

# Are Designer Bags a Good Investment?

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The idea for this article came from a personal interest. As you may know, I have a business and finance background and I also like to apply it to what is going on in fashion. The reason why I was drawn to analysing bags as a financial investment is that I keep seeing articles in fashion magazines, online retailers and resell platforms and videos online encouraging readers and viewers to purchase so-called "investment bags". These articles claim that bags such as the Chanel Medium Classic Flap bag or the Hermes Birkin bag would be a better investment than a house, equities or gold. At first, their arguments may seem really compelling, but let me share my research and the results which differed greatly.

# **Basic Information about My Analysis**

Before I start my analysis, I would like to draw attention to a couple of things:

## **1. Definition of “Investment”**

We need to define the term “investment”. I keep hearing that people will “invest” in a designer bag. “Investment” in a business sense means that you invest in something, i.e. you buy something with the goal of making a profit with it. Most of the time when people tell me about their “investment” in a designer bag it comes from a more emotional background: they have saved for a long time and now want to purchase a certain bag which they will (hopefully) cherish for a long time. But this is the difference – this is a “purchase”, or the fulfilment of a wish, not an investment in a business sense. This article does not cover this emotional perspective, it purely looks at investments from a business perspective.

## **2. Fashion magazines, online retailers and resell platforms will, of course, encourage us to “invest” in fashion items rather than any other asset.**

They have a commercial interest to promote this which may give you the impression that there are no other alternatives to invest in the luxury space. I would just like you to be aware of that.

## **3. The goal of this article is to give you a broader overview if you are considering to purchase a designer bag.**

As with any purchase or investment, there are multiple dimensions to consider. (Please note that I am not a financial advisor and this article just shares my point of view.)

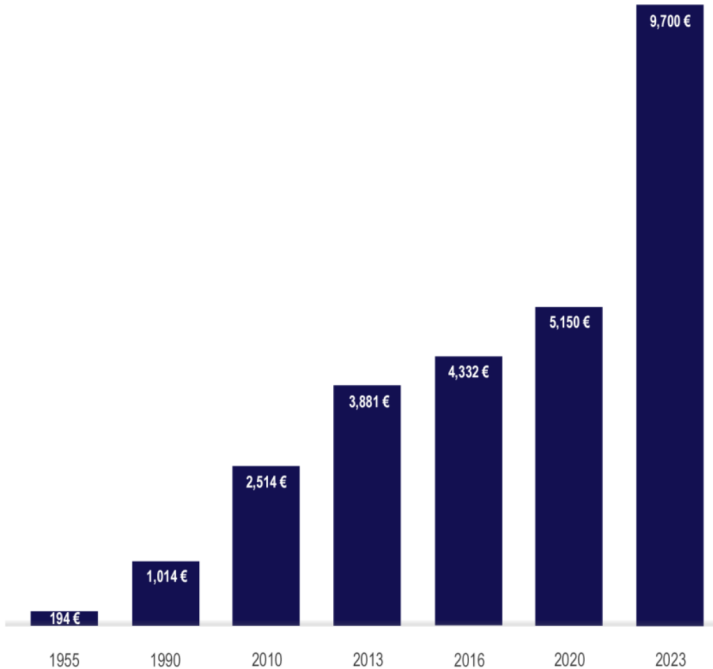
## **4. I do not aim to push you into buying anything.**

I would just like to give you various points of view which you may consider before your purchase. Please note that this article is not intended for investment advice or recommendations but rather to simply share my analysis with you on alternatives available to luxury handbags. If you have further questions on investing, please consult a licensed financial professional.

