In recent years there has been growing interest in investment in collectables such as stamps, coins, diamonds, paintings, antiques, military medals and even old bond and share certificates.

One reason is the poor performance overseas of traditional financial investments such as shares and loan stock. Another is a flight of capital from tax collectors, restrictions on enterprise and exchange controls, into anonymous assets whose sale is often difficult if not impossible for the authorities to track.

The rising values of collectables in the big overseas markets, and the unusual political conditions in Southern Africa, have combined to create booming demand for these investment assets in the Republic.

Specialist dealers are proliferating. Clubs of enthusiasts are being formed. Auctions have become more frequent. There are specialist publications catering to collectors, such as Personal Finance, The Hard Asset Digest, Collector and In:vestor.

One of the main advantages of collectables as an investment is that they have shown high rates of growth in their capital values. Robin Duthy says in his excellent book on the subject, Alternative Investment, that in Britain typical portfolios of collectables achieved the following average annual growth rates over the 1950-78 period:

- Rare British stamps: 13.9 per cent.
- Rare British coins: 14.8 per cent.
- English Regency silver: 12.1 per cent.
- Chinese Regency ceramics: 16.8 per cent.

Collectables do not require active management in the sense that you don't have to keep a sharp eye on interest rates, trends on the stock exchange and company results, as you do if you hold financial investments, and have to make frequent decisions based on that information.

Your return — entirely in the form of capital gains when you sell the assets, as they do not provide an income — has the major advantage of being free of tax, unless you trade in these items sufficiently frequently for the Receiver to find out about it and classify you as a dealer.

There is a well-developed international market, but prices are not primarily determined by political or financial conditions in the small South African market.

Finally, there is an important non-financial benefit: The pleasure to be gained from collecting and owning rare and usually beautiful items.

However, there are many disadvantages. You should ponder these carefully before making any decision to invest in collectables.

First of all there is the problem of wide margins between buying and selling prices — usually in the range 15 to 25 per cent, and for some kinds of collectables as high as 50 per cent, of the selling price.

It is a widespread practice for dealers to quote figures to show the growth in the value of a collectable over several years, based on selling price at the beginning and the end of the period. But this is completely misleading as far as the investor is concerned; his interest is in the selling price to him at the start of the period and the buying price from him at the end of it.

For example, if the increase in the selling price of an asset increased over a five-year period by 200 per cent, or an annual average growth rate of 24.6 per cent, yet you had to pay a commission of 10 per cent on the selling price at both ends, the increase you would have enjoyed as an investor would be only 145 per cent, or an annual average of 19.7 per cent.

Because buy/sell margins are high compared with those charged for dealings in financial assets, you have to hold on to a collectable for a year or two for the growth in the price at which the market will buy from you to catch up with the price at which the market sold to you.

Another major problem is that you need considerable skill to judge what to buy or sell, when to do so, and at what prices. Fakes of many kinds of rare items such as stamps, coins and paintings abound. In some cases even reputable dealers have difficulty differentiating between genuine pieces and forgeries.

If you let any item out of your hands for even a short time, without a reliable record such as a photograph of a coin or an X-ray of a diamond, you run the risk of it being 'switched' for a very similar but less valuable piece.

Even though collectables can show high growth rates in their values over a long period, values do fall, and you could lose heavily if you buy at the wrong time (which is usually the time when the market has never looked stronger and everyone, including most experts, is telling you that now is the time you MUST buy).

Some items — usually the rarest and most valuable ones — cannot be sold easily without incurring a considerable loss, because the market within South Africa is particularly thin (that is, too few buyers, and dealers to generate a high volume of trade).

You always have to be on your guard against unscrupulous dealers — which unfortunately include some 'big' names as well as 'small' ones. An unsophisticated owner, such as a widow who has inherited a collection from her recently deceased husband, may be misled into selling at well below true market value.

Protecting collectables against theft or damage can be expensive and require know-how. For example, rare stamps are easily damaged by dampness, insects or fire.

Finally, there is the 'danger' from an investment point of view that you or your family become so fond of your collection that you can never bring yourself to sell them!

If you fancy the idea of investing in collectables, yet you have no specialised knowledge to start with, you should go about it with extreme care.

Read some books, browse through catalogues and specialist magazines and newspapers, attend auctions to develop a feel for values. Get personal recommendations of several dealers and cultivate them. Most dealers react much more positively towards those showing genuine enthusiasm for the aesthetic or historical qualities of a collectable rather than for its investment potential.

When you feel you are ready to start buying, do so cautiously at first, concentrating on fairly standard items that even you, as a beginner, should be able to judge. For example, if you are attracted by gold coins, it would be wiser to start by collecting the usually much cheaper silver coins.

Collectables: the unconventional investments

by Martin Spring, author of 'Martin Spring's Money Book'