

What's It Worth?

Help clients preserve wealth by getting valuables appraised.

By Dorothy Hinchcliff

Appraisals can be critical in protecting the monetary value of clients' most cherished possessions, but it often takes an alert advisor to suspect one is needed. Clients' interests and passing remarks sometimes can provide clues that will lead an advisor to provide the right guidance.

For Peter C. Walls, an advisor and CFP designee with Prudential Securities in Richmond, Va., a remark about his watch put him on the trail to recommending an appraisal. "I've got a client in Fredericksburg, Va., and just as part of a review we were doing, he noted I was wearing a Rolex watch. He said his father had left him several when he passed away. He went upstairs and brought down probably half a dozen antique Rolex watches. [The client] kept them in a box in his house, and he had no idea what they were worth," Walls says.

Walls was concerned because he knew that many standard homeowners policies have relatively low limits on what they will pay when valuables such as jewelry or art works are lost or stolen. "I told him, 'We really need to get someone to take a look at them. If monetarily they are important to you, we need an evaluation done and you need a separate insurance rider,'" Walls recalls.

Through another client, Walls located an appraiser in the Richmond area who specializes in Rolex watches. The appraiser valued the collection at about \$20,000.

Advisors note appraisals can be very important for insurance and estate purposes, but many clients don't realize they need them. Iris Mack Dayoub, owner of Alpha Financial Management Inc. in Savannah, Ga., says her comprehensive, fee-only approach leads her to learn as much as she can about clients. "I question them about their assets and liabilities, and we find out about the things they have, especially if they have heirlooms," says Dayoub. "I have this one client whose husband had retired from the military. They were quite elderly, and they had a collection of art from all over the world. Sculptures and paintings and that sort of thing. I realized they didn't have any idea of what it was worth, and they needed to know that." She recommended a certified appraiser, who valued the collection at \$1.2 million.

Appraisals also can be critical in divorces, too, and the reason isn't always to establish a higher value on items. Frances W. Russell, a CFP and attorney for law firm Williams Mullen in Virginia Beach, Va., remembers a divorce case in which a client's husband argued her jewelry was worth the \$100,000 that she paid for it. Russell suspected it was not because a lot of new jewelry actually depreciates in value after it's purchased. As it turned out, Russell was right—an appraiser both sides had agreed upon put a fair-market value on the jewelry of only \$50,000. As a result, the wife got more money in the divorce settlement.

Renee N. Vara, a national fine arts specialist for The Chubb Group of Insurance Companies, says updated appraisals help preserve wealth. However, it may be difficult to find a qualified appraiser because the industry isn't government or legally regulated. An organization that certify and qualify appraisers is the Appraisers Association of America (www.appraiserassoc.org, 212-889-5404)

In evaluating appraisers, Vara says, advisors should look at four major elements: education, experience, examination and ethics.

The education needed can vary, depending on the appraisal specialty that's been chosen. "If a collection is silver, you don't want to send out an Old Masters specialist. It's really important to look at the collection and make sure the person has the training," she notes.

An appraiser's experience should not only be in his or her specialty, but in appraisal methodology, Vara says. "An insurance appraisal can't be used for estate purposes. Unless someone is schooled, they won't know that. An appraiser who knows what they're doing will ask, 'What's the purpose?' An estate appraisal tends to put the fair-market value a little lower. An insurance appraisal will be retail replacement value," Vara adds.

She notes it's important to have the right kind of appraisal if it is to stand up regarding estate and gift tax issues before the IRS or in divorce proceedings. The wrong kind of appraisal can result in a lost case for a client, Vara adds.

As for examination, the three major appraiser organizations all require members to be tested every five years in the Unified Standards of Professional Appraisal Practice (USPAP). Individuals don't have to pass a USPAP test to call themselves appraisers, but it certainly adds to their credibility, Vara says. She adds she is aware of court cases in which judges found for the side with appraisers certified in USPAP over opponents whose appraisers were not.

Finding an ethical appraiser also is important, Vara says. For example, it's unethical for an appraiser to be paid a percentage of the value he or she puts on an item. Most appraisers get paid by the day or the hour, Vara says, because it's hard for them to charge a flat fee without knowing how long their research will take to do a proper evaluation.

Mark DiGiovanni, an advisor with Marathon Financial Strategies in Atlanta, says it's not always obvious when advisors need to recommend appraisals. DiGiovanni, a former insurance underwriter, provides this example: A "millionaire-next-door" couple might live in a \$500,000 home. Personal property coverage varies, but it wouldn't be unusual for it to have been set at 70% of the home's value, or \$350,000, for this couple. The house's value doesn't reflect their wealth, and its contents could include higher-end furniture, fine art and collectibles that could easily be worth more than what would be provided under the standard coverage.

Also, many companies have low limits on what they'll pay in some categories, such as jewelry and fine art, DiGiovanni notes. These reasons make it important for advisors to know their clients and to make sure all items that should be are scheduled on their homeowners policies,

he says. Appraisals become important because they set the values at which the insurance company will cover the items, he says.

Art work and jewelry aren't the only valuables that need appraising. John E. Bergland Jr., owner of Bergland Capital Management in Ridgeland, Miss., says he has a client who is an avid hunter and recently built a home with a trophy room three times the size of the master bedroom. The trophy room includes stuffed and mounted wild game from around the world, as well as a collection of rifles, handguns and antique weaponry dating back to the 1800s. Bergland contacted the client's insurance company to make sure the policy was adequate. An appraisal was done that valued the items between \$75,000 and \$80,000, he recalls.

10 Steps To Choosing The Right Appraiser

Renee N. Vara, a fine arts specialist for The Chubb Group of Insurance Companies, a firm known for insuring high-end valuables, recommends these steps in choosing an appraiser:

1. Obtain a recommendation from a trustworthy source, such as a knowledgeable museum professional, satisfied client, reputable dealer, established auction house specialist or trusted colleague or collector. If you don't have access to referrals, consider calling one of the three professional appraisal organizations: Appraisal Association of America, American Society of Appraisers or the International Society of Appraisers.
2. Assess the collection. Based on its composition, it will require an appraiser with different skill sets.
3. Once you have a list of names, assess the level of experience of each appraiser.
4. Determine whether the appraiser is a generalist or specialist. For example, a collection of Old Masters paintings requires an appraiser with advanced education, sophisticated field experience and multi-language skills. If the collection includes highly valued jewelry, be sure the appraiser is, at minimum, a graduate gemologist and has access to a certified gemology lab.
5. For large or very expensive collections, it is generally recommended that the appraiser be a distinguished member or has achieved "certified" status in one of the three appraisal organizations.
6. Ask for the appraiser's curriculum vitae, or professional resume.
7. The resume should mention special training or graduate degrees, how much time he or she has spent in the field and the breadth of his or her experience.
8. If it is the first time you are employing an appraiser, ask for a sample appraisal. All appraisals should conform to the Unified Standards of Appraisal Practice. A minimum appraisal should include the following: statement of purpose (insurance, donation, etc.), sworn statement of objectivity from appraiser, signature of appraiser, full description and identification of objects or items, firm statement of value (not ranges or estimates), condition of

objects and provenance, and discussion of how value was arrived at with supporting documentation.

9. Ask the appraiser to explain fee structure. Fees should be based on an hourly, daily or set rate. The fee should never be commission-based.

10. Develop good relationships with a few appraisers who have different skill sets and expertise. It's important to keep in contact with appraisers you may use because sometimes their professional profiles or services may change.