## **Argument No. 1: “Bag Prices Have Steadily Increased Over Time”**

This is the major argument of the majority of these publications. I am going to discuss here is the way value is defined by most articles in favour of these “investment bags”. My graph is taken from a fashion magazine[1], expanded by the most recent price increases and shows the price development of the Chanel Classic Medium Flap bag (lambskin[2]).[3] The first iteration of this bag was created by Gabrielle Chanel in 1955. The articles and videos in question do not factor in any commissions or other incentives that online retailers and platforms take. As we do not know what these are, we are assuming that they are zero for this analysis. Furthermore, these publications assume that something bought in 1955 is still fashionable today. Let’s assume that is the case for now, but i find this a bit unrealistic. However, that being said, we have seen things sold from that era at attractive prices today, so it is possible. I will elaborate on this perspective of items being in fashion a bit later.

# Chanel Bag Price Development



Sources: Weekend Style Magazine, May 2020, pp. 18-20; (Note: no sources given in the article); [https://fbagaholic.com/blogs/lv\\_bagaholic/chanel-classic-flap-eu-price-list](https://fbagaholic.com/blogs/lv_bagaholic/chanel-classic-flap-eu-price-list); <https://www.sothebys.com/en/articles/understanding-the-latest-chanel-bag-price-hikes-and-the-resale-market#:~:text=The%20Chanel%202.5%20was%20first,price%20increase%20in%20March%202023.>

Merely looking at the price, we may assume it was a good investment. From the equivalent of almost EUR 200 in 1955 to EUR 9,700 (it retails in the US for USD 10,200) in 2023 – that would be more than 46 times the value, crazy, right? However, what this graph fails to mention is facts such as inflation, purchasing power and rate of return. Sounds complicated but simply put it means that EUR 200 in 1955 had a different value than today. We cannot compare apples and oranges. Secondly, I can only assume that they converted Euros back to the original purchase currency as the Euro was not around back then. The sources did not explain how this was done. But for the sake of argument, I will not bother with that.

So how can we do to understand the development better? We have to put the purchase prices into context. For historical research this is often done by comparing it to the average salaries at the time and this is what I did as well.

Also, the graph looks really compelling. However, there are gaps in the data. I am not sure if this was done to show a consistent upward trend, but I would love to see their data for 1958, 1970's 1997, and 2008 (just to select a few challenging economic periods) to know how the prices of these bags did during economic downturns.

## Historic Comparison

In 1955, the Chanel bag cost EUR 194 – with an average monthly household income in Germany of EUR 235 (DM 470), this was approximately one month's salary. In the US, it would have been half the average monthly salary for the Chanel bag.[4]

Bear in mind, this does not take into account living expenses and taxes. Factoring those in, the multiple of monthly salaries would increase substantially. So essentially, you have items that people could only afford if they spent all of their money on them and nothing else. Let me put it this way: In order to buy a designer bag, you would not be allowed to eat, pay for school fees, pay rent or do anything else.[5]

Today, the multiples of average monthly salaries would be as follows: In Europe in 2023, the Chanel bag equals almost 2.6 monthly salaries (an increase from 1.3 monthly salaries in 2020).

Now let's include the Hermès Birkin bag in the comparison. In 2020, the difference in price between a Chanel Medium Classic Flap and the Hermès Birkin 25 showed that the latter was almost three times the monthly salaries. After the most recent price increase by Chanel, the Medium Classic Flap and the Hermès Birkin 25 are almost on par and the Birkin equals 2.5 monthly salaries in Germany as well. In the US, more than 2 average monthly salaries (2.06) are needed to buy the Chanel Medium Classic Flap and almost the same (2.05) for the Birkin Bag.[6]

## Historic Salary Comparison



**1955** €

**2023** €€€



2023 €€€

Sources: See below.  
Picture Sources: Pinterest.

We can see: These “investments” are not accessible to the masses. Two-and-a-half times your monthly salary is not amount which can be invested easily.[7]

We can agree that when considering the historical context and compared with the average monthly salaries the Chanel bag has increased. More than 2.5% since 1955. So we have an increase but now we need to compare this development. How do bags perform compared to other alternative methods of investment?

