made with the interviewees' consent. The interviews were selected to provide a diverse perspective on the intersection of art, investment, and collecting. Each interviewee offered unique insights into their respective fields, enriching the depth and breadth of the research conducted for the bachelor thesis.

The formulation of interview questions was carefully aligned with the core objectives of the thesis, aiming to seamlessly integrate two primary research goals: exploring the nuances of art investment and examining the associated risks, constraints, and costs encountered by collectors, particularly in the realm of paintings. The questionnaire was thoughtfully divided into three distinct sections, each serving a specific purpose.

The initial segment aimed to capture insights into the backgrounds of the interviewees, providing a comprehensive understanding of their socio-demographic profiles and professional trajectories. This approach not only contextualized their perspectives but also facilitated deeper engagement with subsequent inquiries.

Furthermore, the questionnaire delved into the intricacies of return opportunities within the art investment landscape, shedding light on the multifaceted dynamics of this domain. By probing into the perceived value and potential returns associated with art investments, the research aimed to uncover nuanced insights crucial for informing strategic decision-making processes.

Lastly, emphasis was placed on elucidating the risks, costs, and constraints inherent in art investment endeavours. This thematic block aimed to unearth the myriad challenges faced by collectors, offering a nuanced examination of the complexities involved in navigating this space effectively.

Moreover, recognizing the diverse linguistic backgrounds of the respondents, the questionnaire was meticulously crafted in three languages—English, Ukrainian, and Russian—to ensure accessibility and inclusivity. Though all interviews were conducted in Ukrainian, the native language of the participants, fostering a conducive environment for candid and comprehensive discussions.

First block of questions regarding interviewee background is compiled in table 2.

Table 2

*Background of the respondents*

<b>Respondent</b>	<b>Respondent 1</b>	<b>Respondent 2</b>	<b>Respondent 3</b>	<b>Respondent 4</b>	<b>Respondent 5</b>
<b>Age</b>	66	74	45	62	34
<b>Gender</b>	Male	Male	Male	Male	Male
<b>Occupation</b>	Physician	-	IT company director	Artist/Designer	Artist/Lecturer
<b>Level of education</b>	PHD in physics	Masters in International relationships and Economy	Masters in economy and management	Masters in design and construction	Masters in Applied arts

Source: Compiled by the author

The decision to employ qualitative analysis in this thesis was driven by the recognition that quantitative research methods might not offer sufficient depth to effectively understand art investment in the Ukrainian market. A key constraint in conducting quantitative research stemmed from the limited pool of individuals actively involved in art investment or collecting within Ukraine. Moreover, the challenging socio-political situation in the country further restricted the availability of participants willing or able to engage in such research endeavours.

By opting for qualitative analysis, the research sought to overcome these limitations and instead capitalize on the rich insights offered by in-depth interviews with seasoned investors, collectors, and experts entrenched in the Ukrainian art market. These individuals possess a wealth of experiential knowledge accumulated over years of engagement in the art scene, rendering their perspectives invaluable for a comprehensive analysis.

Qualitative analysis afforded the opportunity to delve deeply into the intricacies of art investment within the Ukrainian context, shedding light on nuanced factors that may not be captured through quantitative metrics alone. By eliciting detailed narratives and firsthand accounts from knowledgeable stakeholders, the research aimed to glean insights that could inform effective investment strategies and shed light on the dynamics of the local art market.

## **2.2. Results and discussion**

**The reason behind investing in art.** The second part of the questionnaire focuses on the interviewees' art collections and the motivations driving their decision to engage in art collecting. As the author inquired about whether art collecting is viewed primarily as an investment or a hobby, a noteworthy trend emerged among the respondents. It became evident that the majority perceived art collecting primarily as a hobby, rather than a purely financial endeavor, despite its potential for wealth accumulation.

Among the respondents, four out of five collectors expressed sentiments indicating that their involvement in art collecting stemmed from a genuine passion, describing it as a hobby, a way of life and way to capture and save emotions and memories in their collection. They emphasized the emotional and personal satisfaction derived from building and curating their collections. While acknowledging the potential for financial gain, these individuals underscored the intrinsic value of art beyond its monetary worth.

