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INVESTING IN COLLECTIBLE CARS ON THE ESTONIAN MARKET

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.

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## Introduction

Many people around the world view cars as a way of transportation, others drive and repair them as a hobby, while some individuals even consider cars as objects of admiration. This thesis is conducted for individuals who view cars as an investment and believe that the value of classic, rare, or special edition cars will increase in the future and will help to save and appreciate owner's balance.

In recent years, the automobile market has experienced a significant increase in the appreciation of all kinds of pre-owned and new cars, for instance, the average price of pre-owned cars has increased by 31%, and prices for new vehicles have increased by 12% (Kelly, 2022). In comparison, the inflation rate in North America was 4.05% in 2021, and globally, it was 3.42% (World Inflation Rate 1981-2023, n.d.). The reasons for this trend may vary, such as people were trying to save their money during the coronavirus crisis and were buying several cars, which increased demand and thus increased the demand for supply.

An example of collectible car appreciation could be seen in Japanese classic and sports cars from brands such as Toyota, Honda, Nissan, and Acura in good condition, which have significantly increased in prices in the last five years (Elliott, 2019). The question arises: why might old and non-modern cars be so expensive? The reasons for this can be diverse. For instance, one reason might be that those cars feature in video games, where players become fans of those cars and dream of owning them in real life (Elliot, 2019). Others may buy rare cars because they anticipate that in the future, the number of such cars will decrease significantly, causing prices to appreciate due to a smaller supply.

The market for cars changes almost every day, however, cars are not as volatile as, for instance, some of cryptocurrencies. With collectible cars, the situation is even more complicated, as many factors can affect the price of a particular vehicle, such as a company closure which means that cars under particular brand possibly will be never produced in the future, car's appearance in a film or video game, which could significantly increase the demand for that particular car model or even the perception of the whole company, thereby increasing the price.

The aim of the thesis is to explore return opportunities, constraints and risks for people who are interested in investing in collectible cars on the Estonian market. The author of the thesis will conduct interviews with multiple Estonian collectible car investors and collectors to present a qualitative approach. Interviews with Estonian collectors and investors will provide insights on how to effectively invest in collectible cars in the Estonian market,

the common constraints and risks faced by investors in this market, as well as the potential returns that collectible cars can offer to investors.

The main outcome of the thesis will be a general understanding of how to invest with reduced risk and higher financial outcome in collectible cars on the Estonian market. The author will also introduce platforms available for trading collectible cars and discuss the risks, challenges and constraints that investors may face when investing in collectible cars. Furthermore, the thesis will present suggestions for beginner investors who are looking forward to invest in collectible cars on the Estonian market.

Research tasks that will be taken in order to reach the aim of the thesis:

- To discuss, the role and importance of alternative investments from investors perspective;
- To present the theoretical foundation of collectibles as alternative investment;
- To identify collectible cars as investment object, provide possible risk and return opportunities as well as ways of investing in collectible cars;
- To discuss results of previous empirical studies;
- To create a questionnaire for interviews with collectible car collectors and investors;
- To conduct interviews with actual collectible car investors and collectors;
- To analyse and discuss the results.

To date, no studies have yet been conducted on the Estonian market regarding the risks, return opportunities, and constraints of collectible cars. However, some studies have been done on the same topic worldwide. For instance, Laurs' thesis in 2017, "Classic Cars: A New Alternative Investment Vehicle?" and master thesis by Dhont (2017), "Opportunities and risks of investing in an investment fund related to classic & sports cars", have a quite similar research tasks and goals.

The thesis is composed of two chapters: the theoretical part and the empirical part. The first four tasks will be implemented in the theoretical part, while the remaining three tasks will be carried out in the empirical part. The theoretical part of the thesis will be based on scientific papers and will serve as the foundation for the empirical research. The author will use the information from the theoretical part as well as data obtained from interviews.

The empirical part of the thesis will comprise of interviews conducted by the author with Estonian car investors, collectors, and owners of the car museum. Additionally, in the theoretical part of the thesis, the author will utilize data from previously conducted studies

that explored collectible cars as an investment. This approach will provide a comprehensive understanding of the risks and constraint associated with investing in collectible cars, and potential returns of investing in collectible cars on the Estonian market. As the main goal of investing is to save and appreciate the balance of the investor, the author will accurately analyse and identify the main drivers that can positively or negatively affect the price of collectible cars, as well as provide suggestions on potentially profitable segments of collectible cars for investors. Moreover, the author will provide information on how to start investing in collectible cars in the Estonian market, including the main platforms, websites, applications and other places where cars are traded, and the risks and constraints that can occur during and after transactions between investors and sellers.

The author is confident that the research will be useful not only for investors who are interested in investing with profit motives, but also for car enthusiasts who are interested in car collections and for society as a whole.

Keywords: Alternative investment, collectibles, collectible cars, return, risk, constraints, price volatility.

## **1. Collectible cars as alternative investments – theoretical foundations**

### **1.1. Role and importance of alternative investments**

Many people who think or discuss alternative investments struggle to understand the actual meaning of the term (Skully, 2007). In recent years, there has been a significant increase in interest in alternative investments among institutional and private investors, who have actively sought opportunities to invest their funds in these assets (Amenc, Martellini & Vaissié, 2003).

In general, alternative investments refer to assets that do not have a direct market, which may result in a lack of liquidity (Skully, 2007). Although a liquidity deficit is often associated with danger and risk, it can also present an opportunity for long-term profit (Skully, 2007). Lehman (2022), on the other hand, has expressed his idea that alternative investments are such investments that are placed in asset classes other than the three classic ones: stocks, bonds and cash. Furthermore, Anson, Chambers, Black & Kazemi (2012) noted that the definition of alternative investments has changed over time, as alternative investment term born not so long time ago and there is no consensus yet. Moreover, the definition can also vary for various people and depending on the aim for which it is applied.

Examples of alternative investments include collectible items such as art, collectible cars, baseball cards, toys, antique items, hedge funds, and even real estate (Cheng, 2022). Weiss (2007) added that there are two types of alternative investments: traditional alternative

investments, which include real estate, private equity, and commodities (tangible and physical assets), and modern alternative investments, which include managed futures, hedge funds, and distressed securities (securities of different firms and government entities that are already bankrupt or in a default) (as cited in Baker & Filbeck, 2013). On the other hand, Anson, Chambers, Black & Kazemi (2012) divided alternative investments in five types as:

- real assets,
- hedge funds,
- commodities,
- private equity and
- structured products.

Under real assets, Anson, Chambers, Black & Kazemi (2012) see real estate, timberlands which are “wooded lands especially with marketable timber” (Timberland definition and meaning, n.d.) and infrastructure investments. Under the hedge funds Anson, Chambers, Black & Kazemi (2012) mean a broad collection of vehicles that are varied mostly by the strategy applied for investing. The commodities Anson, Chambers, Black & Kazemi (2012) explained as goods that are stocked in huge amounts as agriculture, energy product, metals and building materials. Under private equity Anson, Chambers, Black & Kazemi (2012) listed equity as well as debt positions that are not traded between the publicity, it refers to venture capital, leveraged buyouts, mezzanine debt and distressed debt. Finally, Anson, Chambers, Black & Kazemi (2012) outlined that structured products are „instruments created to exhibit particular return, risk, taxation, or other attributes.“ as an example, they brought out the development of equity and debt securities in traditional corporations (p. 12).

The positive side of alternative investment is that investments that are only barely correlated or uncorrelated with traditional investments and perceived as an investment that can variegate risk and can be a diversifier in an investor’s portfolio, which can positively play on returns and reduce losses (Anson, Chambers, Black & Kazemi, 2012). Campbell (2008) also agrees that alternative investments are playing roles of diversifiers in investors’ portfolios and that such alternative assets are uncorrelated with traditional assets, however, before an investor decides to invest his money in alternative investments, it is essential to explore the risks and returns associated with such assets. The second advantage of alternative investments over traditional investments is that usually, most alternative investments especially as commodities have “nonpecuniary rewards” (Laur, 2017). By “nonpecuniary rewards” Laur (2017) outlines emotions from an investment asset, as an example may be

collectible car which evokes eyes of the owner to shine when he sees his car and causes only positive emotions, Spaenjers et al. (2015) named this phenomenon as an “emotional dividend” and Campbell, Koedjik and De Roon (2014) as an “aesthetic return” (as cited Laurs, 2017). What can also be counted as an advantage of the alternative investments called “Hedging benefits”, which means that many assets that are perceived as alternative investments are safe from inflation and the market falls, in reality, hedge assets are called those which are positively correlated with inflation and uncorrelated with the returns of other financial assets (Laurs, 2017).

Nevertheless, alternative investments, unfortunately, have also negative sides and risks, one of those is that many alternative investments are usually illiquid and are traded rarely and in small capacities, which can bring huge difficulties in return observation as well as a serious impact on price by decision of few investors. As mentioned before the observation of returns of alternative investments is quite complicated, however, there are possibilities to measure returns through calculating IRR, using statistical methodologies as the mean and/or variance of distribution and standard deviation and some of hedge fund managers are also using “active trading strategies” and “strategies based on identifying relative mispricings”. (Anson, Chambers, Black & Kazemi, 2012) What could also be as a constraint and disadvantage for some investors is that most of the alternative investments have large minimal investments and cost structures, particularly in comparison to mutual funds and exchange-traded funds (Cheng, 2022). A good example of a pretty high minimal investment could be a collectable car, the initial investment can be really expensive in comparison with most common stocks or bonds (Cheng, 2022). Bekker (2016) states that prices for such collectible classic cars can start from 15 000 USD and end at 34 million USD (as cited Dhont, 2017). Therefore for an investor who decides to try to invest money in alternative investment, it is very important to understand, if his balance allows him to buy such assets without a future risks and losses.

