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ALTERNATIVE INVESTMENT

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The profit potential — and fascination — of rare stamps

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With the exception of the venerable Stanley Gibbons, founded in 1856, most British stamp dealers are snooty about the idea of buying stamps for investment purposes. Yet according to the Knight Frank Luxury Investment Index, rare stamps returned 195 per cent over ten years to the end of June 2014. What's more, the billionaire Bill Gross, who as co-founder of Pimco was dubbed America's best-known bond investor, attests to having invested well over $50 million in rare stamps and declares them 'better than the stock market'.

Needless to say, rare stamps are an illiquid investment that suits sophisticated, buy-and-hold investors. And you would have to be a holy fool to buy a supposedly investment-grade stamp over the internet, however alluring its price may seem.

To date, Stanley Gibbons is the only organisation in the UK with a dedicated investment department for stamps and collectible coins. And indeed Stanley Gibbons itself has only been catering to the appetite for alternative investments among wealth managers and their clients for the past six years, during which time it has opened offices in Hong Kong and Singapore to augment its ones in the US and the Channel Islands.

Potential investors will almost certainly want to start by looking at Stanley Gibbons products. First among these is its Capital Protected Growth Plan (CPGP), which has a minimum subscription of £15,000 for a fixed five-year investment. It guarantees to preserve your wealth and charges 20 per cent of any profit that may accrue. A typical annual return would be around 10–15 per cent, though you might do better. The CPGP is rather similar to those structured products that used to guarantee your money back if the stock market rose over so many consecutive quarters, except that there are no ifs and buts on the preservation element, only the upside growth.

After five years you can either take the stamps away and sell them privately or cash in your portfolio and roll the proceeds into a fresh five-year plan or another Stanley Gibbons product, namely the Flexible Trading Portfolio (FTP) or the Premium Portfolio Builder (PPB). The FTP, as its name suggests, allows you to trade within the portfolio and draw down annually to take advantage of your Capital Gains allowance, or simply to liquidate part of your portfolio if you have a sudden need. The PPB is more like a traditional regular savings plan, requiring an initial investment of £10,000 followed by £1,000 top-ups at quarterly intervals.

Stanley Gibbons has around 6,500 investment clients, with an average portfolio size between £20,000 and £30,000. In any given portfolio, Stanley Gibbons likes

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You send me: World Stamp Expo 2013 in Melbourne. Previous page: an 1897 Red Revenues stamp, 'the most romantic of all issues for Chinese collectors'

to include a small number — say seven to 12 — of less liquid but highly prized items, rather than larger numbers of more tradable items, because critical mass is preferable for investment purposes. There are no management charges and all items are stored and insured free of charge.

The British stamp market remains buoyant, assisted by occasional opportunities such as the 175th anniversary of the Penny Black. 'This is a stamp that will always be prized and is now being prized in emerging markets,' says Keith Heddle, investment director at Stanley Gibbons. 'There's an international stamp show every year. This year it's in Singapore, but in 2020 it will be back in London and that ten-year cycle allows collectors to build GB collections, particularly from Queen Victoria's reign, since that's where it all started. So in the next two or three years we expect a bit of a build-up towards 2020, because big collectors will need to buy the right items in order to exhibit or dealers will hoard in order to sell out.'

Like stock markets, stamps have their indices of performance. The GB30 Rarities Index has not fallen in value in the past 60 years and even managed a 38.6 per cent gain during the 2008 stock-market crash. The wider GB250 Index generated an average annual compound return of 13.2 per cent over the ten years until the end of 2013.

Some exceptional modern British stamps with errors from the 1960s and 1970s are true collector's items. For example, there is a block of two basic 13p stamps, one of which has the Queen's head missing. There are only three of these stamps with a missing Queen's head in the world. The Queen has two in the Royal Collection, and one of Stanley Gibbons's clients has the other.

In the British Empire and Commonwealth category, triangular Cape of Good Hope stamps remain stores of value and growth potential (Plymouth pharmacist Edward Stanley Gibbons got started by accepting a bag of Cape stamps in lieu of cash from some mariners in his shop). Brazilian 'bullseyes', Brazil's equivalent of Penny Blacks, also trade at a premium — Brazil was one of the first countries after Great Britain to issue stamps.

Which other countries' stamps might attract investors? 'Australia and New Guinea are quite hot,' says Heddle. 'Then there are Commonwealth territories like the Malayan States, where interest is partly driven by growing wealth in south-east Asia… The US has its own strong stamp heritage… It is a huge collecting nation and remains a core market.' The gorilla in the chandelier, however (as with the fine wine market), is China. More than a third of the world's stamp collectors are Chinese and, according to the *Hurun Report*, 64 per cent of Chinese millionaires invest in luxury goods, with stamps forming the largest sub-category. Predictably, stamp collecting was scorned by Chairman Mao as a bourgeois activity, but some People's Republic rarities go for high prices. A mint set of 1952 general-issue stamps that were withdrawn after mistakenly being stamped 'Soviet Union' would now be worth around £50,000. And the unissued 1968 Victory of the Cultural Revolution stamp is much sought after.

But it is the Chinese antiquities market that holds the greatest promise as Chinese collectors around the world reclaim their history. Late 19th-century Qing dynasty stamps and even stamps from the Republic period (1912–47) are the most exciting prospects. An offering of 1878–85 Large Dragons — China's first stamps — earned $2,046,140 at auction in March 2011. Then there are the 1897 Red Revenues, described by Dr Jeffrey Schneider of InterAsia Auctions as 'the most romantic of all issues for Chinese collectors'. An 1897 Red Revenue small one-dollar stamp (of which there are only 32 known in existence) fetched $890,000 at auction in Hong Kong in 2013.

While such figures may be out of the reach of most investors, there are plenty of items available at more manageable prices. But remember: like any good investment strategy, buying and holding stamps for profit is all about striking a balance between rarity and diversity.

195%

Return on rare stamps over ten years to June 2014, according to the Knight Frank Luxury Investment Index

10-15%

Typical annual return on Stanley Gibbons's Capital Protected Growth Plan

$2m

Price for an offering of 1878–85 Large Dragons at auction in March 2011