Interestingly, despite the acknowledgment of the financial aspect of art collecting, many respondents highlighted the challenges associated with generating significant profits from art investments. They noted that the art market can be unpredictable and volatile, making it difficult to consistently generate substantial returns.

However, amidst these challenges, a few respondents mentioned the pragmatic aspect of art investment. They highlighted that while collecting art primarily fulfils their passion and emotional fulfilment, it could also serve as a means of financial security. These individuals recognized the potential for art to serve as a financial safety net, providing a source of liquidity or a buffer in times of need, while still indulging in their artistic pursuits.

Overall, the responses underscored the multifaceted nature of art collecting, where financial considerations intertwine with personal passion and emotional fulfilment. Despite the recognition of art as a potential investment asset, the predominant sentiment among respondents was one of genuine passion and engagement with the artistic realm, transcending mere financial motivations.

Two respondents initially began their art collections solely as an investment option. However, their motivations and approaches evolved over time. One respondent shifted focus towards curating a collection based on a specific theme, indicating a transition from a purely financial perspective to a more nuanced and thematic approach to collecting. Similarly, another respondent, who embarked on art investment more recently, demonstrated a growing connection to certain works within their collection. This suggests a deeper engagement with the artistic pieces beyond their monetary value, indicating a gradual evolution towards a more multifaceted relationship with art collecting.

These findings highlight the dynamic nature of art collecting, where individuals' motivations and perspectives can evolve over time. While many initially view art collecting as a hobby driven by personal passion and aesthetic appreciation, there is also room for shifts towards more thematic or emotionally resonant approaches to collection curation. Thus, while financial considerations may play a role in initiating art collection endeavours, the

experience often extends beyond mere investment objectives, encompassing a broader spectrum of personal, thematic, and emotional connections to the artworks amassed.

- Respondent 1: The genesis of art collection within the family of Respondent 1 traces back to their father's affiliation with an esteemed academic society, granting him privileged access to a wealth of artistic masterpieces. As he immersed himself in this cultured milieu, his appreciation for art blossomed, leading him to embark on a journey of collecting these treasures. Over the years, this collection transcended its original purpose, morphing into a cherished family legacy that transcends time and generations. Each artwork serves as a poignant testament to the familial bond and shared appreciation for the arts, weaving a narrative of cultural enrichment and enduring heritage that continues to resonate through the ages.
- Respondent 2: During the decline of the USSR, there emerged an opportunity to acquire works from a prominent but unnamed Moscow-based artist. This artist, though not publicly recognized, held significant acclaim within artistic circles. The accessibility of these artworks during this period provided collector great opening for the future collection.
- Respondent 3: Entry into the world of art investment was inspired by a simple yet compelling suggestion from a friend: to explore the realm of auctions as a unique opportunity to invest their money. Intrigued by the idea of venturing into an unconventional field, they embraced the chance to immerse themselves in the excitement and unpredictability of the auction scene.
- Respondent 4: Part of Respondent 4's professional endeavors entails engaging in the exchange of works with other authors. This facet of their profession involves not only the creation of their own artistic pieces but also the cultivation of relationships within the artistic community through collaborative efforts and mutual exchange. By participating in this trade of works with fellow artists, Respondent 4 not only expands their own creative horizons but also contributes to the vibrant exchange of ideas and expressions within the artistic landscape.
- Respondent 5: Respondent 5 found inspiration in their father's diverse collection, which boasted artworks from various artists. As they embarked on

their own journey of selling their artwork, they were motivated to contribute to and expand upon their family's rich artistic legacy.

Among the respondents, two of them identified as artists themselves, and their motivations for starting art collections stemmed from a deeply personal connection to the world of art. For these respondents, art and other artists held profound significance in their lives, intertwining with their identities and enriching their souls. Their art collections thus emerged as a natural extension of their artistic pursuits, reflecting their deep-seated passion and appreciation for the creative process.