## **1.2. Collectibles as alternative investments**

To start with, let's understand what collectibles represents. Collectible is an item, that has increased in price after it was sold for the first time, thanks to its history, rarity, condition, or popularity or was produced in limited quantities, which means limited edition (Chen, 2022). Collectible items can also be seen as emotional assets due to the fact that collectibles have small real value based on the price they were sold, it also is believed that individuals who look for or buy such assets are doing it with passion (Walgreen, 2010).



Usually, it is believed that classical collectible items include antiques, coins, toys, comic books and stamps (Chen, 2022), however, collectibles are a much more broad term and there are a lot of other assets that can be perceived as collectible item, for example, watches, cars and toys. Nowadays already some of the telephones and computers can be accepted as collectible item. For example, one collector bought a factory new and sealed 1<sup>st</sup> generation iPhone for the 39 339,60 USD (Vega, 2022).

Many people purchase collectibles for their aesthetic pleasure, however, some people buy them only for investment purposes, either with a positive return, portfolio diversification or saving purposes. Some studies have shown that from a sociological perspective some people start to invest to reach entry and maintain status in similarly-minded group of people (Belk, 1995; Olmsted, 1993, as cited Burton & Jacobsen, 1999). Still, the majority of the investors who invest in collectible assets hope for financial gains, survey by Pearman et al. (1983) shows that 35% of the survey participants cited investment as a main motivation for investing in collectibles, other survey by Formanek (1991) with a broader range of collectors has also shown that quite big amount of collectors – 22% collect items with financial investment purpose (Burton & Jacobsen, 1999).

As was mentioned before in the section about alternative investments, collectibles belong to alternative investments and their values are hard to predict as a result of the fact that collectibles are traded on private markets or dealer markets and transactions between buyers and sellers are not registered (Walgreen, 2010). Spajers (2011) initially found out that investing in collectibles was not a good idea, however, after using another method over the wider time period, he concluded that it is reasonable to invest in collectibles in long term and that collectibles reached higher returns in the comparison with government bonds, bills and even gold (as cited Pires, 2020). It is also needed to be taken into consideration that the collectible as an alternative investment has some disadvantages as illiquidity and problems with return estimation, nevertheless, Walgreen (2010) also added that collectibles do not generate cash flows, high transaction and storage costs and physical risk as fakes, imitations, copies. Laurs & Renneboog (2019) agree with the idea that collectibles as emotional assets do not generate cash flows and it is hard due to that fact to determine their value, on the other hand, such assets can give owner consumption value and therefore aesthetic pleasure. Pires (2020) in his research additionally found out that without taking into account the high risk, return volatility and bubbles, the risk that mostly belongs to collectibles is a change in tastes, which means that over time the fashion and passion toward particular collectible items may change as in positive as well as in negative side and therefore it is quite challenging to predict

the future demand and value of an asset. Laurs (2017) has pointed out that in many academic studies there is claim that collectibles are high-risk investments, also he brought out a list of several risks that can occur when buying collectible assets, the risks are as follows:

- **stylistic risk**, which means that tastes change over time,
- **change in income**, which means that income of wealthy collectible market participants correlated with the returns of collectibles,
- **price risk**, which means that there can be challenges in estimating the price of collectible, unavailable information about the actual price due to a small quantities of sales,
- **speculative bubbles**, such bubbles can occur because of myopic or irrational actions of the market participants. As pointed out Laurs, such bubbles have already occurred in some collectibles markets,
- **forges, frauds and theft.**

Moskowitz (2022) stated that when investing in collectibles, the investor may face such risks as:

- Costs and fees
- Tax obligations and lack of income or dividends
- Lack of information and difficult comps
- Illiquidity, counterfeits, and potential for destruction

Different countries have different tax obligations, therefore when investing in collectibles it is advisable to this aspect. Unfortunately collectibles are not always liquid assets, especially in Estonia due to small market, demand and supply. It is also worth not note that as collectibles are physical objects, it is important to be sure that they are safe and will not be destructed by accident, because destruction may end in total loss of value (Moskowitz, 2022).

Renneboog and Spaenjers (2012) state that the volatility of collectibles such as diamonds is close to the volatility of equity return and Dimson & Spanjers (2011) found that for stamps volatility is even higher than the volatility of bonds (as cited Laurs, 2017).

Benjamin, Burton & Jacobsen (1999) found out that there are mainly 3 common ways to measure the return of collectible assets. One of the methods is “to create a composite index by selecting sets of items whose prices will be measured and averaged.” (Burton & Jacobsen, 1999, p.197). The second approach is connected with the use of “hedonic” regression where the value of collectible is regressed on various characteristics of an item, as age and price. Utilizing a "repeat sale" regression and combining data from repeat purchases is the third way

to determine returns (Burton & Jacobsen, 1999). As states Burton & Jacobsen (1999): Anderson (1974), Baumol (1986), Frey & Pommerehne (1989) and Goetzmann (1993) were using such an approach for estimating the return of the prints. In order to decide which method is the most appropriate for the return estimation of collectible assets depends on the availability of data on particular collectible and especially the frequency and similarity of the item which came to the market or auction (Burton & Jacobsen, 1999). Laurs (2017) have introduced rates of returns of different collectible items such as wine, coins, stamps, diamonds and violins. The table 1 presents the real and nominal rates of returns of collectible wines, coins, white diamonds and stamps during different time periods

Table 1

*Annual real and nominal rates of returns of different collectible assets*

Type of collectible	Real return	Nominal return	Time period	Authors
Wine	5.3%	9.4%	1900-2012	Dimson et al. (2015) (as cited Laurs, 2017)
Coins	-3.7%	0.2%	1984-1999	Dickie et al. (1994) (as cited Laurs, 2017)
White diamonds	6.4%	-	1999-2010	Renneboog and Spaenjers (2012) (as cited Laurs, 2017)
Stamps	2.9%	7.0%	1900-2008	Dimson and Spaenjers (2011) (as cited Laurs, 2017)

Source: Composed by the author based on Laurs (2017)

From the results, it became evident that the majority types of collectibles are showing positive results, especially wine and stamps. The authors of the findings have used different methodologies for return estimation. Dimson et al. (2015) and Dimson and Spaenjers (2011) used repeat-sales regression for wine's and stamps' real and nominal return estimation (as cited Laurs, 2017). Dickie et al. (1994) used hedonic regression model for collectible coins return estimation. Renneboog and Spaenjers (2012) have also used hedonic regression model for return estimation of white diamonds (as cited Laurs, 2017). It must be mentioned that the methodology of return estimation may affect the outcome of the research, therefore investors should analyse and apply certain methodology based on their needs and goals.

### 1.3. Collectible cars as investment objects

As was already mentioned it is not a secret, that for many people cars are objects of admiration and passion, Satcher (2009) found out that people buy collectible cars for many reasons, some buy collectible cars which were in their childhood and have dreamed to have such car, some people are fans of some particular brand or car model, what connects most of the car collectors is that they share same dreams, goals and share their happiness or show their car to the same like-minded enthusiast as they are. Hoffmann (2018) brought out the idea that most of the motives can be “aggregated to two main intentions” (p.7) which are emotional intentions, which can be experienced while using cars and rational expectations of financial gain and return on investment.

In the previous section, the author found out that collectibles are perceived as emotional assets, which have “nonpecuniary rewards”, the author believes that many people have bought collectible cars even without the idea of investing, but for their pleasure and passion. Nevertheless, the studies by Dhont (2017) and Martin (2016) show that such attractive types of investments as collectible cars can be also profitable. Frank (2016) for example found out that according to the indices Kingston500 or HAGI prices for the most valuable and rare vehicles have increased in price by 467% from period 2006-2016, what can confirm the assumption that collectible cars are only the mean of transportation and admiration, but also good chance to increase capital (as cited Dhont, 2017). Martin (2016) for his research used a sample of 96 collectible cars and analysed their returns during 2007 to 2016, studies have shown that there was an annual return of 3.23% for classic US muscle cars and 18.22% for German collectible cars (as cited Laurs & Renneboog, 2018). Laurs and Renneboog (2018) concluded, that by applying hedonic regression model index by means of data from auctions around the world conducted from 1998 to 2017, since 1998 classic cars have shown an average annual nominal rate of return of 5.63% and found out that return volatilities of classic cars is lower than return volatilities of equities, however larger than return volatility of government bonds. In addition, Laurs and Renneboog (2018) added that blue chip classics, Italian classic cars and Ferraris have strongest annual nominal returns – above 10%, however such high returns are going with higher volatilities respectively, the least significant rate of return have shown American classic cars and niche markets of pre-war classics (cars from 1930-1946). Bonanno (2017) in his research found out that classic cars are not only comparable with traditional financial instruments, but have an advantage over traditional financial instruments as lower volatility and that this fact makes them a good

investment class. The author created the table 2 that represents 10 classic cars that have increased most in price for last 10 years.

Table 2

*10 classic cars that have most appreciated in price for last 10 years*

Brand	Model	Appreciation rate for last decade
Volvo	P1800 (n.d.)	283%
Mazda	RX-7 (1981)	239%
Volkswagen	Beetle (1972)	157%
Datsun	510 (1968)	132%
Land Rover	Defender (1983)	113%
Fiat	124 Spider (1968)	81%
Alfa Romeo	GTV (1976)	80%
Ford	Mustang GT (1968)	67%
Jaguar	XJ-S (1979)	39%
Triumph	Stag Mk1 (1971)	15%

*Notes.* \*The research was done in 2020, therefore at the moment the results of appreciation rates and top cars might be different, the prices may vary depending on condition and country where research were done

Source: Compiled by the author based on Sangster (2020)

The appreciation rates that show first four cars are fantastic, it means that if an investor would buy for example Mazda RX-7 for 50 000 USD in 2010 and hold it in a garage with required conditions until 2020 and after that would sold a car, then the selling price would be 141 500 USD, however there some factors that may affect the rate return, for example inflation or demand for a car that may vary in different countries and increase or decrease a value of a car. Price risk introduce by Laurs (2017) are always there, it may be hard to estimate the value of a car depending on various factors, as country where car is located and where it is going to be sold or times when market are unstable.

