

Mary Vandennack provides the transcript from Legal Visionaries podcast on Valuation Insights: Navigating Estate Planning with Precision.

TRANSCRIPT:

Mary: On today's episode, my guests are Molly Gron and Alyssa Quinlan of Hindman, an internationally recognized fine art auction house founded and headquartered in Chicago with regional offices in 16 cities in the United States and operating six salesrooms. More than any other auction house in the country. Actually, didn't know that fact until I read this bio. That's a cool fact. So Molly is the Senior Vice President and Managing Director of Trust estates and private clients at Hindman, having joined the firm in 2015. She manages and develops relationships with trust officers, fiduciaries, estate planning attorneys, and professional advisors from across the country. Alyssa is CEO of Hindman Auctions. She oversees strategy and day-to-day operations, as well as the firm's ongoing expansion in locations, services and expertise. She has 25 years of diversified business experience with leadership experience in private banking and wealth management in addition to fine art auction and appraisal services. I asked Molly and Alyssa to participate in today's episode to discuss a topic that they titled "The Importance of Properly Prepared Valuations and Appraisals." Thanks for joining me today.

Molly: Thank you so much for having us, Mary.

Alyssa: Thanks, Mary.

Mary: Well, Molly, could you tell us a little bit about your background and how you got started working in Trust Estates at Hindman?

Molly: Sure. Well, I have been long exposed to the art world. I give a lot of credit to my mom, she was an art mom when I was growing up in school, and so I got to go to the Art Institute every year in Chicago, once a month on Saturdays, where they would teach the curriculum to different moms and they would come and she would do it at our school, so I had this wonderful exposure from a very young age, and then I started working for an appraiser. I grew up in Wheaton, Illinois, and there's a wonderful appraiser, her name's Judy Martin. And she had three businesses. She had an appraisal business, she had a consignment store, and she did estate sales. So, I was cooking with her all over the western suburbs in the

summer. I definitely missed my job at the golf course, but this was my real first step into the art world. And then I studied it in school and then I moved to New York and went through the Sotheby's program and started working for Bonhams in New York, where I worked there for several years, but I always really loved working with the trust and estates department there, and that really led me to where I had always wanted to go, and that was to law school. So, I moved to Chicago in 2011, and there's a few schools around the country that have a real focus on art and cultural property, and DePaul here in Chicago is one of them. They're really well-known for it. It's led by the wonderful Patty Gerstenblith, and that was really where I had wanted to go. And I'm admitted to practice in Illinois, and I was just studying for the New York bar, I thought I was going to move back to New York, but then I met Leslie Hindman, and she was like, "Why would you go back to New York? You should stay here in Chicago, and you should work in our trust and estates department," and I will be with the firm for nine years this spring.

Mary: Awesome and Alyssa, what about yours? Can you share a little bit about your history and background? I think your backgrounds in finance, correct?

Alyssa: It is, yes. And shout out to art moms, my mother was an art mom as well when I was growing up, so I guess we had that commonality. I graduated from DePaul University, which is in Greencastle, Indiana, a small liberal arts college, and studied English literature there and economics and knew I wanted to go into some sort of corporate or business world position, but I really didn't know exactly what. One of the careers that I was interested in was being a management consultant, so out of college, I went into management consulting, and I did that for a few years. I was going onto different projects, I was traveling 95% of the time, which I thought was a lot of fun for a little while, but I realized that, long-term, that wasn't something I necessarily wanted to do. And one of the first projects that they had me on was in New York, and I fell in love with the culture and the pace of the city. So I ended up moving there and that is actually when I got into asset management. I was working on a mutual fund sales desk for several years. Sadly, I was there over 9/11 and, post 9/11, we lost our building. It was at 7 World Trade Center that came down after one and two in the afternoon. So, I was reverse commuting from Manhattan to Stamford, Connecticut for a couple years after that, and then in 2003, decided to move back to Chicago where I'm originally from. And it was at that time that

I started looking outside of the finance industry and, through a friend, I heard that Leslie Hindman had the auction business, Leslie had an auctioneer, and I went to an auction and I thought it was very exciting, it had a fast pace, and there was a lot going on. And, essentially, introduced myself and she convinced me to start at the firm as well, as an account executive. So that was my foray and entry into the auction business.

