Auction Fever

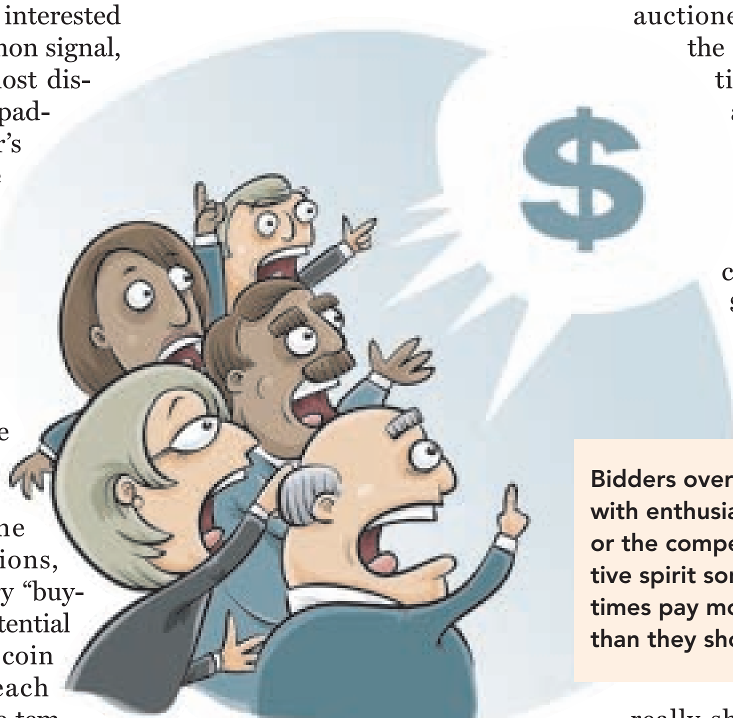
Standard procedures keep numismatic sales orderly and efficient. Sometimes, however, bidders get carried away.

THE AUCTION process seems to be fairly simple, but under the surface lies a complex mire of action and reaction. During the bidding procedure, many buyers do not signal the auctioneer aloud, but rather use a prearranged signal, so that no one else in the room knows they are interested in an item. (The most common signal, though certainly not the most discreet, is a raised hand or a paddle that carries the bidder's number assigned by the auction house.)

To further ensure their anonymity, well-known buyers often are represented by an agent, as less-educated buyers sometimes "chase" bids placed by those who are more experienced. Professional buyers or agents may represent several bidders at the same sale. For some auctions, coin dealers form temporary "buying syndicates" and split potential ownership of a particular coin rather than bid against each other. Or they might become temporary partners on a single item because they have a customer in common.

In England and the United States, the auctioneer generally calls out the high bid, as well as the bid he is "looking for." However, at European sales, the auctioneer sometimes waits until a bidder calls out on his own.

Adding to the excitement of a live, numismatic auction is what we who regularly attend such sales call "auction fever," when participants, overcome with enthusiasm or the competitive spirit, bid well over their planned limit. It has happened to every professional buyer at one time or another, including me. If a bidder grossly overpays for his purchase, he is considered "trapped" or "buried," and his purchase a "trap." Auction professionals call it the "winner's curse"—paying more than an item is worth.



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Bidders overcome with enthusiasm or the competitive spirit sometimes pay more than they should.

Coin auctions historically are held in a room where bidders get together to compete for products, but that is rapidly changing. Every day, coins are auctioned on the Internet, where tens of thousands of bidders fight in cyberspace for ownership of rare coins. Today, most auction houses simultaneously offer their coins on the floor and the Internet, receive bids from clients by e-mail and "snail mail," and carry book bids and take phone bids from all manner of interested parties. Still, if you are serious about owning a coin offered at public auction, you or your agent should be on the floor.

Adding to the complexity of the process are the variations of bidding increments, which typically are outlined in the auctioneer's terms and conditions and/or announced by the auctioneer just prior to the start of the sale. In an English-style auction, the bidding increments are preset by the auction house, based on the amount bid. For example, if the bid is under $100, bids increase by $10; if less than $500, the increment is $25; if less than $1,000, the increment is $50, and so on.

A drawback of this system is that the seller is not assured of getting the maximum amount possible, because bidders are not allowed to exceed the incremental bidding amounts. In addition, serious bidders bent on success really should be present at the live auction, which can be inconvenient, time-consuming and expensive, especially for the nonprofessional. However, these shortcomings have little impact on the final hammer price, particularly if the sale is professionally conducted and well advertised.

Traditionally, a real-time, ascending-price English auction uses what is known as a "soft close." The auctioneer continues to call until no buyer offers a higher bid, no matter ▶

how long it takes. Only then is the lot "knocked down" and sold to the highest bidder.

Conversely, some auctions use a "hard close," which specifies a certain amount of time for each lot. In the early days, the time limit often was marked by a burning candle. The bidder with the highest bid when the candle went out was the winner of that lot.

The best example of a modern, hard-close auction is eBay. The popular, online auction firm recommends that all bidders begin with the highest amount they are willing to spend, and the electronic bidding agent executes their bid automatically. If their bid is topped, the agent executes another bid on their behalf, and so forth.

I have observed some interesting bidding strategies on eBay. One is to wait until the very last moment and then offer your highest bid. This leaves the other bidders no time to react, and by the time they do, the auction is over. Data shows that among 1,000 online auctions in a given month, 28 percent had no bidders; 16 percent had only one bidder; and 74 percent had multiple bidders, of which 18 percent bid in the last 60 seconds.

Apparently, informed bidders make their offers late so as to conceal their interest, avoid unwanted attention or sidestep a bidding war. But because there is a set ending time for each lot, the seller never can be sure if he has received every possible bid. In fact, this might be the biggest problem with selling an item in a hard-close auction.

Next month, I'll take a break from auction theory and practice to focus on a legendary sale featuring nearly 4,000 coins—including U.S. gold and territorial bars and coins—assembled by 19th-century Pennsylvania numismatist John Beck.

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