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Have a Great Year!

Thank you for your membership in the PAA and dedication to your professional association. Your participation and support is appreciated. Please mention our name to auctioneer friends who might be interested in membership.

We wish you a prosperous 2009!

Understanding Value

Values are constantly changing in the world of antiques and collectibles, but what does "value" really mean? Value is an imprecise term that can mean different things to different people, especially in today's changing marketplace. Read on to find out how a prominent Pennsylvania auctioneer looks at this important issue.

What's it Really Worth?

by Michael Ivankovich, Home Downsizing Consultant

"What type of Value are you looking for when you sell your Personal Property?" I have seen many confused looks when I first ask this question. "I just want to know what my things are worth" is the most common response.

"Value" is perhaps the most misunderstood word in the entire Home Downsizing process. What is something truly worth? The word "Value" will mean different things to different people. Sellers want to sell

their Personal Property for as much as possible, while buyers want to pay as little as possible. Both parties can look at the same item



and have different perceptions of value.

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Who Insures Auction Items for Sale?

Who Insures Auction Items for Sale?

You've booked a terrific estate sale at a grand old Victorian-style house filled with rare antiques. The previous owner died several months ago, and the executrix is anxious to wrap up last minute details regarding the estate.

The auction is set for Friday, but on Thursday you receive a phone call from the executrix. A fire of unknown origin broke out at the house on Wednesday destroying everything.

The executrix then asks you about your auctioneer's insurance policy. She had cancelled the homeowner's insurance policy after the owner passed away. Will your auctioneer's insurance policy cover the damages to the estate?

Greg Magnus, producer at E. R. Munro and Company, recommends when a contract to conduct an auction is signed that auctioneers ask their clients for a certificate of insurance. This certificate is obtained from the insurance agent who holds the

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Understanding Value

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Fair Market Value: *Fair Market Value* is the term that most people think of when they consider what their items are worth. Internal Revenue Regulation 1.170A-1(c)(2), defines *Fair Market Value* for donation purposes as:



The price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell and both having reasonable knowledge of the facts.

Treasury Estate Tax Regulation 20.2051-1(b) further defines *Fair Market Value* as:

The price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts. The fair market value of a particular item of property includable in the decedent's gross estate is not to be determined by a forced sale price. Nor is the fair market value of an item of property to be determined by the sale price of the item in a market other than that in which such item is most commonly sold to the public, taking into account the location of the item wherever appropriate.

Therefore, *Fair Market Value* is a hypothetical number and not a fact, and it assumes that items are not sold, but rather that ownership in the item is retained. *Fair Market Value* is most commonly used to determine a decedent's gross estate tax on items that are not sold upon the decedent's death but rather are bequeathed to the decedent's heirs. (Property that is actually sold will be taxed based upon the actual sale price). *Fair Market Value* is also the form of value used to substantiate tax deductions for non-cash charitable contributions (e.g., donating a piece of art to a museum).

Market Value: *Market Value* is similar to *Fair Market Value* in certain

ways but different in other ways. Whereas *Fair Market Value* is more of an IRS definition of value, *Market Value* represents more of an appraisal-related definition of value. One definition of *Market Value* would be as follows:

Market Value means the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale price, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and passing of title from seller to buyer under conditions whereby:

- 1) Buyer & Seller are typically motivated;
- 2) Both parties are well informed or well advised and acting in what they consider their own best interests;
- 3) A reasonable time is allowed for exposure in the open market;
- 4) Payment is made in US dollars or the equivalent;
- 5) The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

Note here that *Fair Market Value* assumes that title is not transferred, while *Market Value* assumes that title is transferred.

While *Fair Market Value* and *Market Value* are often good barometers for value, they can often be unrealistic value objectives on many items in the real world. These values can point you in the right direction and can help you to understand whether your item is "Common-Unusual-Rare" or "Good-Better-Best." But remember that both are theoretical numbers, not facts.

- They consider a longer exposure time prior to sale, something that may not be applicable to your personal situation.

- They may force you to accept higher carrying costs, something that may not be applicable to your personal situation.
- They may force you to incur higher selling costs, something that may not be applicable to your personal situation.
- There is no guarantee that your item(s) will sell for *Fair Market Value* or *Market Value* within your allotted time frame.

Value, Cost & Price

Let's continue our discussion with three very commonly used terms that relate to value: *Value*, *Cost* and *Price*. Don't they basically mean the same thing? Absolutely not. Each term has its own meaning and its own definition in the discussion on value.

- **Value:** It's a difficult term to define because it is not a fact, but rather a theoretical term, or an "Opinion of Worth," if you will. Value is a measure of worth on the future benefits anticipated to accrue because of ownership of a piece of property.
- **Price:** This is the amount of money the seller is *asking* for a piece of property. Price is a fact. It is what someone is *asking* for something at a specific point in time. It has no real bearing on what an item will eventually sell for. And price can fluctuate and change at the seller's discretion.
- **Cost:** Cost is what a buyer has *actually paid* for a piece of property. This is not an opinion of value. It, too, is fact. Cost represents what someone has paid for something at a specific point in time.