Moving to the factors that may affect on the rate of return, Dhont (2017) in his research found out that collectible or classic cars market is divided into several segments, the segments are:

- Brand,
- Value,
- Geographic origin,
- Production number,
- Segment by period or age group.

In addition, Dhont (2017) added that analysis can be divided by macro environment analysis which includes political, economical, social and legal factors and microenvironment analysis which includes: trends in the classic car market, competitive rivalry, bargaining power of suppliers and buyers and finally threat of substitutes. The way how Dhont (2017) segmented the market actually shows how many factors can influence the value of the vehicles, therefore before purchasing collectible car in terms of investment and purpose of earning, the appropriate analysis should be conducted. It is worth to notice that in different countries the factors that may decide the value of a car may vary due to different nationalities, weather conditions, economical situation in a country and others. For the estimation of the collectible car return can be also useful different indices, good example is HAGI – Historic Automobile Group International, which is one of the most popular one, HAGI includes the HAGI Top Index which records the price volatilities of the top 50 rare models of the biggest brands as Ferrari, Porsche, Mercedes-Benz and Alfa Romeo (Laur, 2017).

To compare Hoffmann (2018) has also brought out factors that distinguish collectible cars from each other:

- **Rarity.** “Vehicles that have been produced in larger quantities and have a correspondingly large supply will tend to participate less in value increases. Extremely rare vehicles are considered those, which have been produced only in small series or even as individual pieces.” (Hoffmann, 2028, p.7),
- **Condition.** Restoring and maintaining cars are quite hard and costly work, therefore by the owner’s own involvement in restoration, it is possible to increase the value of the car and to enjoy higher return,
- **Origin.** History of a car can significantly affect on its value, as an example can be taken cars use by celebrities, Ferrari 250 GT California that was sold for 11 million USD, because its previous owner was James Coburn and he owned it for 25 years (Carbrey, 2018), also value adding factor is participation of particular car model in some films or video games and racing history.

When an investor starts to search for a suitable car for investment, then he could have questions as: How to choose the car from a thousands, in order to have a higher return? Which factors motivate the price of the collectible car to increase? As was already mentioned most of the alternative investments and collectible cars are not an exception, have the disadvantage of having a lack of valuation possibilities, yet in addition to Dhont (2017) ideas,

Laurs (2017) came to the conclusion that such factors, which can help to estimate the value are: rarity, condition, authenticity, design, racing history, brand, mileage of the car.

The next step of the investor who looks for collectible asset might be: “Where can I buy collectibles?” Fortunately, nowadays almost everybody has an access to the internet and can use online marketplaces for transactions, good example of online marketplaces are eBay, Facebook marketplace, Etsy, Craigslist, Bonanza, Ruby Lane and Artfire. In addition to online marketplaces, people can also trade collectibles in usual ways such as face-to-face transactions in flea markets, local swap meets and collectibles stores. (Chen, 2022) In Estonia, based on the author’s opinion the most popular marketplaces for selling and buying collectibles are websites like Okidoki.ee, Kuldnebors.ee, Facebook marketplace, osta.ee. For buying and selling car, also including collectible cars, the most popular marketplace in Estonia is auto24.ee, which could be named as monopolistic marketplace, as most of the people sell their cars only there, however, there were steps of trying to create another marketplace for cars, which named autogo.ee, but unfortunately there are a small amount of cars on sale in comparison with auto24.ee.

Investing in collectible cars does not always mean that an investor needs to buy a car by himself, Dhont (2017) in his research outlined some of funds that trade with collectible cars. There are many of them all around the world, as an example Dhont (2017) outlined the most popular ones:

- The IGA Automobile Fund in the United Kingdom,
- The Ultimate Classic Car Fund in the United States of America,
- Opur Classics in Luxembourg,
- The Count of Custoza Family in Switzerland and,
- Velocity Classic Auto Fund in Malta.

Such funds actually appeared not so long time ago, first fund that decided to deal with collectible cars was created in 2006 and became to work only in 2011. In such funds investors are buying shares of funds and board of directors then decide which strategy they are going to use and which cars to select, after that they create portfolio of collectible classic cars which have different quality, condition, rarity degree, history and authenticity and begin restoration process. Regularly insuring, storing and maintaining in order to be sure that cars remain in pristine state. Then cars are sold or held depends on opportunity or the strategy decided. (Dhont, 2017) Finally, begins share valuation process, means “Investors’ shares are valued every X months, on the last market value of the cars determined by the experts”

(Dhont, 2017, p.14). Funds are suitable for those, who do not want to restore and maintain collectible cars by himself, however such funds have some constraints as very high minimal capital requirement, for example SICAV (Societe d'Investissement a Capital Variable) or SICAF (Societe d'Investissement a Capital Variable) require 300 000 euros at the time of its authorization and they have strict exit strategy, which do not allow to exit instantly from the fund, which means that such approach is not suitable for small investors who is looking for quick return.

Considering the topic and the aim of the thesis, it is very important to present which opportunities and risks may face an investor when starts to invest in collectible cars. According to the Dhont (2017), collectible cars and collectible car funds have such return opportunities:

- **High potential return.** There is no doubt, that high return is one of the most important or the most important aspect for an investor, when he chooses where to invest his money, as the main point of investing is to save money and to increase wealth of an investor,
- **Diversification effect/ uncorrelated assets.** As was already mentioned in the 1.1. chapter most of the alternative investments are good portfolio diversifiers, collectible cars are not exception, for evidence an investor can compare the past performance of a collectible cars with stocks or government bonds and can see that in most cases collectible cars do not have any correlation and are independent in relation to stocks or any other traditional types of investments,
- **Currency adjustments.** Another advantage and very important aspect for some investors is that the price of a collectible car can adjust itself to any changes in exchange rate, currency or inflation. An example may be such that if euro goes up against some currency by 15% and the price of car was 50 000 euros, new price will be  $50\,000 * (1 + 15\%) = 57\,500$  euros,
- **Flexibility of investment fund.** For an investor who would like to invest in some dream collectible car without actually owning and maintaining it, there is opportunity to invest in existing classic car funds, still such opportunity is not suitable for all investor, sometimes it is required to invest huge initial capital, therefore such way of investing is not for small investors who would like to have quick return,



- **Usability.** As was mentioned before, most of the collectibles and alternative investments have emotional dividends or in other words nonpecuniary rewards, in case of collectible cars it means that an investor, that has bought car with the idea of earning can also use it as transportation object or for his pleasure, for example bringing it to the car show and divide his emotions and thoughts with other like-minded people, from the author's point of view this is the biggest advantage of collectible cars as in case of others collectibles as art, baseball cards or even watches, yes, an investor can use them, but it will not bring so many of emotional dividends and pleasure as cars for sure.

Dhont (2017), has also presented risks that an investor can face, when invested in collectible cars, risks and constraints are:

- **High entry requirements / extra costs.** As was already mentioned most of the alternative investment have high minimum investment, collectible cars are not exception, as when buying a car by yourself as well as when investing in classic car funds, some of collectible cars may cost to investor more than 500 000 EUR, what is a huge amount of money. What must be also considered when investing in a collectible car are the costs that it brings. Restoring can be very costly, sometimes even higher than the initial price of the car, storing and maintaining is also very important and expensive, however, the return and nonpecuniary reward that it can bring, could be also very high. The good thing about collectible cars is that they will never be produced again and theoretically, their price must go up if the factors that were mentioned in the previous paragraph are correct (Satcher, 2009),
- **Exit strategy.** In case of investing in classic car funds, there can be a strict policy applied by a fund manager which helps to prevent position shorting, cash-out after a short period of time and issues with liquidity, therefore investors who would still like to invest in such funds, obliged to wait some time before leaving the fund,
- **Unpredictable market change.** There have been several cases, when prices for classic cars have been crashed and the whole collectible car market collapsed due to loan institutions and savings that provided money to purchase those cars also crashed, however growing number of wealthy people helped to recover the prices on collectible cars,

- **High degree of knowledge/expertise.** As with all types of investments, investor should must have necessary knowledge to evaluate the risks and prevent himself from them, perfect example is replicas and non-original parts in a collectible item, otherwise, an investor might suffer huge losses,
- **Price volatility.** Some studies show, that collectible cars have low volatility, however research conducted by Dhont (2017), has shown that in the period 2006-2016 classic cars has shown quite high level of price volatility. When an investor looks for a car to invest, the previous history and information about price volatility must be thoroughly studied, in the result the decision can be done whether to take risks or not, on the other hand time shows that riskier assets very often showed higher returns.

From the research, it became evident that one of the biggest opportunities that alternative investments offer investors is the portfolio diversification effect. To determine if collectible cars can indeed serve as a diversifier, Table 3 displays the correlation coefficients between classic cars and inflation, the S&P500 index, gold, and government bonds. Moreover, it can also be concluded that classic cars are not strongly correlated with inflation, which demonstrates that collectible cars have the potential for "currency adjustments" and can retain their value during inflation.

Table 3

*Correlation coefficients between classic cars and inflation, S&P500 index, gold and government bonds*

	Inflation	S&P500	Gold	Government Bonds
Classic cars	0.329	0.141	-0.08	0.071

*Notes.* \* Correlation coefficients are based on classic car index ('classic cars') done by Laurs (2017) and computed over the period 1998-2017.

