Journal of Financial Economics 100 (2011) 443–458

Contents lists available at ScienceDirect

Journal of Financial Economics

journal homepage: www.elsevier.com/locate/jfec

Ex post: The investment performance of collectible stamps ☆

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ARTICLE INFO

Article history:
Received 30 September 2009
Received in revised form
15 March 2010
Accepted 19 April 2010
Available online 21 December 2010

JEL classification:
G11
G12
Z11

Keywords:
Alternative investments
Indexes
Long-term returns
Philately
Stamps

ABSTRACT

This paper uses stamp catalogue prices to investigate the returns on British collectible postage stamps over the period 1900–2008. We find an annualized return on stamps of 7.0% in nominal terms, or 2.9% in real terms. These returns are higher than those on bonds but below those on equities. The volatility of stamp prices approaches that of equities. Stamp returns are impacted by movements in the equity market, but the systematic risk of stamps remains low. Stamps partially hedge against unanticipated inflation. Estimates of average after-cost returns for individual investors show that stamps may rival equities in terms of realized performance.

1. Introduction

While non-pecuniary benefits like the aesthetic enjoyment of a collection of stamps or the pride in having secured a rare issuance surely motivate amateur stamp collectors, investors are more interested in how high-end stamps perform as an asset class. Just like other collectibles, stamps are often considered a comparatively safe investment in times of financial turmoil, and one that potentially hedges better against changes in the aggregate price level. For example, The Wall Street Journal (2009) recently showed how investors who are worried about the economy and future inflation are crowding out casual hobbyists in the market for collectible U.S. coins. In Great Britain, the credit crunch has made investors turn to collectibles, reportedly in the hope that coins and stamps can offer a "cycle-resistant alternative" to traditional financial assets (The Times, 2008).

To serve stamp collectors' and investors' need for a reliable price index, stamp dealer and catalogue publisher

☆ The authors would like to thank an anonymous referee, Fabio Braggion, Rachel Campbell, David Chambers, Peter de Goeij, William Goetzmann, Michael Hall, Alex Hanrahan, Campbell Harvey, Benjamin Mandel, Paul Marsh, Michael Moses, Kim Oosterlinck, Luc Renneboog, Stephen Satchell, Mike Staunton, and participants at the 2009 European Historical Economics Society Conference, the 2009 Maastricht University Art Markets Symposium, the 2010 London Business School Trans-Atlantic Doctoral Conference, seminars at Cambridge University, Newcastle University, and NYU Stern, and doctoral workshops at Columbia University and Princeton University for valuable data, insights, comments, and suggestions. For financial support, Spaenjers thanks the Netherlands Organisation for Scientific Research (NWO). Support for this work is solely from employer and grant provider; there are no personal or family relationships with commercial entities that might have an interest in the findings; all data are in the public domain. All errors are ours.

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doi:10.1016/j.jfineco.2010.12.005

Stanley Gibbons launched the Stanley Gibbons Great Britain 30 Rarities index (SG GB30) in 2004. The SG GB30 aggregates the catalogue prices for 30 scarce British stamps—a collecting area in which there is global interest—that were worth at least 10,000 GBP at the time of index construction. It is the first transparently managed stamp index; in contrast, Stanley Gibbons has never revealed the (changing) composition of its worldwide SG100 index which was created in 2002. The stamp dealer has often referred to the good performance of the SG GB30 on its Web site and in its publications. However, three problems with the index come to the fore. First, Stanley Gibbons has back-tracked the stamp values to report annualized returns since as early as the 1970s (Gibbons Stamp Monthly, 2006a). The index thus suffers from a typical look-ahead bias (Dimson, Marsh, and Staunton, 2002): the back-tracked price evolution of the constituents of the SG GB30 may not be representative of the overall price trend in the market for British collectible stamps. Second, even abstracting from the previous problem, the index does not allow one to take a very long-term view on stamp investments, since valuations for some constituents have not been available for a sufficiently long period. Third, the SG GB30 also contains rare plates and non-regular stamp types, which are likely to be especially thinly traded.