## Comparing Returns

The studies claim that these bags offer higher rates of return than investing the same amount of capital in, for example, the S&P 500 or gold. This is where I take issue with their analysis. These publications claim that the Chanel Medium Classic Flap bag has “appreciated in value” by 5,000% from 1955 until 2023. To me, this looks simply like the percentage change in the price of these bags, which is highly simplistic. However, what we learned from my historic comparison, their calculation does not take into account inflation or the time value of money.[8]

Going forward, it is best to use a metric that takes in account the issues I just mentioned. To that end we will use the Internal Rate of Return, the IRR, to compare investments going forward. It considers exactly that: the time value of money. It is the annual rate of growth that an investment is expected to generate.

So, when we do an IRR analysis of the Chanel bag from 1955-2022, what we find is that while a new bag is worth EUR 10,000 today and purchased for 194 in 1955, the IRR of the investment is 5.92%. I used the MS Excel IRR function for this. This means that every year, your investment would have grown by 5.92%. This makes the implicit assumption that a new bag purchased in 1955, held in pristine condition for 67 years and unused, that generates no income from dividends, and costs nothing to hold in pristine condition, that still has a resale market today (i.e. fashionable today) can be

sold today for the price of a brand new bag. Considering the long time horizon and the implicit assumptions outlined above, almost 6% does not seem like the best level of return we should be aiming for.

Let's look at the case of the Hermès Birkin bag, which was launched in 1984. It is difficult to find accurate price data but the number which circulates on fashion sites is that the price for this bag back then was USD 2,000. The IRR from 1984 until today would be 4.25%. These rates of return will form the basis for our analysis going forward.[9]

While calculating, an analogy came to my mind – in a gold rush, you want to sell the spade. Currently, we have a rush for luxury goods, and who is making the money? The producers of them. So, let's look what would have happened if we had invested in their stock – I looked at Hermès shares and LVMH, a luxury conglomerate whose major owner, the Arnault family, also owns a stake in Hermès.

## Returns Comparison



**5.92%**



**4.25%**



**19.07%**

**LVMH**

**19.92%**

Let's look at these investments from a shorter time horizon, say the last 10 years. I checked what had happened if we bought one share roughly a decade ago at the start of 2012 and what would have happened if we sold it at the end of the year 2022. All data for this is from Yahoo Finance and company filings – so this is public domain knowledge. All of the assumptions about the bags are the same as before, just the time horizon is different.

I selected shares in this case to compare returns. I did not look at bonds, gold or real estate in order to keep things simple. There are some issues when it comes to shares in various companies. Maybe this is an idea for a further video in the future. Just a few things to bear in mind:

- 1) The companies of the shares one can buy can go bankrupt, meaning that your shares are worth 0 in that case.
- 2) Past performance is no indicator of future performance. Because shares have done well in the past doesn't mean they will continue to do so in the future. The economy may do badly, there may be pandemics or natural catastrophes, etc.
- 3) You are at the discretion of management. This means that the management of a stock traded company can issue more equity and drive prices down, or do splits, or other capital market activity that may negatively affect the share price.

So, for one Hermès share, the purchase price would have been about EUR 235 in the beginning of January 2012, the time horizon was 10 years and the sale value was about EUR 1,445 at the end of December 2022. We would have achieved an IRR of 19.07% with the Hermès share for the period of 2012 until 2022.

One thing I would like to mention here is that for the analysis on shares, we are only looking at the dividends that are paid as opposed to dividends that are declared due to differences between when dividends are paid and financial year-end reporting.

Similarly, if we had done the same with an LVMH share, we would have bought it for 112 at the start of January 2012, the sale value would have been about EUR 680 at the end of December 2022 and we would have achieved an IRR of 19,92%.

What do we see? The Chanel bag and the Birkin bag have an IRR of almost 6% and almost 4.3% respectively. The investment in the shares of Hermès or LVMH would have resulted in almost 19% and 20% respectively in a much shorter period of time. Even in about 10 years, the investment in shares would have outperformed the bag just by looking at the IRR.