Source: Compiled by the author based on Laurs (2017)

To conclude the theoretical part, it can be pointed out that alternative investments appear to be highly attractive from the investment point of view. One type of alternative investment are collectibles that include assets such as coins, collectible cars, collectible watches, wine, art, and others. It appeared that such alternative investment class have many advantages over traditional investment classes like shares and bonds. For example, shares and bonds are intangible and do not provide nonpecuniary rewards, which is a crucial aspect for

many investors. Furthermore, traditional investments do not offer currency adjustment possibilities, in addition alternative investments allow investors to diversify their portfolios. Numerous empirical studies demonstrate that alternative investments, especially collectible cars, generate significant rates of returns. However, each type of alternative investment has distinct factors that affect its rate of return. Based on the analysis of previous empirical studies, it is evident that collectible cars are a highly potential investment class, and their rates of return from different indices substantiate this claim. Like any investment class, there are several risks that investors may encounter when investing in collectibles. According to Laurs (2017), investors may face risks such as stylistic risk, change in income, price risk, speculative bubbles, forgeries, frauds, and theft, as collectibles are mainly physical objects and many factors affect their rate of return.

For a more comprehensive analysis of the return opportunities, constraints, and risks associated with collectible cars, several interviews will be conducted with actual Estonian collectors/investors of collectible cars. The findings from these interviews will be analysed in the empirical part of this thesis.

## **2. Investing in collectible cars on the Estonian market - empirical analysis**

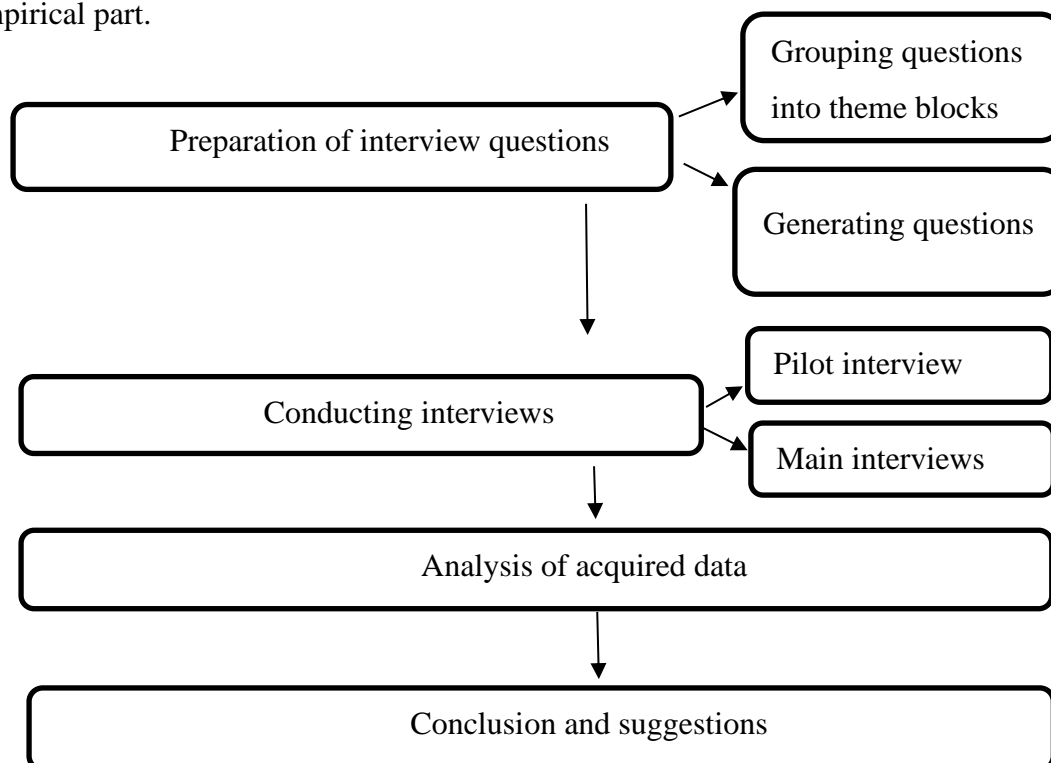
### **2.1. Data and methodology**

To achieve the aim of the thesis and conduct a comprehensive analysis, the author will use a qualitative approach, which is the most optimal one for this research. The aim of the empirical part is to gain sufficient information about collectible cars, their return opportunities and outline the constraints and risks that collectible car collectors, investors, and museums face during the investment and holding processes. In addition the information about how to purchase, maintain, buy and sell cars on the Estonian market without high risk and with an increased financial outcomes will be explored. It is also important to find out what the main drivers that determine the value of a collectible car.

To achieve this goal, the author will interview experienced collectible car collectors, investors, and museum managers from Estonia who have a portfolio of collectible cars. This qualitative analysis will aid in understanding how individuals currently invest in collectible cars on the Estonian market, the best platforms or marketplaces to locate suitable cars, the ease and cost of maintaining collectible cars in Estonia, and the risks and constraints collectors and investors may face when investing in collectible cars in Estonia. Moreover, the author will seek personal viewpoints on the most promising segments of collectible cars in terms of investment and capital gains in Estonia.

In addition to interviews, the author will analyse previous empirical studies that have explored the opportunities, constraints, and methods of investing in collectible cars, which were also referenced in the theoretical part of the thesis. This will aid the author in understanding the potential of investing in collectible cars with minimal risk and increased returns and identifying collectible car segments with a high potential for price appreciation in the future. Finally, the author will analyse the gathered information and provide a conclusion, advice, and comparison with previous empirical studies.

Estonia has a relatively small market for collectible cars, making it challenging to find suitable interviewees. Initially, the author of the thesis searched for potential respondents on the internet, but this approach resulted in a small number of candidates, reflecting the limited size of the community of collectible car collectors and investors in Estonia. Fortunately, with the assistance of the author's supervisor and familiars, several suitable respondents were identified. In order to show how the aim of the thesis was achieved, the author has created figure 1 that shows the diagram of the empirical research plan that shows the processes of the empirical part.



*Figure 1:* Explanatory empirical research plan diagram

Source: Compiled by the author

In total the author has conducted 5 interviews with two different collectors Väino and Rein from the "Pärnumaa Vanatehnika" club, one private collector (asked to not reveal the name), owner of the Estonia's one of the largest car museum "Hallinga automuseum" Peeter

Kalli located near the city of Pärnu and with the owner of the UFO Garage museum Tarmo Uffert in Tartu, who owns numerous collectible ranging cars from the beginning of the 20th century till the latest Lamborghini Murcielago, that can be found in the Appendix A. The interviews were conducted either in-person or online via Zoom or Teams and were video recorded with the interviewee's agreement. In the case of in-person interviews, the conversation was recorded with a voice recorder.

The questions were chosen and matched in accordance with the aim of the thesis and serve to connect the two primary research goals: return opportunities and the risks, constraints, and costs that collectors encounter when investing in collectible cars.

Interview questions were divided into four parts, the first part is about interviewee and his background, the second part is about return opportunities of investing in collectible cars, the third part is about return opportunities of investing in collectible cars and the last fourth part includes questions about risks, costs and constraints that may occur when investing in collectible cars. Questionnaire was created in 3 languages: English, Estonian and Russian. Interview were taken on the mother language of the respondents, 4 interviews were taken in Estonian language and one interview was taken in Russian language. Interview questions can be found in the Appendix B.

As previously mentioned, the first theme block of the questionnaire pertains to the interviewee socio-demographic background. In order to facilitate a better understanding of the responses, Table 4 has been compiled.

Table 4

*Socio-demographic background of the respondents*

Respondent	Member of the “Pärnumaa vanatehnika” Club, Rein	Member of the “Pärnumaa vanatehnika” Club, Väino	Anonymous collector X	Peeter Kalli, the owner of the “Hallinga automuseum”	Tarmo Uffert, the owner of the “UFO Garage”
Age	60	60	48	67	62
Gender	Male	Male	Male	Male	Male
Occupation	Small entrepreneur	Small entrepreneur	Entrepreneur	Retired, owns a company	CEO in different companies.
Level of education	Secondary	Secondary	Tertiary	Secondary	Secondary
The way interviews were conducted	In person, location - Pärnu	In person, location - Pärnu	Online, Zoom meeting	In person, location – Hallinga, Pärnumaa	In person, location - Tartu

Source: Compiled by the author

From the collected information, it can be inferred that all of the respondents have their own companies or entrepreneurial ventures and do not work for an employer. This suggests that collectible car collectors typically require more free time and independence. The age range of the respondents varies from forty seven to sixty seven years old, with the oldest being sixty seven years old.

Of the respondents, four out of five have obtained a secondary-level education, while one has obtained a tertiary education. This implies that having a higher education is not a prerequisite for starting a car collection. Rather, having sufficient disposable income and leisure time are more important factors. After interviews were conducted, author has transcribed them and has started an analysis of the acquired information.

The author of this thesis has opted for qualitative analysis, as quantitative research methods would not provide adequate information about how to invest effectively in collectible cars on the Estonian market. The main constraint that did not allow to conduct a quantitative research is limited number of individuals who invest in or collect collectible cars on the Estonian market, therefore conducting a quantitative research would be problematic. Qualitative analysis, on the other hand, provided an opportunity to obtain valuable insights for a thorough analysis through interviews with experienced investors/collectors who have been involved with collectible cars for an extended period and provided data that is very valuable for this research.

## **2.2. Results and Discussion**

**The reasons behind investing in collectible cars:** In this part, the author of the thesis focuses on collections of the respondents, the second part of the questionnaire pertains to the interviewee's car collection and the reasons behind their decision to start collecting collectible cars. When asking about whether the car collecting is investment or hobby, it became apparent that the general respondents answered that collecting collectible cars as a hobby rather than as an investment. Three out of five collectors mentioned that collecting and investing in collectible cars is a hobby, a passion, an addiction, or even a disease for them, and that making money from collectible cars can be quite challenging. However, one respondents added that investing in collectible cars can help an investor/collector at least save money while indulging in their passion and emotional dividends and agreed with the last respondent that collecting and investing in collectible cars is both a hobby and an investment for him.