Conversely, two other collectors within the sample initially embarked on art collecting with the aim of gaining financial gains. However, their entry into the world of art was catalysed by specific circumstances that presented lucrative opportunities for acquiring highly valuable artworks. Despite the initial financial motivation, these collectors' journeys in art collecting may have evolved to encompass a broader spectrum of appreciation for art's intrinsic value beyond monetary considerations.

Additionally, one respondent's art collection journey was deeply rooted in familial ties and personal history. This individual continued the collection initiated by their father, adding pieces that resonated with their own aesthetic preferences and taste. In doing so, they honored their familial legacy while also infusing the collection with their own unique perspective and vision.

**Characteristics of a collection.** The research sample predominantly comprises individuals who have amassed notable art collections. Table 3 offers a detailed breakdown, showcasing the quantity of paintings in each collection alongside their respective valuation, providing insights into the scope and worth of these collections.

Table 3

*Why respondents started their collection.*

<b>Respondent</b>	<b>Respondent 1</b>	<b>Respondent 2</b>	<b>Respondent 3</b>	<b>Respondent 4</b>	<b>Respondent 5</b>
The number of paintings in collection	Around 364	247	Around 30	More than 2000 (around 1000 are own works)	16
Total value of the collection	More than a million dollars	Does not want to disclose	Around 90 thousand Euros	Hard to estimate because most of this works never been to auctions, only showcased in museums	Hard to estimate 6

Source: Compiled by the author

None of the respondents expressed intentions to sell their collections in the foreseeable future, with two indicating no plans to sell unless faced with dire financial circumstances. Respondent 1 encountered an intriguing scenario where they were offered a substantial sum for their entire collection, exceeding a million, yet upon closer examination, they realized that a significant portion, approximately 80%, held sentimental or intrinsic value beyond monetary considerations. Consequently, even when presented with subsequent offers to purchase individual pieces, they declined, emphasizing the emotional attachment and significance of their collection. Respondent 2, opting to remain anonymous regarding the value of their collection, echoed a similar sentiment, asserting their reluctance to part with any artworks in the near future.

Both artists in the study refrained from estimating the value of their collections and expressed no intentions to sell any works not created by them. Notably, Respondent 4 recounted a philanthropic gesture wherein he auctioned off some of his collection to support the Ukrainian army, although he chose not to inquire about the proceeds to avoid potential disappointment.

Lastly, Respondent 3 approximates the current value of their collection to be around 90 thousand euros. This valuation is informed by their observation that most of the works have appreciated by roughly 20% since acquisition. Despite the financial assessment, Respondent 3 decision-making regarding the sale of their collection is driven by a blend of financial prudence and personal sentiment. They express a reluctance to part with the most valuable pieces not solely due to anticipated future growth, but also because of the personal

significance these artworks hold for them. Indeed, the responses from all participants underscore a profound emotional connection with their collections. Each participant expressed difficulty in precisely estimating the monetary value of their collection, highlighting the challenge of quantifying the intrinsic worth of artworks that hold personal significance. Moreover, there is a common sentiment among the participants that the value of their art pieces transcends mere monetary considerations. Instead, they ascribe greater importance to the emotional and personal significance imbued within each artwork, viewing them as invaluable treasures that enrich their lives beyond financial worth.

This collective perspective emphasizes the deeply personal and subjective nature of art collecting, where the true value of a collection lies not in its monetary appraisal but in the emotional resonance and meaning it holds for the collector. By prioritizing emotional connections over financial gains, the participants underscore the transformative power of art in shaping individual experiences and perceptions, highlighting the enduring allure and intangible value of artistic expression.

During the interviews, another intriguing question prompted participants to reflect on the oldest and newest paintings in their possession, focusing on the year of production rather than acquisition. This inquiry aimed to uncover the historical breadth and temporal diversity present within the collectors' portfolios. Table 2 provides a outlook on oldest and newest paintings currently presented in the collection.