These are just a few examples. What we see here is that the returns on the companies that make these bags has outperformed the returns on the bags from an IRR



perspective. I guess the old saying “in a gold rush, you want to be the one selling the spades” holds true here. But even other companies in other industries offer compelling returns when looking at this from an IRR point of view.

So that was a lot of number crunching, what does this mean for us now?

Let’s come back to:

## Argument No. 1: “Bags Never Fluctuated Downwards and Have Steadily Increased”

A study by baghunter.com [10] argues that while investment in the S&P 500 fluctuated between the 1980s and 2015, the Birkin Bag “*has never fluctuated downwards and has steadily and consistently increased*”. [11] There are several issues with this argument:

Firstly, the data and sources of many of these articles are limited and it is ill-advised to form a strategy off limited data. Some of them do not even list the sources at all.

Furthermore, this argument is far-fetched because it would mean that even in times when stock markets crash or purchasing power decreases, the demand for a designer handbag would still steadily increase. Granted, according to economic theories, luxury goods have higher chances to make it through tough market periods. But I would doubt that there is no effect whatsoever on Hermès bags when the overall economic environment deteriorates. Market dynamics also apply for designer handbags. Even though it is a luxury item, the bag market is also a market determined by demand and supply. If we go back to the comparison of the monthly salaries needed for a Birkin Bag, the fluctuation argument is further weakened.

Moreover, these articles and videos make the assumption that bags were purchased say 10 years ago can be sold today at the price of a brand new bag (the retail price of a Chanel Medium Classic Flap bag today – EUR 9,700 or USD 10,200). I am not sure this is the case, and I’d like you to be aware of this also. This is what people are willing to pay if they walk into the Chanel store today. They expect the Chanel service, a bag in mint condition and all the accessories such as dust bags, warranty cards, nice packaging, etc. Just because a bag costs, for example, USD 10,000 in store now vs. USD 4,000 ten years ago, does not mean that if you had bought the same model ten years ago, you would get USD 10,000 today.

And this is where you need to listen or read carefully: many of the articles and videos say that you can purchase the bags on the second-hand market for half the price. This

is the view of the buyer. But what does this mean as the seller? If you sold your Medium Classic Flap bag today – would you only get half the retail price as well? I would argue yes. Because if somebody buys second hand, they expect faults, they know somebody has touched and worn the bag. As expensive as these bags are for most of us, but a bag for “only” USD 10,000 is rarely kept in a safe for collector’s value only. Of course, there may be the scenarios that a certain bag is hard to get – you cannot just walk into Hermès and buy a Birkin, you have to build up some kind of “track record” which means you have to have spent a significant amount of money before you are considered for a Birkin. Hence, the second-hand market may be attractive for some, but how many people is this really?

## **Argument 2: “Bags Are Less Risky”**

What many of these articles and videos claim is that the bag investment bear less risk than investing on the stock market, for example. Needless to say, any investment comes with a risk. Stock markets can crash, real estate can implode like in 2008. But also bags come do come with a risk. Let me explain it further:

What most articles in favour of investing in designer bags fail to mention is that in contrast to stocks or gold, designer bags are relatively difficult to sell. If I own stocks, I can sell them now, I may make a loss but I can sell them if I want to. With bags it is much more difficult, because of the following three reasons:

### **Reason 1: The bag needs to be in fashion.**

A popular argument is that a Chanel Medium Classic Flap bag or a Birkin/Kelly Bag never go out of style. But as we know with fashion trends, the market is highly volatile. What may be considered a “classic” now may not be considered one in ten or 20 years. Let me give you an example of Chanel, which is considered “classic” today: In the 1970s, just before Karl Lagerfeld took over, Chanel was considered old-fashioned, only elderly ladies or the wives of diplomats wore it. This can happen again – fashion is highly volatile and unpredictable.