Based on the responses obtained, it is evident that half of the individuals who possess a collection of collectible cars consider it as a hobby rather than an investment, while the

other half perceive it as both a hobby and an investment. However, none of the respondents reported collecting collectible cars solely for investment purposes. Studies presented in section 1.2 suggest that many individuals start investing in collectibles due to the aesthetic pleasure they derive from owning them. This supports the theory that most individuals invest in collectible cars from both an investment and a hobby perspective, as most respondents believe that their vehicles will appreciate in value in the future.

When asked about why and when they started to collect/invest in collectible cars, it became evident that most respondents were already experienced collectors and/or investors of collectible cars. Table 5 illustrates the dates and reasons behind their decision to start investing in collectible cars.

Table 5

*When did respondents start investing in collectible cars and reasons behind investing*

Respondent	Member of the “Pärnumaa vanatehnika” Club, Rein	Member of the “Pärnumaa vanatehnika” Club, Väino	Anonymous collector X	Peeter Kalli, the owner of the “Hallinga automuuseum	Tarmo Uffert, the owner of the “UFO Garage”,
When respondent started investing in/collecting collectible cars	2011	1995-2000	2002	Started dealing with old cars in 1971, but seriously investing in and collecting collectible cars in 1985	2006
Why respondent started investing in/collecting collectible cars	Due to nostalgia and due to the fact that a friend made him to love collectible cars	Due to nostalgia. „once in childhood they grew up together, so to speak, and since now they have disappeared from the picture, somehow this love was born.“	Always had love to cars, especially to the old ones, bought first car and so investing went on	All his life respondent worked with, resold and restored cars	Due to the fact, that he has always loved and worked with cars since the beginning of his career

Source: Compiled by the author

Of the respondents, two out of five indicated that the main reason they started investing in collectible cars is nostalgia and played a significant role in their decision to invest in collectible cars. This is a common and logical reason, as many individuals may not have had the means to purchase their dream car when they were younger. As they become more financially stable, they may choose to indulge their passion and acquire their dream car from their childhood. The love for old classic and collectible cars may then emerge as a result.

Furthermore, one respondent out of those 2 who started investing in collectible cars due to nostalgia added that a friend was the reason for their decision to invest in collectible cars. This highlights the influence of social connections and friendships in motivating individuals to start their first collectible car or collection.

The third respondent shared that the main reason he started investing in collectible cars is the interest in historical artifacts, particularly old classic cars that motivated him to purchase their first collectible car at the age of 27. This collector acquired a GAZ-M-21 “Volga” for 23,000 Estonian Kroons and still has it in their collection. This is an example of how a personal interest in a specific type of collectible car can lead to a lifelong passion for collecting them.

Remained collectors stated that they have always been closely connected to cars and have earned money through them. This served as a motivating factor in starting their own collection. This demonstrates how one's personal and professional experiences can play a role in their decision to invest in collectible cars.

The results of the study provide support for Satcher's (2009) findings that suggest that many investors start investing in collectible cars due to personal and historical reasons, such as being a fan of a particular brand or model, nostalgia, purchasing a childhood dream car, or because of their previous experience working with cars. Moreover, the idea put forward by Hoffmann (2018) that motives for buying collectibles can be divided into two main categories, emotional intention and financial gain expectation, is also supported by the current findings. The majority of collectors surveyed agreed that investing in collectible cars is both a hobby and an investment.

**Characteristics of a collection:** The majority of the respondents included in this research have amassed a significant collection of collectible cars. The number of cars in their collection ranges from six to more than one hundred, with the largest collection containing more than one hundred cars. The Table 6 illustrates the number of cars in the collection and the value of the collection.



Table 6

*The number of cars in the collection and the price of the collection of different collectors*

Respondent	Member of the “Pärnumaa vanatehnika” Club, Rein	Member of the “Pärnumaa vanatehnika” Club, Väino	Anonymous collector X	Peeter Kalli, the owner of the “Hallinga automuuseum	Tarmo Uffert, the owner of the “UFO Garage”,
The number of cars in the collection	From 40- to 50, did not count long time	6 cars	8 cars	More than 100	More than 70
The value of the collection	Hard to estimate	Hard to estimate	Does not want to disclose	Does not want to disclose	Not sure, several millions, approximately more than 3 millions Euros

Source: Compiled by the author

When asked about the value of their collection, two out of five respondents stated that their collection is priceless to them. They emphasized the time, love, and effort that they invested into their collection, which cannot be quantified in monetary terms. As a result, they are unlikely to sell any of their cars and will continue to appreciate and invest in their collection.

The owner of the “UFO Garage” museum Tarmo Uffert with one of the largest collection estimated that his collection is worth several millions Euros and added that probably would like to sell some of his cars that already do not bring to him any interest. The owner of the “Hallinga Automuuseum” expressed no interest in disclosing the value of his collection. Collector X preferred to remain anonymous as well as do not want to disclose the value of his collection, however he added that he has no interest in selling any of his cars in the near future. Instead, he plans to replenish his collection and restore the cars he already owns.

These responses highlight the sentiment that some individuals who have a collection of collectible cars tend to be more invested in their collection for personal reasons, rather than financial gain and some of the collectors does not count the value of their collection. They take pride in the effort, work, money, and time they have invested into their cars and are more likely to continue investing in their collection rather than selling their cars. In addition, it has become evident that problems may arise with the calculation of the collection's value, as the majority of respondents agreed that it is difficult to estimate the value of the collection due to

variations in the prices of different cars on different trading platforms. This finding confirms Laurs' (2017) assertion that collectibles pose a price risk.

Another question that was asked during the interview concerned the oldest and newest cars in the collectors' possession, in terms of their year of production rather than acquisition. This revealed that most respondents did not collect "youngtimer" vehicles, "A youngtimer is a modern classic vehicle that is less than 40 years old and was built before 1 January 1988." (Applying for a transitional arrangement, 2022). Table 7 provides a summary of the oldest and newest cars in the collectors' collections.

Table 7

*Summary of the oldest and newest cars in the collectors' collections.*

Respondent	Member of the "Pärnumaa vanatehnika" Club, Rein	Member of the "Pärnumaa vanatehnika" Club, Väino	Anonymous collector X	Peeter Kalli, the owner of the "Hallinga automuuseum	Tarmo Uffert, the owner of the "UFO Garage",
The oldest and the newest car in the collection	Oldest: 1958 Newest: 1990	Oldest: 1956 Newest: 1989	Oldest: 1943 Newest: 1977	Oldest: 1931 Newest 1995	Oldest: 1912 Newest: 2002

Source: Compiled by the author

From the results it can be seen that majority of the collectors does not have modern cars in the collection, the author of the thesis has asked the investors about their opinions on youngtimer cars, and the answers varied. The majority of the investors argued that youngtimer cars is a quite potential segment from the financial point of view, whereas two out of five investors argued that youngtimer cars did not hold any emotional value for them, as their nostalgia lay in cars built in the USSR that were on the roads when they were young. However, they did acknowledge that youngtimer cars may be more profitable from a financial point of view than oldtimer cars.

*"Youngtimers? well, I do not care about them, they are not particularly associated with our childhood."* (Väino, "Pärnumaa vanatehnika Club")

It is noteworthy that the value of a collectible car is not only determined by its age or rarity but also by the emotional attachment it evokes in the collector. Hence, this confirms the theory that collectors' motivations for collecting cars are multifaceted and may extend beyond financial gain. However investors must recognize that investing in collectible cars does not always guarantee profits, especially if they invest in segments that they simply like. Thus,

analysing a particular segment or a car model is very essential to gauge the financial potential of investing in such a segment or a car. Investors need to evaluate the potential appreciation of a particular car or car segment based on historical prices and market trends, as well as factors such as scarcity, originality, and condition. Such analysis should inform their investment decisions, as investing in the right car or car segment can lead to significant returns in the long run.

Fortunately, the respondents in this study provided insights into potential car segments that may appreciate in the future that will be described further in the thesis, providing valuable information for readers interested in investing in collectible cars.

Moreover, it is important to note that investing in collectible cars should not be seen solely as a financial opportunity. Collectible cars have cultural and historical significance, and investing in them also means preserving and promoting automotive heritage. Therefore, investing in collectible cars can be a rewarding experience for enthusiasts who have a passion for cars and their history.

**Return opportunities of collectible cars:** This section of the questionnaire focuses on the return opportunities associated with collectible cars, which is the most critical aspect of the study since the primary aim of investing is to achieve long-term financial growth (Picardo, 2022). In the chapter 1.3., the author established that collectible cars are, in fact, a highly profitable asset that appreciates in value over time. Now the viewpoints of actual collectors may be considered.

Two out of five respondents expressed that they do not perceive collectible cars as an investment instrument, and that they continue to view cars as a hobby and a passion.

It is worth noting that majority of the collectors may overlook the financial returns of collectible cars in favour of the emotional fulfilment they derive from their hobby. While such individuals may be content with owning cars for personal reasons, they may be missing out on the potential financial gains that can be realized through astute investing. Therefore, it is important to recognize the dual nature of collectible cars as both an investment opportunity and a source of personal satisfaction for many collectors.

*“I have not acquired them for any kind of investment”* (Väino “Pärnumaa vanatehnika” Club, 2023, March 6)

*“I don't buy them to sell at a higher price, never have”* (Rein “Pärnumaa vanatehnika” Club, 2023, March 6)

On the other hand, the owner of the "Hallinga Muuseum" and the owner of “UFO Garage” stated that investing in collectible cars can certainly be profitable, but the investor

must carefully and correctly choose where, how much, when, and how to invest. It is interesting to note, that one of the collectors even added that collectible cars may be one of the best places where to invest. One of the collectors provided an example of investing in plates.