Mary: So let's talk a little bit about...and we were at a lunch just last week where it was really interesting, because there's a lot of conversation about auctions and appraisals, and it was fun, because I think I know a little bit about the topic. I learned a ton, but let's just explain for our listeners the auction industry generally.

Alyssa: Sure. Well, as you mentioned, the firm was founded by Leslie Hindman. And, in terms of just the auction industry as a whole, what we are tasked with doing is essentially putting buyers and sellers together, so we are a marketing firm. We are there to not only tell stories, but to be able to sell property and find a buyer at the top price, so we do have two sides of the business. We have the auction business as well as an appraisals division, which we'll talk about in a little bit more detail, but in terms of on the auction side of things, the property comes from either estates, private individuals, or museums and institutions. And we get property from all over the country, and then we find buyers globally. So, when we take property in, we assess the value of it, we take images of it, and we put it up for market, and then we find buyers that could be all over the world.

Mary: So, I'm going to ask a couple questions that might be a little off of what we talked about before we started, but I just really want to make sure listeners understand what the auction industry and what companies like Hindman do when we would call you. So, let's just say, for example, that this will be an easy one, that I have a client who collects arts and sculpture, still living currently, but let's say that step one is we're planning their estate and we just want to know the value. I can call a company like Hindman and get an appraisal done to help them understand the value of the artwork. Is that correct?

Molly: That's exactly right. Our firm has been around for 40 plus years, and for all of those 40 years, our firm has prepared appraisals for exactly that reason. People go through different stages of their collecting legacy. When they're in the acquisitions phase, they're actively looking for things to add to

their collection. Sometimes they end up holding onto that property for many, many years, and sometimes they start selling it during their lifetime, or sometimes they hold onto it all the way up until their passing. But for those clients who are living, they oftentimes, at the urging of people like you, Mary, that they should seek an appraisal, so that you all, their advisors, have a real understanding of the value of these pieces. Should they be taking extra care to set something up into a trust or should they be selling this before their passing? And it often leads to conversations like, "What should happen to this after I pass?" And those are the conversations that really, I think, are so important.

Mary: One of the things, originally, when I would go to a conference and there'd be various of the auction companies advertised, and it was really common to see pictures with books with artwork, and so I will tell you that, even though I know differently, I would think of... I'll call the auction companies when I have a client with a lot of art... Well, I'm in Nebraska, and instead, I have clients that are more likely to have gun collections, and so I was just going to ask you guys to share some of the different types of property that you do see on a regular basis other than your traditional artwork.

Alyssa: Sure. So, some of the different categories that we sell, in addition to fine art, we sell furniture and decorative objects, which would be your silver, your china, we also sell a lot of rugs. Typically, things that you would find in a household. You mentioned Nebraska, arms and armor is another category that we sell. We have Native American, we sell western art, we sell sports memorabilia. Molly, what else am I missing? We have over 52 categories that are represented in the 140 sales that we have every year, so there is never a dull moment here.

Mary: Well, I think there's even wine as a category, isn't it? Or is it alcohol? But I know that I picked up a wine catalog when I was at the Notre Dame Tax Institute, and I don't know if it was yours or somebody else's there, but it was like, "Yeah, that's right." And I know that you can go in sometimes to one of your locations and you'll have exhibits of different types of things, and so I just thought...again, I just wanted to eliminate the concept. And you mentioned the memorabilia, and I think that one of the things that I realized that a client called me that had a collection of Elvis Presley stuff, and it was a bunch of stuff that looks like it was old, dust-covered, dirty, but it ended up being quite valuable, and so I believe one of the things that you

guys can do is, if somebody has a collection of some sort, you'd be able to at least do an assessment, "Yeah, that's going to have no value. There's no point in having us appraise that," or "Hey, that might have some real value. We got to have more conversation about that." Are there any other unique categories that either one of you can think of that just might be worth mentioning?

Alyssa: Sure. Well, I should, just for the record, state that we do not handle the wine or cars at Hindman, but pretty much everything else that you would find in a home, we sell. Jewelry is another major category that we see so much of in private collections and in different estates, but in terms of the unique collections, that is one of the most fun things about our jobs, is that you always are finding these new and esoteric collections that people have spent years and years putting together, and we get to come in and see them after they've spent so much time and travel putting together. That is really one of the fun aspects of our jobs.