Table 4

*Oldest and newest paintings*

Respondent	<b>Respondent 1</b>	<b>Respondent 2</b>	<b>Respondent 3</b>	<b>Respondent 4</b>	<b>Respondent 5</b>
The oldest and the newest painting	Oldest:1952 Newest:2011	Oldest:1964 Newest:1990	Oldest: 1970 Newest:2018	Oldest:1940 Newest: 2024	Oldest: 2004 Newest: 2023

Source: Compiled by author

The youngest artworks found in the collections of the artists 2024 and 2023 are attributed to their participation in artist groups, where they engage in exchanges or gifting of their own paintings. This practice not only fosters camaraderie within the artistic community but also contributes to the enrichment of their personal collections with contemporary works.

Respondent 3 acquisition of their youngest painting in 2018 directly from the artist reflects a strategic investment decision driven by a strong belief in the artist's potential for

future appreciation. This proactive approach to collecting underscores the investor's confidence in the artist's trajectory and their anticipation of incremental price growth.

Conversely, the Respondent 1 youngest painting, dating back to 2011, reflects a different circumstance. Limited by budget constraints, the respondent encountered challenges in acquiring more recent works that aligned with their artistic preferences. Consequently, they settled for a piece from 2011 due to its affordability and suitability within their collection.

Respondent 2 collection features its newest entry dating back to 1990, a reflection of the scarcity of artworks produced in a style compatible with their collection preferences. This highlights the discerning nature of their collecting criteria and the emphasis placed on stylistic coherence within their curated ensemble.

These diverse narratives surrounding the acquisition of the newest artworks in each participant's collection provide valuable insights into the varied motivations, strategies, and circumstances that shape their collecting journeys. From strategic investments to budget constraints and stylistic preferences, each acquisition reflects the unique interplay of factors influencing the composition and evolution of their collections.

**Return opportunities of art.** While two respondents now perceive art collecting primarily as a hobby rather than an investment, Respondent 3 shifting perspective towards viewing their collection as a hobby underscores the profound impact of extensive research and immersion in artistic discourse. Conversely, for the artists involved, art serves not only as a means of personal expression but also as a means of livelihood, embodying a profound connection to the world around them while also serving as a source of income.

Throughout the interviews, a unanimous sentiment echoed among the participants: genuine passion for art is indispensable for cultivating a truly valuable collection. Respondent 4 poignant assertion epitomizes this notion, emphasizing that a truly worthy collection can only be formed through the cultivation of good taste, which is nurtured over time through passionate engagement with the collection and the continuous evolution of ideas.

When considering the potential for generating income from their collections, Respondent 4 emerges as a notable example, having derived some financial benefit from royalties associated with his artworks being showcased in prestigious venues. However, he underscores the rarity of such opportunities, emphasizing that without a substantial volume of works or exceptionally rare pieces, the chances of deriving income from one's collection are minimal.

Furthermore, participants recognize the multifaceted nature of valuing artworks in the market. While established artists' works accrue historical value over time, newer artists often

face challenges due to limited production volume and persistent stereotypes left from USSR within the art market, as observed by Respondent 2 and Respondent 5. Respondent 4 attributes the undervaluation of new artists to the scarcity of works available for showcasing, as compared to established artists who have had decades to amass large collections for display.

**Risks, constraints, and costs associated with investing in art.** Investing in art presents a myriad of risks, constraints, and costs, rendering it one of the riskiest alternative investments. Presently, maintaining an art collection in Ukraine entails significant risks associated with the ongoing conflict, exemplified by the harrowing experiences of participants like Respondent 4 and Respondent 2. Respondent 4 suffered the loss of over 200 pieces from his collection in Mariupol, while Respondent 2 lost 13 works due to the occupation of Crimea in 2014. Such losses not only inflict emotional and financial tolls but also necessitate additional costs for relocation, as evidenced by other investors who are relocating their collections away from high-risk areas like Kharkiv.

Moreover, physical damage to artworks poses a significant risk, emphasizing the importance of proper maintenance and preservation. While museums typically handle maintenance for collectors, those who keep their collections at home or in warehouses must contend with factors like humidity and temperature, which can affect different types of paint and materials. Additionally, there exists the possibility of artworks losing their value to the point of being valued solely based on the cost of raw materials. Although none of the respondents directly experienced such depreciation, it remains a potential risk that investors must consider.

