Profitable Collecting: Do Stamps Make the Grade?

Objective: Background and Purpose

Americans spend approximately five percent of their annual household expenditure budget on hobby related leisure activities and up to five hours per week engaged in the collecting process (Bureau of Labor Statistics, 2014). The act of collecting material goods and artifacts is often classified as non-economic behavior; however, on household consumption choices at both the household and macroeconomic level. The purpose of this research is to compare and contrast the market for collectible postage stamps against more traditional investment indexes as a step to determining if expenditures on collecting can ultimately enhance the wealth position of collecting households.

Significance

Nearly all American households collect some type of material good or artifact. Total consumer expenditures involving the pursuit, purchase, management, and disposal of collectibles is significant. Consider the postage stamp collecting marketplace. According to CNBC (2010), the market for collectible stamps in the U.S. alone exceeds $1.18 billion. Americans spend over $200 million per year buying stamps. Collecting serves many purposes. Collecting can generate psychic income for collectors and it can be emotionally fulfilling by creating a link to the past. Collecting can also be a stress reliever and a form of sensation seeking (e.g., "the thrill of the hunt"). Beyond purely psychological reasons, most collectors (excluding hoarders) also hold an implicit hope that their collections will appreciate in value. Whether this is true, especially in relation to the postage stamp marketplace, is a subject that has been under researched from a consumer perspective.

Method

U.S. collectible stamp data were collected for the period 1969 through 2013 using the standard pricing catalog published by Scott Publishing Company. Specifically, prices were obtained for stamps comprising three Linn's Stamps News stamp indexes: Classic, Modern, and Airmail. A composite weighted index was created by combining values from the three indexes. Mean, standard deviation, and coefficient of variation estimates were calculated and compared to investment market data for stocks, bonds, T-bills, and gold. Data were obtained from the Stern School of Business at New York University (http://people.stern.nyu.edu/adamodar/).

Results

Table 1 shows the correlations between and among the stamp indexes, stocks, T-bills, bonds, inflation, and gold. In general, stamps were negatively associated with bonds and stocks but positively related to T-bills, inflation, and gold. Findings suggest that collectible stamps may be useful to fixed-income investors (households) as a hedge against rising interest rates.

Table 1. Correlation Coefficients of Assets

	Classic	Modern	Air	Total	Stocks	T-Bills	Bonds	Inflation	Gold
Classic	100%								
Modern	88%	100%							
Airmail	80%	87%	100%						
Total	89%	97%	96%	100%					
Stocks	-12%	0%	-10%	-6%	100%				
T-Bills	44%	37%	22%	30%	6%	100%			
Bonds	-35%	-38%	-35%	-39%	3%	20%	100%		
Inflation	73%	69%	62%	68%	-13%	71%	-7%	100%	
Gold	31%	50%	60%	56%	-23%	1%	-17%	32%	100%

Table 2 provides mean, standard deviation, and coefficient of variation estimates for stamps, stocks, T-bills, bonds, inflation, and gold. Returns for stamps exceeded inflation over the period; however, the variability of returns, as measured by standard deviation, was relatively high. For example, the variability of returns for classic stamps matched that of stocks but returns were lower. When evaluated on a risk-adjusted basis, stamps performed worse than other mainstream investment alternatives.

Table 2. Descriptive Data for Stamps and Investments

	Mean	SD	Coefficient of Variation	Risk Adjusted Rank
Classic	5.50%	11.93%	2.17	4
Modern	3.29%	15.00%	4.56	7
Airmail	1.60%	18.08%	11.28	9
Total	3.24%	15.18%	4.69	8
Stocks	10.32%	11.93%	1.77	3
T-Bills	5.20%	15.00%	0.62	1
Bonds	7.10%	18.08%	1.40	2
Inflation	4.32%	15.18%	3.59	6
Gold	7.78%	15.26%	3.54	5

Note: The coefficient of variation (CV) is the ratio of the standard deviation to the mean; the coefficient normalizes returns based on risk. High CVs indicate relatively worse risk-adjusted performance.

Conclusions

Do stamps make the grade as both a collectible and an investment? Results from this study are not clear-cut. Classic stamps—those issued prior to 1933—performed relatively well compared to other investment alternatives. Modern and airmail stamps did not do as well, either on a mean or risk-adjusted basis. The key takeaways are: stamp collectors should (a) enjoy their hobby but not collect purely for profit and (b) choose their collecting interest carefully if they are interested in keeping pace with inflation. Classic stamps do appear to offer a modest level of hedge protection against falling bond and stock values, albeit with a high degree of volatility.

References

Bureau of Labor Statistics. (2014). *American Time Use Survey—2013 Results*. Retrieved from http://www.bls.gov/news.release/pdf/atus.pdf

CNBC. (2010). *Stamp market tougher than it looks*. Retrieved from http://www.cnbc.com/id/39443781#.