

# The MARKET

*An Economist's View...*

by Arnold Freznel

I should know better than to get into this as it is hardly a short essay topic, but there have been a couple of posts on the market, mostly on the depressed state of the market, and as an economist I suppose I should put in my two cents worth.

I collect swords for pleasure not for profit and I have always thought they were a poor INVESTMENT relative to other financial assets, ADJUSTED FOR RISK, because they yield no income stream and are rather illiquid as an asset. That is a theme I explored in *The Book of the Sword*, edited by Tom Buttweiler back in the early 1970s. That is not to say that money cannot be made in swords, it can, and a lot of it. The way to make money is to spot arbitrage, that is to buy in one market and sell at a higher price in another within a very short period of time. That is what sword dealers do. Why are the dealers crying the blues? (By the way you sword lovers out there ought to be delighted, because if you really want to collect this is a wonderful time to buy - for yourself!)

I was talking to one of the dealers in Chicago and he was, to put it mildly, depressed. I asked him if he knew what had happened to the Yen in the last year and a half? "No, not a clue!" I told him that when I was in Japan in April of 1994 I had to buy Yen at 79 to the US dollar. At the time of the Chicago show it was about 111 to the dollar. Perhaps he didn't realize that the Japanese dealers actually have to buy US dollars. For them the change since the 79 Yen high would be a 41% appreciation in the dollar!!! Perhaps the gentleman thought the US dollar was the medium of exchange in Japan as it is in some Latin American countries! Yesterday the Yen was quoted in early morning London trading at 113.13, a further devaluation.

I think we should keep two things clearly in mind, first, the market for Japanese swords is, and will continue to be for the indefinite future, the Japanese market for swords, and, second, the sky hasn't really fallen in, it only seems like it has. It is pretty much an axiom of the art world that the country of origin has the greatest appreciation for its own art. When that country experiences a rapid growth in real income, as the Japanese did between 1955 and 1990, they then have the buying power to spend on art, a commodity itself for which demand increases more than in proportion to the rise in real income, and when those objects are available for less abroad than in Japan they get bought abroad and brought home. That process has made many an American sword dealer rich. It is the same process, with another commodity and another country, that is making dealers in Korean ceramics rich today.

Problem is the Japanese economy is now in a deep recession. The "bubble economy" burst in 1990 when they were growing at 4.5% per year in real terms.

Since then:

1990-94	2.1
1992	1.1
1993	-0.2
1994	0.5
1995	0.5
1996	The 2nd and 3rd quarters both had negative growth. While the Japanese do not post official recession declarations, in the US and Canada, two consecutive quarters negative is a recession per se. So, they are back in it!

not press for fear of being forced into official insolvency. Land values have fallen drastically, and even golf club memberships, once bought as pure speculations, have fallen drastically in value. All of this has happened at a time when the US, Canadian, and UK economies are doing fairly well by historical standards. Is it any surprise that the sword market in Japan is soft? The entire Japanese art market in Japan is soft. Banks during the bubble period were making loans on art as collateral - if and when those loans are called, watch out!

The interesting question is whether the Japanese economy will bounce back or not. It averaged around a 5% growth during the 1980s, better in the early 1970s and much better in the 1960s. That is the \$64 dollar question, and I tell my Japanese Economy class that the final exam always contains an essay question on whether Japan is now just like all the rest, or does she have unique features that will eventually reassert themselves so that she will again substantially out perform the OECD set average as she did for much of the post war period?

I don't know the answer, but I tend to feel that the special features of Japan are cultural and those features which will continue to give them an edge, but that is only a gut feeling and not a very strong one. If and when Japan bounces back, swords will start appreciating again, but not right away. There is inventory to work off and the price of swords has tended to move close together between Japan and the rest of the world. Witness the prices at the Compton Auction. The great arbitrage opportunities are behind the American sword dealers.

If you love swords this is a golden time. Prices are those of the 1980s or less, the intrinsic qualities of the sword and the window they open to the broader Japanese culture shine as brightly as ever, and further I marvel at the new translations that will help us to appreciate them more.

I think it was a Rothschild who said, during the Napoleonic Wars, that one should sell at the sound of a parade and buy at the sound of a canon - what do you hear?

The Nikkei Index (their Dow Jones) is off about 1/2, their trade balance and current account have fallen month after month, about eleven in a row, a half dozen savings and loans have gone bankrupt and just the other day a major loan underwriter went bankrupt to the tune of several billion dollars. Most major banks are carrying huge folders of non-performing loans, which they