In addition to risks and costs, there are notable constraints associated with the Ukrainian art market, as highlighted by the insights provided by participants. A recurring concern mentioned by all respondents is the lack of platforms for trading art within the country. Despite the emergence of charity auctions organized by Ukrainians, the current focus of these events is primarily directed towards Western markets. However, Respondent 2 remains optimistic about the potential for the development of local auctions post-war, anticipating continued efforts from individuals involved in the art community.

Respondent 4 and Respondent 1 further elucidate the challenges faced by the Ukrainian art market, attributing the unpopularity of auctions and art investments to the absence of platforms covering art-related topics, such as journals, and the lack of government-funded contests. This dearth of infrastructure hampers the visibility and

accessibility of art as an investment asset, limiting opportunities for collectors and investors within the country.

### **2.3. Suggestions for beginner investors**

After meticulously analysing the acquired data, the author of the thesis has formulated insightful recommendations for aspiring novice investors in the art market. According to the respondents, investing in art and collecting art are inherently intertwined, as the ability to make astute investment decisions hinges upon a keen eye for discerning the uniqueness and quality of artworks. Ultimately, the decision to acquire a piece rests upon the personal preferences of the investor, underscoring the subjective nature of art investment.

However, there are exceptions to this rule. Respondents noted that artworks with a proven history of appreciation in value are more likely to continue increasing in worth. While investing in such pieces reduces the risk of financial loss, it may yield lower potential gains compared to other works. Therefore, beginner investors should prioritize three key considerations:

Firstly, novice investors must ascertain their genuine interest in art and their willingness to immerse themselves in the intricacies of art history, artists' backgrounds, and various styles. This foundational step is crucial in establishing a strong foundation for informed decision-making.

Secondly, investors should identify their personal preferences and aesthetic inclinations to guide their selection process. Understanding one's artistic tastes and preferences enables investors to curate a collection that resonates with their individual sensibilities, enhancing the intrinsic value and enjoyment derived from their acquisitions.

Lastly, investors must determine their financial capacity and risk tolerance levels. Assessing how much capital they are willing to allocate to art investments and their willingness to take on risk is essential in formulating a sound investment strategy aligned with their financial goals and objectives.