It is not the first time that a firm dealing in collectibles has created its own price index. Consider, for example, the Sotheby's Art Index, which was run in the 1980s by the famous auction house. The index values were based on the appraised values of works of art, as estimated by Sotheby's experts. Shiller (1993) argued that the index "must reflect a lot of guess work" and "would appear to have even greater potential problems than the appraisal-based indexes of commercial real estate." Nevertheless, with the impressive performance of the index in hand, Sotheby's could convince potential art buyers that the art market was full of lucrative investment opportunities (Lacey, 1998). Sotheby's discontinued their index soon after the art market crash of 1991.

In this paper, we look into the returns on British collectible postage stamps over the very long run, based on Stanley Gibbons catalogue prices. After describing price trends in the early decades of stamp collecting, we construct a stamp price index that starts in 1900, using the arithmetic repeat-sales methodology developed by Shiller (1991). We compare the resulting returns on stamps to those reported by Stanley Gibbons itself, and to the returns on a range of financial and non-financial assets. As stamp collecting is a form of luxury consumption, changes in affluent individuals' wealth can be expected to drive the market for stamps (Aït-Sahalia, Parker, and Yogo, 2004; Hiraki, Ito, Spieth, and Takezawa, 2009). Therefore, we investigate the relation between stamp returns and equity market movements. We also examine the degree to which stamps are a hedge against both expected and unexpected inflation. Finally, we give rough estimates of the realized returns of individual investors in equities and stamps after transaction costs.

Since 1900, our stamp price index has shown an annualized nominal return of 7.0%, and an annualized real return of 2.9%—a performance that is between the returns on bonds and equities, but comparable to that of art. There have been remarkably higher returns on stamps in some boom periods, for example in the second half of the 1970s and during recent years. However, there have also been extended periods of real price depreciation. After unsmoothing the real stamp return series, we find that the volatility of these returns is much higher than that of bonds and closer to equities. Once we account for non-synchronous trading, stamp returns are positively correlated with stock market movements. The beta of stamps is still relatively low, though, indicating that investors in stamps are only modestly exposed to systematic risk. We find that stamps are a hedge against expected inflation (like most assets), and there also is some evidence that they hedge against unexpected inflation (like gold). Finally, taking account of differences in holding periods and transactions costs, we find that the average annual realized return of a stamp investor can match the after-cost return of the average equity investor.

Our paper contributes to the literature in several respects. First, it contains a complete examination of the stamps market since its inception, and provides a price index for stamps since 1900. The construction of this index enables an unprecedented evaluation of the long-term investment performance of stamps. Second, our study extends the existing evidence on the relation between collectible prices on the one hand and equity markets and inflation on the other. Third, unlike previous work, we formally investigate the impact of differences in transaction costs and holding periods on the relative performance of this important collectible. Fourth, this paper will at times draw comparisons with the markets for art and gold, shedding new light on the dynamics of real asset prices.

The remainder of this paper is structured as follows. The next section contains a short history of stamp collecting and investing. Section 3 reviews the existing academic literature on stamp investments. Section 4 describes our data collection and methodology, while Section 5 reports the results of our research. Section 6 concludes and outlines future work.

2. A short history of stamp collecting and investing

Belk (1995) describes collectors as individuals who passionately, and sometimes even obsessively, search and shop for unique but in essence useless items, such as obsolete postage stamps. Stamp collecting has been an established pastime almost since the introduction of the Penny Black, the world's first prepaid adhesive stamp which was issued in the U.K. in 1840 (Johnson, 1920). Gelber (1992) reports that the hobby's first participants were women and children, who took an aesthetic interest in stamps. As stamps became marketplace commodities over the years, and as trading became a more important aspect of collecting, women and girls were replaced by men and boys. Stamps first became a fad asset in the 1860s, and stamp collecting gave rise to "an intense market-based subculture" (Gelber, 1992). The earliest professional dealers had by then already set up business, and periodicals and catalogues started to emerge.

Lucking-Reiley (2000) presents evidence of the use of several types of auctions in the late nineteenth century stamp market. Not much later, international expositions