Mary: That's why I say with myself, is seeing some of that. It's just really like, "Wow, it would've never occurred to me to collect that."

Alyssa: Right. One was a nutmeg grinder collection that we saw years ago, another was an erector set collection. We did sell a huge collection of Elvis Presley memorabilia from the president of Elvis Presley's fan club, his name was Gary Pepper. And every time somebody would join Elvis's fan club, he would send them a lock of Elvis's hair, so years later, after Elvis had passed away and after Gary Pepper passed away, the estate came up for auction and we were handling it, and so there was clothing that Elvis wore with images of him, there were all sorts of posters and movies, and things like that. And we came across this...basically, this clump of Elvis's hair. And we had it dated and it was proven that it was Elvis's hair, and I think it sold for something like \$40,000, because his fans wanted to be able to clone him. So, you never know what you're going to see.

Mary: So, I usually think there's a common misnomer about almost every industry. Is that true of the auction industry? And, if yes, what might it be?

Molly: I always come back to people are curious on how to bid in our sales, and so the bidding process I think can be a bit of something mystical to people, but at our firm, there are four ways you can bid at an auction once you go through our registration process and you sign our terms of sale

where you're allowed to bid, but for us, you can come and you can bid in person, you will receive a paddle, and you'll be able to wave it in the air just like you see in the movies. You can bid live over the telephone with a representative from our firm, so we'll call you a few lots before the one that you would like to bid on, and we'll actually talk to you live during the sale and we'll say, "Okay, the bid is with you at \$50,000 and now it's against you at 52,000. Would you like to bid 55?"

So it's like you're there in the room, but you still have that privacy where you don't have to be there in person, and you can also bid...you can bid online, which has become extraordinarily popular over the last many years, and then you can also leave what's called an absentee bid, where we will execute the highest amount that you are willing to go. We'll execute that bid on your behalf and if the bidding exceeds that high number, then we'll thank you for being an underbidder, but you'll...maybe some people who have maybe self-control problems, absentee bidding is a really good idea for you, but in terms of a misnomer, when I started in this business 18 years ago, there were a lot more people who came to the auctions, because that was the best way to bid in the sales. You'd show up and the rooms would be very crowded, and people would be bidding nonstop. Today, most of that exists, that bidding exists online, and a lot of that is due to the real global nature of where our buyers are. So, people aren't just from...if the auction's taking place in Chicago, it's not just the people bidding in the Chicago area or the Midwest, or if it's in Palm Beach, it's not just Florida. We have people who are dialing in from all over the world for this, so the bidding, I would say, is the biggest thing. So, I hate to dispel any ideas of crowded, crowded rooms. That's not to say it doesn't happen, we sold the state of Lilly Pulitzer several years ago in Florida, so we had about 600 registered bidders, and you can imagine how many of them came in their Lilly Pulitzer dresses to buy something from her estate. So it happens, but the internet has really changed the game on bidding.

Alyssa: And I would just add that some people think that it is private, that it's not open to the public, that you have to be a member to be able to bid at auction, and so that is one thing I always try to let friends and advisors know, that it is absolutely open to the public and anybody can bid at auction.

Mary: I was going to say I'd be a person who didn't realize that at one point, but I have a girlfriend who's another trust and estate attorney, and whenever we travel, she knows where all the auction houses are, and she's

like...she buys all of her jewelry through that methodology. I'm like, "Wow, okay."

Alyssa: I love that.

Molly: We'd love to meet her.

Mary: You may have, but I'll make sure that happens. Okay, so anyway, I want to talk a little bit about the appraisals and the importance of valuing that. So I would tell you that it's one of those really interesting things, and I share the story that I have to make it up a little bit, so I don't violate any confidentiality, but let's just say that I was visiting a client's home, didn't realize that some people build their homes in what's called museum style, which this house was, and it had all these beautiful statues and things like that. Well, being a person who isn't that big of an art collector type, and I'm more into sports memorabilia and all that, so I don't have an appreciation for all the fine arts, I do have some really cool sports memorabilia, but I was in this house looking at these things, had no idea. And what they did is they said, "The studio of the artists that make some of these is downtown, you should go walk through it." So, I went and walked through that studio later only to see the price tags on these statues that I've been looking at in their home thinking, "Holy cow, I am so glad I didn't touch, breathe, or do anything near any of those things," because two of those would exceed one estate tax exemption. So, can you talk about how, what you do, and again, why the appraisal process is important in terms of estate taxes? I think it's one of the areas in planning that may get overlooked from time to time.