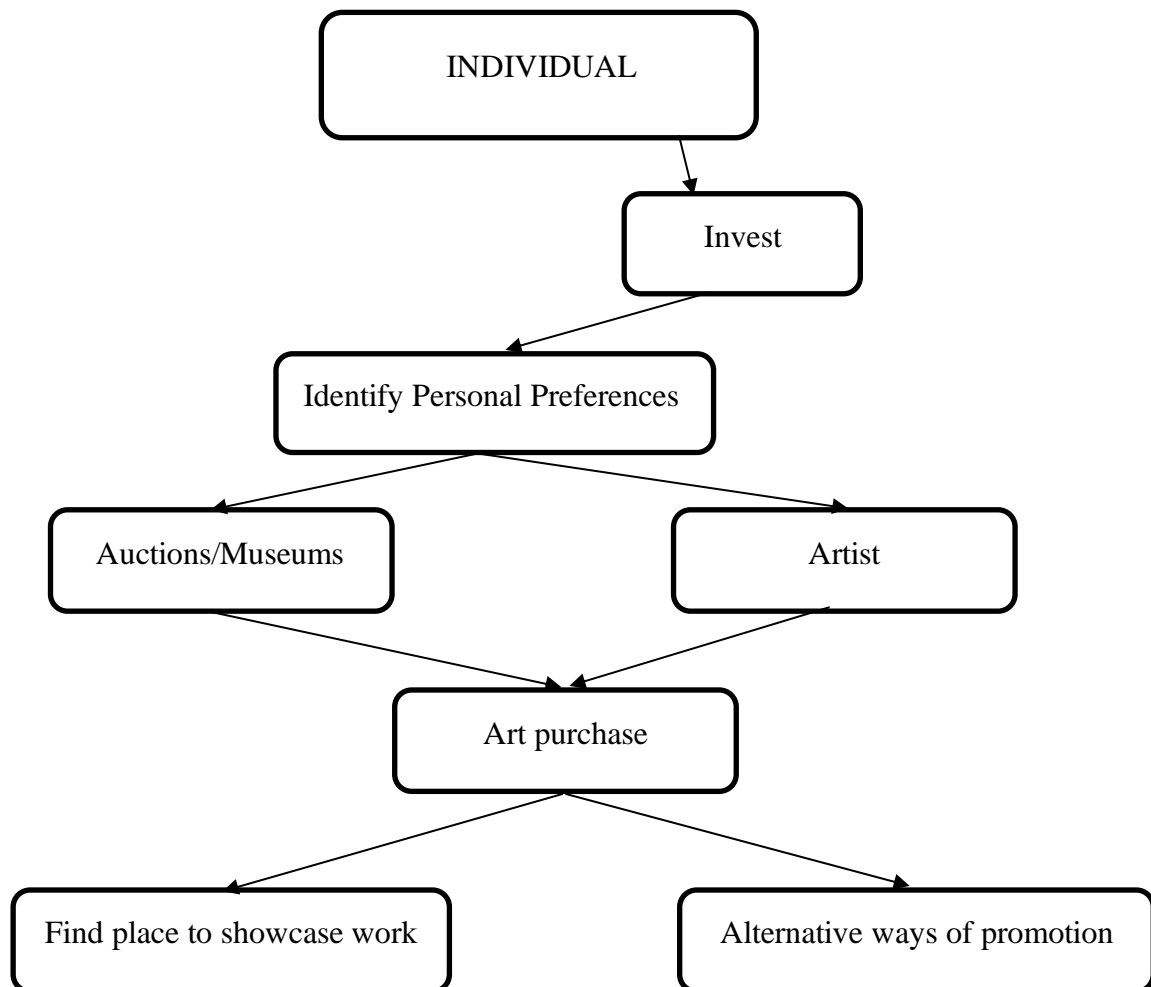
By prioritizing these three factors—genuine interest in art, alignment with personal preferences, and prudent financial planning—novice investors can embark on their journey into the art market with confidence and clarity, setting the stage for a fulfilling and potentially rewarding investment experience.

As gleaned from the experiences shared by respondents, establishing connections within the art market and impeccable timing play pivotal roles in the successful cultivation of art collections. But where does one begin the journey of art investment?

One avenue is through auction houses, which not only offer a diverse selection of artworks but also provide essential services such as transportation and authenticity certificates. By participating in auctions, investors gain access to pieces that have undergone rigorous scrutiny and validation, instilling confidence in their investment decisions. Additionally, acquiring art from auction houses grants investors the opportunity to tap into the promotional power of these esteemed platforms, as artworks presented within their confines often garner increased attention and recognition.

Alternatively, museums can serve as a reservoir of potential investment opportunities. By acquiring pieces directly from museum exhibitions or collections, investors align themselves with artworks that have already received validation and endorsement within the cultural sphere. This avenue offers the added advantage of acquiring pieces that have been showcased and promoted to a wider audience, potentially enhancing their market appeal and value.

Another avenue for art investment is to purchase paintings directly from artists. While this route may require more proactive promotion and marketing efforts on the investor's part, it presents the opportunity to engage directly with emerging talents and acquire works that have yet to be introduced to broader audiences. By championing artists and their creations, investors can play a proactive role in shaping the trajectory of the art market while potentially uncovering hidden gems with significant investment potential. These ways are demonstrated in Figure 2.



*Figure 2:* Illustration of steps that investor should take into account when investing in collectible arts.

Source: Compiled by the author

In summary, the paths to art investment are diverse and multifaceted. Whether through auction houses, museums, or direct engagement with artists, investors have the opportunity to curate collections that reflect their unique tastes, preferences, and investment objectives. By leveraging the resources and platforms available within the art ecosystem, investors can embark on a journey of discovery and enrichment in the dynamic world of art investment.