*“I don't know, we can take a table plate as an example. An old plate for example, a normal plate that is an old one and it costs nothing. It is just an old and beautiful plate, it was grandma's and that's all, but unfortunately it costs nothing. But the same MEISSEN plate, which is a German famous porcelain manufacturer or industry and, and MEISSEN plates can cost thousands of euros.”* (Kalli, 2023, March 25)

Another investor also agreed with the idea that it is possible to make money on collectible cars if the investor approaches the choice of car responsibly. For example, finding unique cars, restoring them, and reselling them can be quite profitable. However, he added that personally from his point of view, it is not the best way of making money and that many people buy collectible cars not for profit purposes, but rather for the emotions, status, and entry into a world of luxury. He also added that in Estonia, there are quite a lot of unique cars in good condition that can be seen as good objects to invest in, but unfortunately most of such cars are already in the collection of different investors/collectors, who more likely will hold them in the collection.

Based on the findings, it is evident that individuals who have a pre-existing interest in cars and a background in the automotive industry are more inclined to view collectible cars as a viable investment option. On the other hand, those who invest in collectible cars due to nostalgia or a personal affinity for collectible objects view them primarily as a hobby. Therefore, it is crucial for potential investors to identify their reason for investing in collectible cars and ensure that their goals align with their investment strategy. To maximize returns, investors must approach collectible cars without emotional attachment and focus on financial considerations. By doing so, they can make more informed decisions and increase their chances of success in this niche investment market. It became also clear that the majority of the respondents perceive collectible cars as a long-term investment, however they agreed that it is possible to have significant return even in short-term, when an investors have a strict strategy and enough knowledge.

When examining the responses of the interviewees about the potential current income that collectible cars can bring, the majority of collectors immediately provided an example of the possibility of generating current income from renting their collectible cars. However, it is clear that there are varying opinions on whether or not it is a good idea to rent out these

vehicles. Some collectors believe that the sentimental value of their cars outweighs any potential financial gain, and would never consider renting them out to anyone, another respondent added that it takes a lot of time to deal with car rental and it is the biggest problem. The primary reason for this reluctance was due to the potential risk of damage to the vehicle, such as scratches or a car crash, which could compromise the original factory paint and diminish the car's value overall. However, opinions on the matter were not unanimous among respondents. One collector indicated that if a rental offer was made for around 5000 euros per day, they would consider it, while another firmly stated that they would never rent out their cars for any amount of money. On the other hand, others are more open to the idea of renting out their cars, particularly to film production companies, who they believe have the resources to pay a higher rental fee and treat the cars more carefully.

One of the collectors provided a practical example of how renting out collectible cars can result in significant income. By renting out several cars to a film production company for 15,000 USD per day what is around 13637 euros, he was able to earn an impressive amount of money, especially when considering the average monthly salary in Estonia, in 4th quarter 2022 average gross monthly salary was 1775 euros (Keskmise brutokuupalk [Average gross monthly salary], 2023). This example highlights the potential for significant financial gain through renting out collectible cars, especially in the context of film or other media production.

It is worth noting, that some collectors are hesitant to rent out their cars due to the risk of damage or loss. This is a valid concern, as the value of a collectible car is often heavily dependent on its condition and history. Even minor damage or alterations can significantly reduce its value. Therefore, before deciding to rent out a collectible car, it is important to carefully weigh the potential financial gain against the risks involved.

Unfortunately, there is a dearth and lack of demand of car museums in Estonia, making it almost impossible to generate current income from collectible cars by placing them in museums. Similarly, the situation with car meetings is also unfavourable for collectors. As one respondent highlighted, there is a car meeting in the city of Haapsalu where collectors are required to pay for the privilege of displaying their cars, and even visitors who come to admire the cars are charged an entry fee. Consequently, the organizer of the event is the only one who stands to profit from the meeting. This highlights the difficulties and constraints that collectors face in generating income from their cars in Estonia, and underscores the importance of exploring other avenues for generating returns as well as current income, such

as renting out cars to film production companies or carefully selecting and restoring unique cars for profitable resale.

Once again, it is important to note and understand that investing in collectible cars is not a guarantee of profit or high return, and as with any investment, there are risks involved. The value of a collectible car can be affected by factors such as market demand, condition, rarity, production number, and historical significance (Dhont, 2017). Therefore, it is crucial to approach the investment with a well-informed and strategic mindset.

When the author of the thesis asked the respondents whether they had lost money when investing in collectible cars and what were the main risks associated with collectible cars, some respondents were confused about whether restoration, repair, and maintenance should be considered a loss. It came out that the majority of respondents decided that have always lost money when investing in collectible cars as they perceived restoration and maintenance as a loss. The owner of the "Hallinga Automuseum" and the owner of "UFO Garage" expressed that they would determine whether they have lost any money when they will start selling some of their cars. Väino and Rein from "Pärnu vanatehnikaklubi" perceived restoration as a loss and stated that they have only lost money when investing in collectible cars. Collector X equated the purchase of a collectible car with the purchase of emotions and also expressed that he has lost a significant amount of money when investing in collectible cars, in addition, he does not believe that selling his collection will bring him from financial point of view high return in the future.

It is interesting to note that some respondents were unclear about what constitutes a loss in investing in collectible cars. This could be due to the subjective nature of the value of collectible cars and the various factors that can influence their value. Additionally, the emotional attachment that collectors often have towards their collections can further complicate their perception of investment losses. Actually, it is a good question whether a restoration and maintenance can be perceived as a loss? Restoration and maintenance of a collectible car of course can be perceived as a loss from an investment point of view, as it involves costs that do not necessarily increase the value of the car. However, many collectors view restoration and maintenance as necessary steps to preserve the car's condition and value, therefore some of the investors may justify the expense as a means to maintain the car's overall value. It can be concluded that the perception of restoration and maintenance as a loss or a necessary expense depends on the collector's investment goals and priorities. These findings highlight the importance of understanding the risks and uncertainties associated with

investing in collectible cars, and the need for clear and objective criteria for evaluating investment performance.

Unfortunately, many of the collectors were uncertain about the question pertaining to the payback period of collectible cars and factors that determine it. Respondents from the "Pärnumaa vanatehnika" club stated that in order to determine the payback period, they must sell their cars, which they do not plan to do and have never planned to do so. They repeated once again that collecting cars is a hobby for them and they do not buy cars for investment purposes. One respondent suggested that time and inflation play a significant role in determining the payback period of collectible cars, along with the purchase price. If a person bought a car for a higher price than the current average market price, the payback period will be longer, and vice versa. Therefore, it is recommended to track the average price and history of a price changes of particular cars or segments that collectors are interested in, in order to determine the potential payback period. Other respondents added that payback period depends on the price and condition of the purchased car. However, the majority of the respondents during conversation have agreed with the point that the purchase of a collectible car must fulfil certain requirements, such as the car being in good condition with a well-documented history, containing mostly original parts and factory paint, having potential for appreciation, being cheaper than the average price on the market, and purchased at the opportune time, ideally when the car begins to gain popularity and before reaching its historical maximum price.

It is worth noting that determining the payback period of collectible cars can be challenging, as these vehicles are often subject to unpredictable market trends and fluctuations. As was previously mentioned the value of a collectible car can be influenced by various factors, such as the car's condition, rarity, historical significance, and cultural appeal, which can fluctuate over time. Therefore, investors should approach investing in collectible cars with caution, and not only for the purpose of generating profit, the acquisition and preservation of these vehicles should be also viewed as a passion and hobby, as they are an important part of automotive history and culture and require special knowledge in maintenance and overall understanding.

Additionally, in the section on the return opportunities of collectible cars, the author of the thesis sought the opinions of various collectors about undervalued segments of collectible cars. The respondents' answers helped to identify the actual car segments that are potentially going to appreciate in the future, based on their past experiences.

The majority of the respondents agreed that the most undervalued collectible car segment in Estonia currently is the USSR vehicles, which have the potential to appreciate in price in the future. This is because cars from the USSR, such as Volgas and Moskvitches, are no longer being produced and some of the brands are already no longer exist. Two collectors added that youngtimer cars are another potential segment that will grow in value. Collector X suggested that the best time to buy a car is between 20-30 and 30-40 years old, as they are no longer new, but not yet considered youngtimer cars. The same collector also assumed that US classic cars and US antique cars from the 1930s-1950s are undervalued, especially in the USA, and it could be a good idea to bring them here for resale or for collection purposes. One collector assumed that all car with the big engines are potential segment as in the near future most of the cars will be electrical and demand for the powerful and sport cars will only increase.

To conclude, respondents brought out four undervalued segments of collectible cars, which are:

- Cars produced in the USSR,
- US classic cars, US cars produced 2000 or earlier (more than 20 years old) (Understanding the Difference Between Classic, 2023)
- US antique cars, US cars produced 1975 or earlier (more than 45 years old) (Understanding the Difference Between Classic, 2023)
- 20-40 years old cars,
- Sport cars and powerful cars with big engines.

**Risks, constraints and costs associated with investing in collectible cars:** The last fourth block of the thesis is about the risks, costs and constraints that collectors may face when investing in collectible cars. It is widely acknowledged that when individuals contemplate investing in any asset, they consider the risks and obstacles that may arise during the investment. Laurs (2017) observes that the literature characterizes collectible cars as a high-risk investment assets. In this regard, all of the respondents interviewed agreed that the main risk associated with investing in collectible cars is the potential deterioration of a car condition due to inadequate storage conditions. Storage areas must be dry, rodent-free, and secure to prevent theft and vandalism. Although there are numerous risks associated with collecting cars, the author of the thesis believes that risks may vary depending on the collector's location, among other factors, the risk of being robbed in Los Angeles is likely much higher than in any of the cities in Estonia. One collector has also added the risk



associated with the purchase from the auction, the fact is that it is hard to estimate the condition of a car from the picture, therefore when buying collectible cars from the auction an investor must be aware of possible risks, for example, a problematic engine, corrosion of the body that was not visible in the photo or video or even sometimes people who buy cars from an auction receive a flooded car in the past that brings them big losses both at the restoration stage and at the sale stage.