Molly: Well, you've touched on the biggest issue and that is understanding the differences between values, because values mean different things. This is why we have a separate appraisals entity. So Hindman Appraisals is very separate from Hindman Auctions for a reason, because they have to be confidential and independent. It's led by a dear colleague of ours, Tim Luke, who is a very well-known appraiser, and he, just to brag about him for a second, he was recently the vice chair of the Appraisal Standards Board, which is part of the Appraisals Foundation, which is who Congress designates to maintain, uphold, interpret the use PAP, which is the uniform standards of Professional Appraisal Practice, which is really the standards that qualified appraisals require, but Tim will be the first one to tell you that, really, where we see the biggest issues is when people have a

misunderstanding of what the value of the tangible personal property that they have, and it comes up even more in an estate, but there's a big difference between what people will pay at retail prices, and those are typically where we start for insurance values. Those are very different from fair market values, which is really what the IRS uses to determine value for estate taxes. And then auction estimates typically straddle, but also come a bit further, because auction estimates need to be more conservative. They're meant to really entice people to want to bid at an auction. So, if we estimate on something on the auction side too high, people won't really bother to even bid on the sale or register, and if you come too low, people are going to wonder what's wrong with it, so there's a real sweet spot to valuing things for auction. But I would say understanding the differences, not relying on, say, an insurance value or what someone paid for something, to use that during the estate planning process. If they think... and we see this a lot with jewelry, with, let's say, a big diamond where it's absolutely normal for somebody to purchase a diamond ring and have it be \$500,000. It's definitely a big mistake to say, "Okay, we'll sell it for half a million dollars at death, and child one will get a \$250,000 and child two will get \$250,000. We see that all the time.

Mary: So I'm going to ask a question on that, and I just want to elaborate on one point that I think you're making. So, when we look at assets for estate tax purposes, everybody has an exemption. It's \$10 million, it's inflated, it's 12.94, something like that this year, but when we're adding that up, we're adding up if they own real estate, that's going to be added. But these personal effects are added for purposes of federal estate taxes, and what I heard you say is, "Well, there's the value that, when I walked into that studio and there's a \$5.2 million price tag," that's a retail price that may or may not be the value that's going to be for estate tax purposes. So, there's a valuation when somebody dies, but let's go for a minute to the question of...let's say that I own one of these very cool statues and I want to give it to my child who has now bought this cool place and it'll work really well there. Because it's worth \$5 million, I'm going to be using part of my lifetime exemption to transfer it. I assume you can help us appraise it for that purpose, and what would that appraisal look like?

Alyssa: Yes, so that is a very good point, and what I think some clients, it is difficult to wrap your head around, is that one object can have multiple values. So, what Molly did refer to is that an object, when you go into the store to replace it, you would pay that top price and that is what you would

want for an insurance purpose. If you had to go into a gallery, buy it without any time to look for that at auction, you are going to pay a premium for that, and then the fair market value is really more defined as that secondary market. So if you were going to gift that statue to an heir or a child, that would be something that you would need to document for the IRS and we would be assigning a fair market value. And that is something that, at the \$50,000 level or above, there is the IRS art advisory panel, and so there is the potential that they may audit that and do a review of it at the end of the year, so they look at that for estate tax purposes as well as for gift and donation appraisals. And so, we are always going to be looking at comparables to be able to justify the values that we are assigning, because people can either...that is going toward the estate tax amount that they would be paying at the end, or it might be for a tax write-off for gifting or donation.

Mary: And so, if I were to be working with a client and call you and we have this particular...I'm just going to stay with my statue example. And so what we wanted to do was...well, we are concerned about insurance and if this got destroyed, we might need that insurance value and we're going to want to make sure that's going to be a full replacement cost, because we want to be able to replace it, assuming it's replaceable, which is a whole different issue, which is going to be different from if I'm going to actually gift this to my child, but they're...in terms of there are different values, but it actually, there's logic to it, there's support for it in the statutes, in terms of what the definition of fair market value is for the purposes, but if I contact you about that...and let's just say it's not me, let's say like a client just calls you. Are you going to talk to them about which appraisal process is appropriate for them and how to make sure that they have an accurate appraisal for what they're seeking?