### **Conclusions**

In summary, this bachelor thesis set out to investigate the risks, constraints, and potential returns associated with investing in art, particularly paintings, within the Ukrainian market. The theoretical foundation laid in the initial chapters has established the conceptual framework for understanding alternative investments, the role of collectibles within this sphere, and the distinct position of art as a valuable component of collectible assets. Drawing upon this theoretical backdrop, the empirical analysis conducted through qualitative research

methods has enriched our understanding by offering firsthand perspectives from Ukrainian collectors and investors of art.

The findings of this study underscore the diverse array of return opportunities that art investment presents, ranging from potential financial gains to the enrichment of cultural capital. However, these opportunities are juxtaposed with a myriad of risks and constraints, including geopolitical instability, fluctuating market dynamics, and the subjective nature of art valuation. Despite the challenges posed by these risks and constraints, the insights gleaned from the empirical research highlight the resilience and adaptability of art investors within the Ukrainian market.

In conclusion, it can be affirmed that art, as an alternative investment, provides high potential return, such as:

- High potential return
- Emotional dividends
- Cultural and historic connect
- Diversification effect

Whit risks to consider:

- Low volatility
- Risks of physical damage or lost
- Demand for high knowledge
- Trends u unpredictability

The findings were intriguing, with the majority of respondents predominantly viewing art as a hobby and passion. However, a significant portion also recognized its potential as an investment opportunity, suggesting a diverse range of perspectives among potential investors.

Future research endeavours in this domain could explore the potential opportunities for returns associated with importing art from Ukraine.

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**APPENDIX A****Questions about the Interviewee:**

1. How old are you?
2. What is your current profession?
3. What is your highest level of education?

**Questions about the Art Collection:**

1. Do you consider collecting paintings primarily an investment or a hobby, and why?
2. When and why did you start investing in art?
3. How many paintings do you currently have in your collection?
4. What are the oldest and the newest pieces in your collection, in terms of the year they were created?
5. Can you estimate the total value of your art collection?
6. What has been your most satisfying investment in art, and why?

**Questions on Investment Strategy:**

1. Do you have a specific strategy for diversifying your art investments?
2. How do you balance your art portfolio in terms of style, period, and artist?
3. How do economic or political events affect your decisions in art investment?
4. What impact do art critics and galleries have on the value of your collection?

**Questions on Return Opportunities:**

1. From your experience, is investing in paintings profitable? Can you provide specific examples?
2. Are there ways to generate a current income from your collection?
3. Have you ever experienced a financial loss from investing in art? If so, could you elaborate?
4. What factors influence the payback period for an investment in art?
5. Are there any segments of the art market you believe are currently undervalued but have strong potential for future appreciation?

**Questions on Risks, Costs, and Constraints:**

1. What are the main risks and challenges you've encountered while investing in art?
2. What are the main costs associated with maintaining an art collection?
3. Where do you acquire pieces for your collection?
4. From your perspective, what are the constraints that affect the art market?

**Questions on Provenance and Authenticity:**

1. How do you ensure the authenticity of a painting before making a purchase?
2. What steps do you take to verify the provenance of a painting?
3. How important is the documentation of authenticity when you consider purchasing a painting?
4. Have you encountered any legal issues related to art ownership or copyright?

**Questions on Logistics and Storage:**

1. What are your preferred methods for storing and preserving your paintings?
2. How do you manage the logistics of transporting artwork, especially for international purchases?

**Questions on Market Trends and Analysis:**

1. How do you stay informed about the latest trends in the art market?
2. How do you see the state of Ukrainian art market now?
3. Can you describe any historical trends in the art market that have influenced your investment decisions?
4. How do you assess the potential of emerging artists versus established artists?

