

100J The Summit of Stamp Collecting
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Topic of the Month
“The Health of the Graded Market”

The original version of this article appeared as “The Topic of the Month” in the May-June 2019 issue of the grading newsletter, **100J**. We considered it the most important topic we could share with our readers. It is the first time that such a study has ever been formally undertaken. This topic is of vital importance to everyone involved in our hobby.

First, the Conclusion!!

While it should seem strange that we start our discussion by revealing the conclusion, it provides us with an easier format for arriving at a conclusion. Just bear with us.

The graded market is not only healthy, but is continuously improving. In fact, grading is rapidly forming the foundation for the future philatelic hobby. Without the increasing presence of grading, the philatelic hobby in 2019 would be one approaching stagnation and eventual demise.

Defining “Health”

We need to start our discussion about the health of the graded market by defining what we mean by the word “health” when focused on an inanimate object such as the graded stamp market.

Falling back on the Merriam-Webster dictionary, we selected this definition - **“a condition in which something is thriving or doing well.”** This definition suits us as it is simple and to the point.

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Measuring Health

With the definition in hand, we now need to determine what metrics will tell us how the graded market is performing. Unfortunately, there are only a few metrics that will provide us with a clear understanding of the health of the graded market

We will examine two existing methods that could be used to measure the health of the graded stamp market - the Scott United States Graded Stamp Report (SUSGSR) and number of graded stamp certifications.

The SUSGSR. The most traditional method to measure health is to evaluate sales to determine their performance. While this sounds like a sound method, how do we measure the sales of thousands of graded stamps and their resulting performance?

Linn's and then Scott has attempted to accomplish this through the use of a graded stamp report. The SUSGSR has a representative portfolio of 63 stamps and measures their value movement on a quarterly basis. While the report is well constructed, the quarterly price changes need to be more thoroughly vetted and are a major source of concern.

While the graded market appears to be undergoing significant changes, the SUSGSR shows only minor quarterly price movements with none exceeding 1% in any quarter. Based on what we see, this just doesn't reflect the actual price movements in graded stamps.

The SUSGSR gathers price movements from, "Auction sales results and dealer price lists for graded material ..." We have never been a fan of dealer price lists to represent price changes since those offer prices are all too often negotiated at different prices than listed in the price lists and, most importantly, do not represent actual sales but rather offers.

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Measuring Health (continued)

The SUSGSR (continued). Most importantly, the quarterly auction price movements supplied to Scott appear completely out of touch with actual auction results. Later in this article, we will disclose the valuations project we have undertaken to capture actual auction sales data.

The potential value of the SUSGSR hinges on obtaining accurate price movements. If the quarterly price changes are questionable, then the entire reliability of the report is greatly diminished to the point of not being capable of reporting the health of the graded stamp market.

One last point needs to be addressed. The SUSGSR consists of a sampling portfolio of 63 stamps. While the portfolio has already undergone one major overhaul in the selection of its components, we have no indication yet whether this sampling of stamps can adequately measure actual performance of the market and therefore the health of the market.

We give Scott a very solid grade for their effort to provide philatelists with guidance on the performance of the graded market. We hope, that in the future, they focus on the quarterly price changes which drive the results of the SUSGSR. Without a thorough vetting of the price changes, the value of the SUSGSR will remain in question and not be the answer to how we measure the health of the graded stamp market.

The Number of Graded Stamp Certifications. Another way to judge the health of the graded market would rely on how grading activity is changing. This would probably be measured best by the number of graded stamp certifications requested of the major grading organizations.

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Measuring Health (continued)

The Number of Graded Stamp Certifications (continued). If we could obtain accurate records of how many grading requests these organizations (and other secondary players) receive on a periodic basis, we would have a good understanding of graded stamp activity. While this would not provide us with a strict performance metric, it would point us in the direction of the health of the graded market.

This approach might actually provide us with one of the best ways to determine the answer to our question. Unfortunately, while we can estimate some of this activity, actual and complete data is confidential and is not available to us.

While we have mentioned two methods, neither one is satisfactory to adequately answer the question of the health of the graded stamp market. Therefore, where do we go from here to determine a valid answer to our significantly important question?

Auction Valuations Project

Your Editor is involved in a research project that may answer many questions about the graded marketplace. I started this project in late 2016 and continued through early 2018. It was parked for the majority of 2018 due to certain issues. I have again started this project in April 2019 with ***improved metrics and reporting***. So, here is my answer to our "question of the month."

Auction Metrics. Thanks to current reporting, full disclosure of sales through auctions (eBay and major auction houses) is easily accessible.