Alyssa: Absolutely. We walk through that whole process with our clients, and we ask, starting out, what is the purpose of the appraisal? Sometimes we do provide both values, so we'll do a side-by-side comparison for clients that will include the replacement value as well as the fair market value. And that fair market value could be used for financial planning, estate tax planning, for many different purposes. So, a lot of times clients will ask for both, so that they can have the current values for their insurance needs, and then for planning purposes, they ask for the fair market value. And a lot of times, clients will ask us, "Is there a formula? Is it 50% of the retail replacement value? Is it 25%?" And we have to explain, it really is case by

case on as to what the object is, so you can't just say "Fine art." It really does depend on who is the artist, what is the medium. A contemporary work of art that is valued at \$100,000 for replacement value might have a very close fair market value. It might be worth close to \$100,000 for fair market. A piano, a Steinway piano, for instance, that could be \$100,000 if you were to go into the showroom and buy a brand-new piano. That piano at auction would sell for close to \$25,000. There is just not much of a secondary market, so you see a much bigger disparity between replacement value and fair market value for pianos, for example. Jewelry, we talked about a little bit. You could have \$100,000 diamond ring and that might be worth \$50,000 at auction depending on, "Is it from a notable designer, maker? What are the materials that were used for that?" So, it does, there's a big variety of prices and, really, you do want to work with accredited appraisers that are going to be able to do that research and come up with the exact value.

Molly: And Mary, where we see people and families get into trouble is when you have G1 trying to equalize giving...trying to make the tangible personal property, trying to split it up. If their goal is that they have three children, and we see people try and say, "Well, we're going to give the painting to this child and we're going to give the diamond ring to this child and we're going to give the rest of the household contents to this child," and we think it's all about the same. If your goal is to give these children, or your beneficiaries, equal amounts, trying to do that with assets, with hypothetical numbers, which fair market value numbers are hypothetical, because we haven't sold these things yet, it's really hard to do that. Where we see a big shift towards people having very good counsel and saying, "Okay, if none of these three beneficiaries are actually interested in the stuff," which I joke, I could give a speech called "I can't believe my kids don't want my stuff." There's just that generational shift in wanting to inherit a lot of your parents' or grandparents' property, but it's a lot easier to split a check three ways than it is to split a painting three ways or a diamond ring three ways. So, we've seen a big shift towards keeping the property together, selling it on behalf of three beneficiaries or through the estate, and then the proceeds being split. So that's a much more transparent way of going through that process.

Mary: And I'd say, as somebody who helps a lot of people through estates, it's always interesting to me, you can have some really big-ticket items that nobody's interested in, but there's a family fight over the nativity set that

was under the Christmas tree when somebody was in kindergarten, right? So, I think, from the perspective of an attorney who counsels clients on this, is have a conversation about that. And, personally, I like to really treat the personal property as separate from the rest of the estate. Say equalization in your hard assets, real estate, cash investments. Personal property, at some point, have a conversation with your kids and get clear that, "We're not going to figure this out. If there's something that's really important to you, we're going to do that. If it's something that's worth a lot, we might do some equalization," but at the end of the day, treat the personal property and the rest of the estate a little bit differently, and they're different conversations.

Well, one last thing I'd like to ask you about is, I'm sure you guys get some of the fun of being involved in some of the celebrity estates who may or may not have been handled in a way and or get tied up in nasty divorce settlements. I can think of several interesting names and in the era of artificial reproduction and a whole lot of other things, there's errors that show up all over the place after the fact, but are there some examples of estates that you might want to mention that would give us some guidance on, "This is maybe not the way to do it, and so think about doing something that's a little more efficient or helpful after you pass"?