**What advice would you give to someone new to art investing?**

## Resümee

### KUNST KUI ALTERNATIIVNE INVESTEERING UKRAINAS

Viktor Shchelkunov - Honcharskiy

#### Kokkuvõte

Bakalaureusetöö eesmärk oli põhjalikult analüüsida Ukraina kunstiinvesteeringu turu riske, piiranguid ja tagasipöördumisvõimalusi, eriti maalide osas. Töö teoreetilises osas on autor andnud alternatiivsete investeeringute, kogutavate esemete alternatiivsete investeeringute ja kunsti kui kogutava vara osas teoreetilise aluse. Empiirilise uuringu faas eesmärgis koguda ulatuslikke teadmisi kogutava kunsti investeeringu maastiku kohta, sealhulgas nende potentsiaalsed tagasipöördumisvõimalused, samuti välja tuua kolleksionääride, investorite ja kunstnike kogemused ja riskid kogu investeeringu- ja omanditeekonnal. Lisaks uurib uuring Ukraina turul kunsti ostu, hoolduse, kauplemise ja müügi nüansse.

Nende eesmärkide saavutamiseks viib autor läbi intervjuud kolleksionääride, investorite ja kunstnikega Ukrainas, kellel on märkimisväärne kunstikolleksioon ning kes omavad sellel alal teadmisi ja kogemusi. Kvalitatiivse analüüsi kaudu püüab uurimus avastada Ukraina turul valitsevaid investeeringupraktikaid, optimaalseid platvorme või turge kunstiteoste hankimiseks, kunstiga seotud võimalike kulude ja takistuste ning huvipoolte seisukohalt. Lisaks otsitakse isiklike teadmisi potentsiaalselt kasumlike investeeringusegmentide kohta ja potentsiaalse kapitali kasvu kohta.

Lisaks intervjuudele uurib autor eelmiste empiiriliste uuringute analüüsi, mida viidatakse töö teoreetilises raamistikus ja mis on uurinud investeeringuvõimalusi, piiranguid ja meetodikaid kunstiinvesteeringu valdkonnas. See teisene analüüs eesmärgiks on eristada investeeringuvõimalusi kunstis minimaalse riski ja suurenenud tagasipöördumise saamiseks, samal ajal tuvastades tulevikus hinnatõusu suhtes positioneeritud segmendid. Lõplikult kogutud andmed analüüsitakse põhjalikult, et pakkuda lõplikke teadmisi, soovitusi ja võrdlevaid analüüsi eelnevate empiiriliste uuringutega.

Ukraina kunstiturul on suhteliselt tagasihoidlik suurus ja käimasolev sõda riigis muudavad sobivate intervjuude saamise väljakutseks. Hoolimata esialgsetest jõupingutustest potentsiaalsete vastajate tuvastamiseks veebplatvormide kaudu, mis andsid piiratud tulemusi, võimaldas koostöö turuosalisega sobivate osalejate tuvastamist. Lõplikuks teesi eesmärgi saavutamiseks on autor koostanud joonise 1, selgitades välja töö empiirilise uurimiskava protsessid.

Autor viis bakalaureusetöö jaoks kokku viis intervjuud. Need intervjuud hõlmasid kahte kunstnikku, Vastajat 4 (auhinnatud Ukraina kunstnik) ja Vastajat 5. Lisaks viidi läbi kolm intervjuud kollektsionääride ja investoritega, sealhulgas füüsik Vastaja 1 ja kaks kollektsionääri Vastaja 2 ja Vastaja 3, kes on IT-ettevõtte direktor. Intervjuud viidi läbi veebikeskkonnas Zoom ja Viber ning vastajate nõusolekul tehti videosalvestused. Intervjuud valiti selleks, et pakkuda mitmekesisist perspektiivi kunsti, investeerimise ja kollektsioneerimise ristumiskohas. Iga vastaja pakkus ainulaadseid teadmisi oma vastavalt valdkonnast, rikastades tehtud uurimistöö sügavust ja ulatust.

Intervjuuküsimuste koostamisel pöörati suurt tähelepanu töö peamiste eesmärkidega kooskõlastamisele, eesmärgiga ühtlustada kaks peamist uurimiseesmärki: uurida kunstiinvesteeringute nüansse ja uurida kollektsionääride, eriti maalide valdkonnas kogu investeeringu ja omandi teel kogetud riskide, piirangute ja kulude keerukust. Küsimustik jagunes hoolikalt kolm

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**24/05/2024**