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Auction Valuations Project (continued)

Auction Metrics (continued). Graded sales through eBay, while numerous in quantity, provide insignificant metrics since most sales are lower valued items. Higher valued items usually sell on a negotiated basis. When a "Buy it Now" item is sold at a "best offer accepted" price, the actual sold price is not disclosed by eBay. This eliminates obtaining metrics (actual sales data) on the better graded items sold through eBay.

Therefore, obtaining auction data from the major auction houses would seem to point us in the right direction. When we review an auction, we generate many interesting and useful metrics. I think it is important that our readers understand what sort of analysis we perform on an auction.

First, we only report on the sales of PSE-graded stamps. Why only PSE? The reason is very simple. PSE is the largest grader of stamps by a huge margin. PSE is also the only grader that provides valuation data on all grades. Scott provides valuation data but not on any jumbo grades and only up to grade 98. It also provides very limited valuation data on 20th and 21st century stamps. PSE's valuation data is the most comprehensive available.

In judging the health of the graded marketplace, what auction metrics do we track that can be used to help answer our question?

While almost all the metrics that we track can help in part evaluate the health of the graded market, we report one metric that fully answers the health question. It is a comprehensive metric that addresses all PSE-graded auction sales. The key metric that we use to evaluate the health of the graded stamp market is - ***Percent of SMQ***.

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Auction Valuations Project (continued)

Percent of SMQ. This metric is a simple calculation dividing the total lot realization by the SMQ valuation for the lot. The following two examples should eliminate any questions regarding this important metric.

Lot 1. Sold for a total realization (hammer price and buyer's premium) of \$900 (hammer price \$750 + 20% buyer's premium of \$150). The PSE valuation (SMQ) for the lot 1 stamp was \$1,200. Lot 1 sold for a Percent of SMQ of 75.0% ($\$900/\$1,200=75.0\%$).

Lot 2. Sold for a total realization of \$1,500 ($\$1,250 + 20\%$). The SMQ for lot 2 was \$1,250. The Percent of SMQ for lot 2 was 120.0% ($\$1,500/\$1,250=120.0\%$).

SMQ's below 100.0% indicate a market where supply may be greater than demand. The lower the Percent of SMQ, the more it points to a weaker market.

SMQ's above 100.0% indicate a market where demand may be greater than supply. The higher the Percent of SMQ, the more it points to a healthy market.

With a method to determine the health of the graded market, all we need now are the data points - the sold auction lot realizations and SMQ.

2019 Auction Results

As of the date we are writing this article, we have fully analyzed 12 auctions held in 2019. These auctions are -

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2019 Auction Results (continued)

Harmer-Schau	Sales 118 (Jan) / 120 (Aug)
H.R. Harmer	Sale 3024 (Apr)
Kelleher	Sales 722 (Feb) / 724 (May)
Matthew Bennett	Sale 358 (May)
Schuyler Rumsey	Sale 85 (Apr)
Robert A. Siegel	Sales 1197 (Mar) / 1199 (May) 1202 (May) / 1205 (Jun) / 1206 (Jul)

We review several auction each month. While individual sales results vary significantly, adding a new sales result to the cumulative results provides us with a more insightful view of auction metrics. In other words, as more auctions are reviewed, the average Percent of SMQ becomes a much more accurate measure.

The Cumulative Percent of SMQ

Calculating the percent of SMQ for all the PSE-graded lots in all the auctions we have reviewed provides us with a view of the graded market. In a healthy market, stamps should sell for a high percentage of SMQ indicating demand equaling or exceeding supply. When stamps can be purchased for a small percentage of SMQ, there is less demand and greater supply which are both characteristics of a market that is not healthy.

We believe that a Percent of SMQ of 85% and higher is indicative of a healthy market. Further, when the Percent of SMQ is 65% and lower, it is indicative of an unhealthy market.

In the twelve auctions reviewed, we have analyzed 1,403 auction lots of PSE-graded stamps. The cumulative Percent of SMQ for all these lots was

97.0%

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And Finally the Conclusion, Again!

From our perspective, this represents a very healthy graded market in which 10 of the 12 reviewed auctions exceeded the 85% threshold minimum.

Therefore,

The graded marketplace is not only healthy, but is improving continuously. In fact, grading is rapidly forming the foundation for the future philatelic hobby. Without the increasing presence of grading, the philatelic hobby in 2019 would be one approaching stagnation and eventual demise.

The Future

To the best of my knowledge, this is the first such analysis performed on the health of the graded stamp market. It is original theory and work. Most importantly, we will continue with our auction work and update the cumulative Percent of SMQ on an on-going basis.

We would like to hear from our readers about their thoughts on the health of the graded stamp market. Please share your thoughts with us. Email me at - ray@100j-grading-newsletter.com.

Thank you for your continued support of our grading newsletter,
100J.

Ray Lieberman
100J Editor