Alyssa: I would say one of the recent examples that, I think, comes to my mind is Prince's estate. That was one where there wasn't a plan in place, and so we always encourage clients to have these discussions with their advisors early and to title assets in a way that is...they're putting them in trust and they're doing this ahead of time. So, with Prince's estate, that was one where, obviously, there's been in the news a lot of new heirs that have been coming to the table saying that they have a claim to the personal property. And the need for appraisals at a very detailed level was something that has been very interesting, just from an observational standpoint. We do a lot of appraisals all over the country, we do some international projects, and some for clients that have multiple homes, multiple storage facilities. And if you don't have records going into it, when there is an estate situation, it is something that can be...there's a lot of emotions at play, there is a lot of moving parts that are going on, and so it is very interesting. And, like I said, the emotion. You talked about some of the things, I think you were alluding to sentimental value, and that is so true. We find that clients, all the time, are wanting the things that they remember their mother, maybe a diamond ring that the mother wore, or one time, it was a family that wanted the fireplace tools, because they

remembered their father stoking the fire at the holidays, and that was something that was more important to them than this Asian dish that sold for \$100,000. They were fighting over the brass fireplace tools that were worth literally less than \$40. So, it's fascinating, it's just something that I think, in our industry, there is...you can't really put a price on some of those things with the sentiment value. We are there to assign values for how it be passed on in the secondary market, but the sentimental value is something completely different.

Mary: So, there's the value for estate tax purposes, and then there's a separate value in terms of what people want. And I would just say that, a lot of times, there's a lot of assumptions on the part of my clients, and at some point...I'm not a big, "Go disclose everything you're doing to your kids," type of person, but at some point, when it comes to those type of things, you can prevent the fights about the nativity set by talking about it while you're still alive. Well, do either of you have any last thoughts as we come to the end of our time today?

Molly: One thing that we've seen, just a constant increase in request for, is that we have a lot of clients who are very charitably inclined. We have clients who have...they're very passionate, whether it's towards a particular art institution or towards a university or a school or an organization that's near and dear to their heart, and one thing that we're always just so excited to do is to be able to work with clients either during their lifetime or after death to be able to help support those institutions. So just being able to have the ability to express through your estate plan that certain assets that they have are going to be either gifted directly, gifted outright to a library or a museum. That's always such a pleasure for us, to be able to prepare those donation appraisals, which have to be prepared within 60 days of that donation. But we always love to see where would like to see these things end up. Alternatively, we love it when we're able to work with clients who, say, have a jewelry collection or a books and manuscript collection where they would like to sell the collection with the proceeds of the sale directly benefiting paws or a certain school. We had the thrill of working with the Rumsey Hall School in Washington, Connecticut a couple of years ago. They had a parent with some children who had attended the school. They had gifted a painting by an artist named Martin Wong, and at the time of donation, which I think was around 2005, Martin Wong's market was not particularly...it was new, it was young, things had really not circulated onto that secondary market, but in those years...he died very young as well, he

was a Chinese American. But when we worked with the school who was looking to sell the painting, because they had found out that they had had this wonderful work, a large, large work that was a gift to them, and we said...well, when we were talking to the school, we said, "Well, where did you have this painting all these years?" And they said, "Well, it was in the 10 to 12-year-old boys' dormitory." And we all gasped, that this is a heavy six-figure painting that was in a boys' dormitory where, from what I've heard, there's maybe several indoor lacrosse games or Nerf ball fights or things, and so to think that this painting was intact through all of those years of students living in that dorm, and we were able to bring it to auction, and it sold for...I think a record price was sold for \$1.1 million, and to think, "Oh, my goodness, that this is something that has been living with these boys who...and, apparently, it was a dorm favorite. They posed for pictures in front of this every year. So, it was so wonderful for us to have heard that story, learn that, and even though...from the time it was gifted, I think it was worth around \$5,000. That, within about 15, 16 years later, this piece had really sold for \$1.1 million. So, I'll just end with the importance of updating appraisals and that you cannot have appraisals that you could rely on from 30, 40 years ago, and in some categories, like contemporary art where markets shift very quickly, it is important to keep going back to be able to update those appraisals, so your advisors are aware of big changes. But that was a happy ending and one of our favorite stories.

Mary: An excellent point. Well, thanks to both of you for participating today. As we reach the end of our episode, I want to thank our sponsors, Interactive Legal, Foster Group, Veterans Victory, and Carson Private Client. That's all for now. Thanks for listening to today's episode and stay tuned for our weekly releases.