Another example in a lower price category than the Chanel Medium Classic Flap bag or the Birkin Bag is the Louis Vuitton Monogram special edition by Takashi Murakami which was launched in 2003. Recently, there was a new hype after Kylie Jenner was seen with it at the beginning of 2020. Later on, more and more influencers featured the pattern (mostly in black) on their feeds and the hype was perfect. The “Pochette”-model in white with the signature colourful logo-pattern which cost around USD 300 at the time of its launch, is now listed between USD 500 up to USD 1,750 on various online market places. If Kylie had not stepped out of her home with the bag, the value may not have gone up like that. This is another indicator weakening the argument that certain designer bags do not fluctuate the way stock markets do. (I am aware that this

is not the Birkin example but it should illustrate that also the bag market is not a “perfect” one and weaken the argument of many articles that bag values only increase.)

This leads me to the second reason:

## **Reason 2: There needs to be a willingness to buy.**

Another key point to note here is timing – we have assumed a buy and hold strategy for stocks. You could time your stock market plays to amplify returns. These bag articles seem to suggest that this can be done with bags, but with these transactions not being public the way stocks are traded, I find this also hard to believe.

All things can be bought or sold, it just depends on price. A big factor that affects the price is how big the market is for these bags and how often things are bought and sold in a given day, month or year. I am not a big fan of financial jargon, but this is referred to liquidity. Compared to other assets, bags are more on the illiquid side, meaning that the activity in the market place of these second-hand bags is lower than say shares in a S&P 500 ETF.

If I want to sell stocks or gold, I can sell them on the day I decide to sell – at the market price. Even if I do not make a profit, I can still sell. With a designer bag, I need to find someone who is willing to buy the bag on the day I want to sell. It may take weeks or months until I find a buyer – and maybe longer if the item is not “on trend” at the time I want to sell. And as we see from my examples before, fashion trends are quite unpredictable.

If you critically ask yourself – Who will buy a designer bag of multiple thousands of Euros? Will the people who have the capital to purchase these items really buy them second hand? Maybe, but we cannot safely assume this. Unless it is a very unique item or special edition. And then we are not talking about USD 5,000 but rather ten, 20 or even 40 times that amount. And speaking of unique items – many of the articles and videos recommend to go for standard colours – black, nude, etc. – because they would sell better.

I did an experiment for this article: At the time of updating it in August 2023, I went onto Vestiaire Collective and looked for the Chanel Medium Classic Flap in black. During that particular search, there were about 360 of this model and colour on sale.

The oldest listing was from April 2021 and the asking price was EUR 5,687.04[13], the second oldest from May 2021 at EUR 4,342.83. Judging from the time that these bags have been sitting on the platform, I can only assume that their prices are not

matching the market, or that there was not the right demand for them. On the same day, I checked for the same model and colour on 1stDIBS and there were about 50 items listed for my search. Unfortunately, this platform does not publish any information on the dates of the listings.

Similarly, I checked the global website for Sotheby's and their most recent auctions for handbags and accessories in June 2023 in New York, May 2023 in Geneva and Hong Kong, April 2023. Judging from the auctions, it seems that Hermès bags seem to be more attractive than the Chanel models. However, the overall results are very random with different models, materials and colours out- or underperforming making it difficult to find an overall pattern. Comparing this with my analysis of Dorotheum, an auction house based in Vienna, Austria, we may assume that your location and also the size or brand of the auction house may have an influence as well. Many of the Hermès and Chanel bags which I analysed on the Austrian websites were sold just above the asking price while there were higher fluctuations on the Sotheby's website.

## Reason 3: Immaculate State

The bag articles miss out a key component of being a collector of such items: storage. These bags need to be in mint condition when they are resold. That means you can never wear or use them, not even once! Think about a similar scenario: Serious toy collectors never play with their toys – they do not even open the boxes. Once the box is opened, the value decreases dramatically. Another way of looking at this is depreciation. As this is a physical asset, it wears down over time if used. So, you would not be allowed to wear it and you would have to spend money to keep the bag safe. On the other hand, stocks do not depreciate and the costs to keep stocks safe is really minimal.