So, you can take the exact same piece of Personal Property, and its "Value," "Price" and "Cost" will most likely be three different numbers.



Market Types

Value can also be determined by the market in which an item is sold. In the world of *Personal Property*, there are four distinct markets, and the value

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for any given item will vary, depending upon which market the item is being sold in.

- **Retail Market:** A *Retail Market* is the market where items are sold at "Retail," i.e., to the end consumer. Examples of retail markets would include Antique Shops, Art Galleries, Jewelry Stores, Department Stores, Consignment Shops, and other types of retail establishments. Sometimes eBay, Amazon and other Internet venues operate as Retail Markets. Sale price is usually (but not always) highest in this market.
- **Wholesale Market:** A *Wholesale Market* is where wholesalers sell to the trade (i.e., those who purchase with the intent of re-selling). Antique Dealers typically pay "Wholesale" prices when buying privately from the public, hoping to re-sell the merchandise at "Retail" prices, thereby making a "Fair Profit" for their time, labor and cost of investment. Sometimes eBay, Amazon and other Internet venues operate as Wholesale Markets. Wholesale Market price is typically lower than in the retail market.
- **Orderly Liquidation Market:** An *Orderly Liquidation Market* is a market in which property is regularly sold in an orderly and advertised fashion but for which nominal time constraints apply. For example, there is reasonable exposure time (but not a prolonged exposure time) before the goods are ultimately sold. Final sale price can vary considerably in this market and can at times be higher than in the retail market. *Public Auctions* are a good example of *Orderly Liquidation Markets*.
- **Forced Liquidation Market:** A *Forced Liquidation Market* is a market where property is sold quickly, within a very restricted exposure time frame, and typically without regard to whether it is the "most appropriate" market for

what is being sold. Tax Foreclosure Sales, Bankruptcy Sales, or Storage Locker Auctions are all examples of *Forced Liquidation Markets*. Sale price is typically the lowest in this market.

Primary and Secondary Markets

Another concept you need to understand when considering the value of Personal Property is whether it is being sold in the "Primary Market" or "Secondary Market."

A *Primary Market* is a market in which new items are still being created by the manufacturer and are available for sale for the first time. Computers, appliances and furniture are good examples of items being sold in a *Primary Market*. *Hummel* figurines purchased directly from *Goebel*, or *Byer's Choice* figures purchased directly from *Byer's Choice*, or original artwork purchased directly from the artist, or a gallery representing the artist, are also examples of *Primary Market* items.

Some characteristics of *Primary Market* merchandise are:

- Brand new and never-used condition;
- Original packaging with original paperwork and instructions;
- Guarantee and/or warranty applies;
- You have the right to return it if not 100% satisfied;
- In perfect condition. And if not perfect, it can be returned to the retailer or manufacturer for a refund or exchange;
- Financing may even be available.

A *Secondary Market* is a market in which items that are still being created by the manufacturer are being resold to subsequent owners in another market. Examples would be contemporary appliances and electronic items being resold via classified ad on *Craigslist*, or *Hummel* or *Byer's Choice* figurines being resold at Public Auction.

Some characteristics of *Secondary Market* merchandise are:

- Used condition; sometimes perfect and sometimes not;



- Probably no original packaging, paperwork or instructions;
- Sold "As-Is" without guarantee or warranty;
- Cannot return if imperfect or not in running order.

Obviously, buyers will value merchandise bought in a *Primary Market* higher than merchandise bought through a *Secondary Market*. And this is an extremely important point for those who are downsizing to understand: *Almost all of your merchandise will be sold in some form of Secondary Market, and your merchandise will generally only bring a small percentage of what a brand new version would bring today.*

HOME DOWNSIZING TIP: Much of your excess *Personal Property* will be sold in some form of *Secondary Market*, and more often than not it will sell for far less than what a brand new version would cost today. Be prepared for this. Auctioneers – tell your prospective clients this as well.

(Editor's note: This column on value and downsizing will be continued in the Fall 2009 PAA Magazine and will include Appraisal Values, Insurance Appraisals, Salvage and Scrap Value, Miscellaneous Forms of Value, and Home Downsizing Tips.)

This column on "Value" was taken from Michael Ivankovich's latest book "Home Downsizing in Four Easy Steps." This book focuses upon how individuals who are downsizing their homes in today's market can sell their excess Antiques, Collectibles and Personal Property for the greatest amount of cash, with the least amount of work, in the shortest amount of time. For further details on how to order this book, or to schedule a Michael Ivankovich "Cashing-In On Home Downsizing" Workshop, you can call (215)-345-6094, or visit: www.HomeDownsizingConsultants.com.