It should be noted that from the responses, it might be considered that the majority of the respondents agreed with the Laurs (2017) statement that collectibles have such risks as:

- forgeries, frauds, theft and it is required to have an insurance of the storage place or a car,
- price risk, means that it is quite hard to track and estimate the value of a car due to fact that each collectible car has different condition, milage, history and characteristics and do not have direct market and
- stylistic risk, several respondents said that some of their cars were not stylish, perceived as a collectible car and were not interesting from investment point of view at the moment of the purchase, however nowadays such cars can already be perceived as a collectible asset that is interesting as from investment point of view as well as from stylish and luxury point of view

The respondents' responses regarding obstacles varied, as each collector may face different obstacles while investing. For instance, one collector shared a personal experience where he had to seek special permission to import an old military car that was up to 40 years old, which cost a considerable sum of money. Some of the respondents added that one obstacle may be the availability of parts for cars, especially for those, which are quite old. One obstacle that all of the respondents pointed out and supported the Dhont's (2017) thought is a required degree of knowledge in a cars, without the necessary degree of knowledge, a beginner investor may encounter high risks and losses, as he may acquire a car with a poor history, such as having been involved in a crash or having poor quality restoration or repair, or a car with non-original parts. Additionally, they may invest in a car with no potential for value growth. The author of the thesis initially thought that insurance might pose a challenge, but it turned out that insurance was not an obstacle, and all of the respondents stated that traffic insurance costs the same amount as ordinary car insurance. However, all of the respondents agreed that casco insurance is useless, as it will not restore the car to its original factory condition, the insurance payment may be lower than the actual value of a damaged

car and in some cases the cost of insuring collectible car for one year is about the same as the cost of the car itself. It should be noted that majority of the respondents do not use their collectible cars for transportation purpose that make casco insurance even more useless.

Interestingly, the majority of the collectors stated that they have not yet encountered any risks. However, it is important to note that risks may emerge at any time, and collectors should be vigilant and prepared to mitigate them. In conclusion, while investing in collectible cars, it is crucial to be aware of the potential risks and obstacles that may arise and to take appropriate measures to address them.

There is always a possibility of facing replicas or vehicles with non-original parts, which can be extremely disappointing for a collector who, for example, ordered a collectible car from another country, region or auction. To address this issue, the author of the thesis asked the interviewees how they prevent themselves from purchasing replicas and cars with non-original parts. All of the respondents agreed on a point that each person must control the car themselves, if possible. Most of them are specialists in collectible cars and can identify problematic cars, or if they face problems with identification, they have connections and ask somebody who deals with collectible cars on a daily basis. However, there are cases where a person cannot physically check the car as it is located in another country. In this case, the smallest thing that a collector may do is to use trustworthy auctions and carefully and patiently examine the photos and videos of the car. It should be mentioned that a person who already has experience in dealing with cars and especially collectible cars will find it easier to identify problems that can decrease the value of the car or the restoration process. The fact that added one respondent is that in more expensive segments of cars there are higher possibility of facing replicas or cars that was in bad condition or damaged in the past, therefore more attention must be paid.

The owner of the “UFO Garage” Tarmo Uffert added that a person who buys a collectible car should not be naive and should understand that almost every car that has ever been used on the road may include some non-original parts and that it is not necessarily a huge problem.

All of the respondents agreed that the main costs associated with maintaining collectible cars are related to the storage location and electricity. In Estonia, due to unfavourable weather conditions, it is essential to store collectible cars in dry, rodent-free spaces. As a result, collectors often install air heat pumps in their garages. With the current energy crisis, maintaining a sizable garage may cost collectors thousands of euros per month, and they must weigh their options and costs accordingly.

Interestingly, one respondent mentioned that a garage can also be considered as an investment, as its price may appreciate significantly over time, especially when considering the appreciation of the real estate prices in Estonia for the last several years. Additionally, restoration work can also be considered a part of the maintenance process, as certain parts need to be replaced over time. The majority of respondents also mentioned having insurance coverage for their real estate, including the collectible cars stored inside it, to protect against vandalism or theft. Therefore, every collector must consider securing and insuring their property to mitigate potential losses.

It is interesting to note that all of the collectors were confused by the question regarding the initial capital required for an investor to start investing in collectible cars. The majority of the respondents stated that an investor could start with any amount of capital, even with zero, if they received a collectible car as a gift from a grandparent or parent. Only one respondent was able to provide a specific answer, suggesting that the preferable initial capital for investing in collectible cars ranges from five to ten thousand euros in Estonia.

It is worth considering that the initial capital required for investing in collectible cars can vary greatly depending on the type of car being sought and the condition it is in. For example, a collector seeking a rare and well-preserved vintage car may require a significant amount of initial capital to acquire it, whereas a collector looking for a more common classic car in need of restoration may be able to begin with a smaller investment.

Additionally, it is very important to consider ongoing costs beyond the initial investment, such as maintenance, insurance, and storage. These costs can add up quickly and may impact the profitability of the investment over time. Further research into the financial aspects of investing in collectible cars could provide valuable insights for potential investors looking to enter this market.

A crucial factor in investing in collectible cars is the platform or website used for searching suitable cars. The majority of respondents in this study argued that the best, the most trustworthy and most popular platform for searching collectible cars in Estonia is Auto24.ee. However, other websites such as Kuldnebors.ee and Okidoki.ee, which were mentioned in the theoretical part of the thesis, were also identified as potential sources for finding collectible cars.

Interestingly, some respondents suggested that searching for collectible cars in Estonia may not be the best idea due to the small market size and higher prices. As a result, they preferred to search for cars on different websites from countries such as the United States or Germany, such as Mobile.de or Bringatrailer.com.

In addition to online platforms, the power of forums should not be underestimated. Many forums are comprised of enthusiasts with similar ideas, vision, mission and values, making it much safer to purchase a car from someone who knows the history of the car and is always available to provide assistance and support to buyers.

The author of the thesis sought the opinions of the respondents regarding the common mistakes made by novice investors who embark on investing in collectible cars. Although the responses varied, the key points emphasized were as follows:

- Ensuring that enough time is available to deal with collectible cars,
- Ensuring that adequate resources are available for purchasing based on a predetermined budget,
- Conducting pre-purchase inspections by a professional with expertise,
- Having knowledge about car restoration, maintenance, and dealing with it,
- Seeking cars with high appreciation potential,
- Preventing emotional purchases,
- Tracking the historical price charts of a car and its volatility,
- Establishing connections with like-minded individuals and enthusiasts.

These key points highlighted the importance of careful planning and research before investing in collectible cars. The beginner investor must have a clear understanding of the risks and rewards associated with such investments. The importance of conducting due diligence before investing cannot be overstated, and this is especially true for those who are new to the market, very important to prevent emotional purchases, which is a very common mistakes beginner investor make. In addition, establishing connections with other collectors and enthusiasts can provide valuable insight and guidance, leading to more informed investment decisions.

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

After the analysis of the gained data, the author of the thesis configured suggestions for future beginner investors can be made. First of all, it is important for investors to understand whether they would like to collect or invest in collectible cars, as it is a huge difference between investing and collecting. Investors goal is to save and appreciate his balance, whereas based on the analysis collectors main goal and wish is to buy cars that he is passionate about without any financial interest. After person decided that he would like to invest in collectible cars, he should conduct a thorough analysis of the Estonian market for collectible cars and determine his available capital. Investors should also understand which

segments of the market have potential for growth and whether they can afford a particular car. Additionally, investors should study the history and volatility of the specific car or segment they are interested in and assess the demand and supply in Estonia. If there is a limited supply of particular cars in Estonia, it is advisable to search for them in other parts of Europe or the USA.

Secondly, investors must ensure that they have a suitable place for the collectible car that is dry and rodent-free. They should also consider whether they have the necessary resources and time for maintenance and restoration if needed.

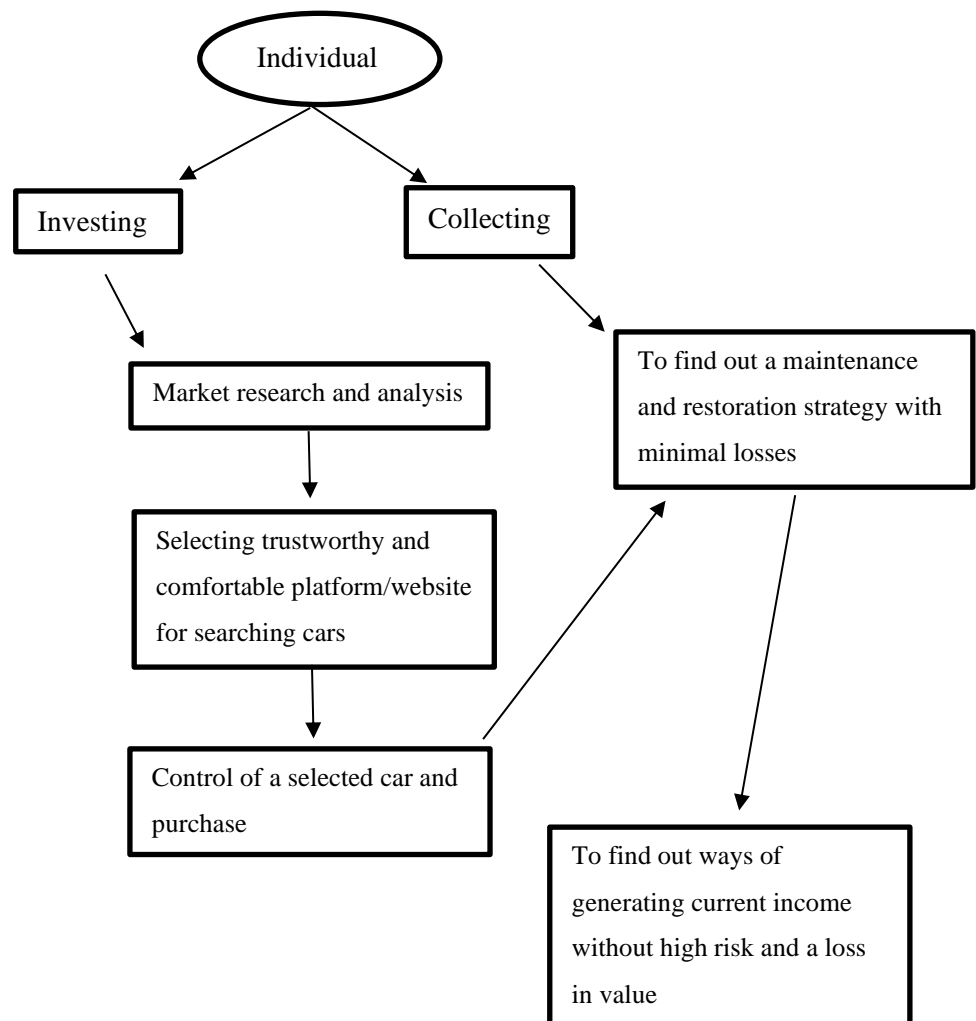
Thirdly, investors must find appropriate webpages for searching for collectible cars. If they decide to purchase a collectible car in Estonia, they can search for cars on websites such as Auto24.ee, Kuldnebors.ee, or the Facebook marketplace. However, if they opt to buy a car abroad, there are various websites in Europe and the USA, such as Mobile.de and Bringatrailer.com, where they can find their ideal car.