You can renovate a house, but scratches on a Birkin will significantly lower the chances of re-selling. Additionally, you will need to keep the boxes, cover bags, certificates and even the receipt to prove that your item is not fake. As I said before, this means, you would not be able to wear the item. You would need to store it in a safe place and ensure that nothing happens to it. Also, in order to store these bags and keep them in the same condition they were purchased in over a long period of time requires upkeep. This isn't really discussed in a lot of articles that I see online or in magazines. Hence, you do not only miss out on potential dividends but cannot even use and enjoy the item itself.

And coming back to the risk argument, I have to point out that with bags there is no way to manage your risk with bags. What if you cannot resell it? What if it goes out of fashion? When it comes to stocks, you can buy options that can protect your position. Furthermore, if you are brave enough, you can even sell options to cover your position

and get paid in the process. Such instruments are not available for bags as far as I know.

Taking all of this into account, I cannot support the argument that bags are less risky than other types of investments.

## Argument #3: Hermès Birkin Bags Achieve Record Sales

The bags frequently referred to as a great investment case are the “Rolls Royces” of designer bags. We do not talk about a USD 2,000 bag. We are talking 100 times this amount when articles refer to auctions by Sotheby’s or Christie’s. Let’s be realistic – who can invest that amount and just have it stored in a safe for over 50 years – losing out on potential dividends and opportunity cost? This is probably only a valid “investment” for the top 1% earners. Hence, I would not use the argument of the record sales for an investment analysis.

## Additional Costs and Opportunity Cost

I would like to give you one last important perspective which is also often not mentioned in the articles and videos: possible fees and taxes, opportunity cost and compounding effects.

Firstly, there are fees taken by reselling services. Selling your designer bag on these platforms does not come for free and there are commissions between 10-60% (sometimes in addition to monthly flat fees) which you would need to deduct from your return.[12] Furthermore, there would also be a tax element if done according to the law. These possible fees and taxes have to be considered in the calculation as well.

As I mentioned before, if you want to buy an Hermès Birkin Bag, you cannot just walk in, you need to make an appointment for pre-order at their boutique. It can take up to months or even years until you receive your bag. It is a bit tricky to find concise information about the pre-order process, but I assume that it means to pay on the day you pre-order as the item is customized. In addition to the investment you just made, you then look at the opportunity cost of having your money somewhere without interest or any other form of value appreciation for several months or years.

From a wealth building perspective, bags have no compounding effects. Compounding is kind of a snowball effect: it means that after initial position growths, future growth will be even more, because you can also reinvest the money made with your initial position. Over the years, this can have a positive growth effect. The basic example would be your savings account – when you make interests on the savings, the

base for the following period increases and, hence, also your interests may increase because of that.

Hence, growing in the position relies on the asset appreciating and not compounding. Applying in it to my previous calculations it means that through reinvested dividends and compounding your position will grow more than what I have shown before.

This is not something you can do with bags – bags give you no interim cash flows. While you can buy additional bags, they still do not compound on themselves, whereas you can add to a stock position and see dividends increase by the additional units and then the compounding will also increase. Therefore, alternative methods such as stocks offer better opportunities to build wealth over the long-term.

## Conclusion

Summing up we can conclude that the simplistic and one-dimensional analyses used by many articles or videos is not enough to determine the attractiveness of designer handbags as an investment form. Furthermore, the analysis using the IRR shows that designer handbags such as the Chanel Medium Classic Flap bag or the Hermes Birkin Bag cannot compete with alternative investments such as buying shares in certain companies in the luxury space. From a pure investment perspective in the business – not the emotional – sense, it may be better to buy the shares of luxury companies. As I mentioned before, this is something you should consult with a financial advisor. In my opinion, if you want to buy such a bag, do it because you like and because it has emotional value for you rather than hoping to make a profit by potentially reselling it later on. It may be an “investment bag” but the investment will be an emotional rather than a financial one. What’s your view on these luxury designer bags? Do you think they pay off? And please let me know if you have further questions.