Fourthly, investors must thoroughly examine the selected car and understand the risks and potential losses associated with its purchase. If an investor is confident, they may control the inspection process themselves. If not, they can hire someone who is more specialized in collectible cars to ensure that the car's condition is adequate, contains mostly original parts, and is not a replica. It is important to avoid emotional purchases, which often occur when investors fall in love with a particular car.

It is also advisable for investors to join forums with like-minded enthusiasts who collect the same cars in Estonia. This can help them establish connections that can assist with restoration, maintenance, and other aspects.

Finally, investors must assess whether there is an opportunity to generate current income from the car without causing its value to depreciate or decide to keep it in a garage until its value appreciates.

By following steps provided in the figure 2, future investors in collectible cars can better navigate the market and increase their chances of success.



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

Source: Compiled by the author

As with any type of investment, having a strategy is crucial for achieving great returns. Without a clear and strict strategy, an investor may face high risks and losses. This is especially important for beginner investors who are new to investing in collectible cars or any other types of collectible assets. Moreover, building new connections in this sphere is highly recommended for those who have just started their investment journey in collectible cars. Building connections can help investors tackle challenges such as restoration and maintenance, as well as the unavailability of car parts. Familiarity with experienced collectors can provide valuable advice on car repair shops with lower prices and better quality, places to find car parts, and effective maintenance practices.

### **Conclusion**

This bachelor thesis aimed to explore the risks, constraints, and return opportunities associated with investing in collectible cars on the Estonian market. In the theoretical part of the thesis, the author has provided the theoretical foundation of alternative investment, collectibles as alternative investments and collectible cars as investment objects. Based on the previous scientific papers that explored collectible cars as an alternative investments the main advantages and disadvantages of investing in collectible cars were provided as well as factors that may affect on the value of the collectible car.

The empirical analysis in this thesis was conducted through qualitative research methods. The author conducted a total of five interviews with Estonian collectors/investors of collectible cars who possess significant collections and have extensive knowledge in this field. The findings obtained from the empirical research aligned with the established literature, while also contributing additional insights. After the analysis it became clear that collectible cars have a lot of return opportunities as well as various risks and constraints that can make investing more challenging. In conclusion, it may be stated that collectible cars as an investment object have such return opportunities:

- High potential return
- Emotional dividends
- Diversification effect
- Usability
- Opportunity to make new useful and valuable connections
- Opportunity to have a current income

While collectible cars have also such risks and constraints as:

- Loss of balance due to deterioration of a car condition, because of inadequate storage conditions
- High entry requirements / extra costs as maintainance and restoration
- Unpredictable market change
- High degree of knowledge/expertise
- Price volatility
- The risk associated with the purchase from an auction
- Low demand and supply on the Estonian market
- Forgeries, frauds, theft
- Stylistic risk

Interestingly, the results revealed that the majority of respondents view collectible cars more as a hobby and passion, indicating that emotional dividends, rather than significant financial returns, are the primary motivators for investing in such assets, however a significant portion also perceive them as a potential investment opportunity, indicating that most investors view investing in collectible cars as a blend of both hobby and investment.

Further research on this topic could be aimed on the impact of maintenance and restoration costs on return of collectible cars as the main costs associated with investing in collectible cars are maintenance and restoration. In addition, it would be interesting to investigate the impact of climate change on the maintenance costs associated with storing collectible cars in various locations. Estonia is not the best place to where to invest in collectible cars, as spring, winter and autumn are always rainy and snowy what destroys the body of a cars and make maintenance more challenging and costly. Moreover, further research could explore the extent to which collectors prioritize securing and insuring their collectible cars and how that affects their overall maintenance costs.



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## Appendices

### APPENDIX A.

The picture of the Lamborghini Murcielago from the collection of Tarmo Uffert



### APPENDIX B.

#### English-Language Questionnaire

#### 1) Questions about the interviewer:

- How old are You?
- What is your profession?/What is your job?
- What is Your level of education?

#### 2) Questions about the collection:

- Would you say collecting cars is more of an investment or a hobby for you?  
why is that?
- When and why did You start investing in collectible cars?
- How many cars are there in Your collection?

- What is the oldest and the newest car in Your collection? Hereby I refer to the year of a car production not to the year of acquiring.
- What is the approximate value of Your whole collection?

### **3) Return opportunities of investing in collectible cars**

- Based on Your own experience, is it profitable to invest in collectible cars? Do You have any clear/specific examples of profitable investments in collectible cars?
- Do You know any possibilities to receive current income from collectible cars?
- Have You ever lost money when investing in collectible cars?
- What determines the length of a collectible car's payback period?
- Could You please outline segment(s) of currently undervalued collectible cars that have a remarkable value growth perspective in the future?

### **4) Questions about risks, costs and constraints that may occur:**

- Could You please outline main risks and obstacles that You have faced while investing in collectible cars?
- How were you able to verify before purchasing a collectible car that you were not acquiring replicas or cars with non-original parts?
- Could You please outline main costs associated with maintaining a car collection in Estonia?
- Where do You buy parts for Your collectible cars?
- From Your point of view, what is the minimum initial capital required to start investing in collectible cars?
- Could You please bring examples of convenient and trustworthy platforms/marketplaces for trading collectible cars in Estonia?
- To conclude: in Your opinion, what mistakes beginner investors make and what advice you could give them?

## Resümee

### INVESTEERIMINE KOLLEKTSIOONAUTODESSE EESTI TURUL

Nikita Mitjakov

Käesoleva bakalaureusetöö eesmärk oli uurida riske, piiranguid ja tootlusvõimalusi, mis on seotud kollektioneeritavatesse autodesse investeerimisega Eesti turul. Töö teoreetilises osas on autor esitanud teoreetilise aluse alternatiivinvesteeringule, kollektsoonobjektidele kui alternatiivinvesteeringutele ja kollektsoonautodele kui investeerimisobjektidele. Varasemate teadustööde põhjal, mis uurisid kollektsoonautosid kui alternatiivset investeeringut, toodi välja kollektsoonautodesse investeerimise peamised eelised ja puudused ning tegurid, mis võivad mõjutada kogumisauto väärtust. Antud lõputöö empiiriline analüüs viidi läbi kvalitatiivsete uurimismeetodite kaudu. Autor viis läbi kokku viis intervjuud Eesti kollektsooniautode kollektsoonäride/investoritega, kes omavad märkimisväärseid kollektsoone ja omavad selles valdkonnas laialdasi teadmisi. Empiirilise uurimistöö tulemused olid kooskõlas väljakujunenud kirjandusega, aidates samal ajal kaasa täiendavate teadmiste saamisele. Kokkuvõtlikult võib öelda, et kollektioneeritavate autode kui investeerimisobjektide tagasitulek on võimalik ning autor kirjeldab, millised võimalused on Eestis saadaval:

- Suur potentsiaalne tootlus
- Emotsionaalsed dividendid
- Portfelli hajutamise efekt
- Kasutatavus
- Võimalus luua uusi kasulikke ja väärtuslikke tutvused
- Võimalus omada jooksvat sissetulekut

Milliseid riske ja piiranguid tuleks silmas pidada:

- Tasakaalu kaotus auto seisukorra halvenemise tõttu ebapiisavate hoiutingimuste tõttu
- Kõrged sisenemisnõuded / lisakulud hoolduse ja restaureerimisena
- Ettenägematu turumuutus
- Kõrge teadmiste/teadmiste tase
- Hindade kõikumine
- Oksjonilt ostmisega seotud risk
- Madal nõudlus ja pakkumine Eesti turul
- Võltsimised, pettused, vargused

- Stiilirisk

Huvitaval kombel selgus tulemustest, et enamik vastanutest suhtub kolleksionautodesse pigem hobi ja naudinguna, mis näitab, et sellistesse varadesse investeerimise peamised motivaatorid on pigem emotsionaalsed dividendid kui märkimisväärne rahaline tulu, kuid märkimisväärne osa tajub neid ka kui potentsiaalne investeerimisvõimalus, mis näitab, et enamik investoreid näeb kolleksioonautodesse investeerimist nii hobide kui ka investeeringute seguna.

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