

Chapter One: Third-Party Stamp Grading

The Value of Third-Party Grading

The book examines the stories behind many of the most popular 19th and early 20th century American stamps. The text about every stamp covered is accompanied by an image of one of the finest known examples of that stamp. As proof of each stamp's inherent quality in the eyes of the philatelic world, all of the stamps shown have been graded.

As explained in the Winter 2010 edition of the *Stamp Market Quarterly*, "A graded stamp is...a stamp that carries an opinion of its quality by a disinterested, professional third party...." The qualitative grading of stamps by assigning relative descriptors such as fine, very fine, and superb, has been going on for the better part of a century. Traditionally, stamp dealers would make their own assessment of each of their stamps. Unfortunately, this process led to an inevitable amount of dealer misrepresentation of a stamp's worth, due to lack of knowledge or lack of care. Also, dealers naturally looked favorably upon their own merchandise, and some degree of bias was practically inevitable.

During the years before third party grading, stamp dealers could anticipate a sales markup of four times cost or more. Based upon conversations with several stamp dealers, Michael Sherman, President of Philatelic Stamp Experts, Inc. (PSE) found that an investor buying \$10,000 in stamps was likely to realize only about \$3,500 in stamp resale, with the dealers pocketing the difference. This markup threatened the long-term viability of philately. Clearly, there was a need for a greater degree of customer protection and assurance.

Since the advent of independent third-party grading about a decade ago, the philatelic scene has been transformed. Now, the neophyte and seasoned collector alike can participate in stamp collecting with confidence. Using a blend of aesthetics and mathematics, third-party grading "renders

collecting to a certain degree idiot-proof,” according to David Petrozelli, Expert at the Philatelic Foundation (PF). It reduces the chances that a seller could misrepresent an item, and thereby “levels the buyer-seller relationship,” as Scot Murphy, Senior Expert at PSE, explained. Not only have stamp descriptions been standardized, but as Lewis Kaufman, Curator at PF, noted, the stamp expertization process now assures that fine, very fine, and extremely fine stamps are clearly identified as such. These classifications indicate subtle distinctions, ones that many collectors, especially neophytes, might not be able to make. A stamp also might have a fault or not meet industry criteria, and a buyer, particularly a neophyte, might miss these things. The trained eye can notice such faults as nibbed perforations (stamp edges slightly shorter than normal), which affect the visual appearance and, potentially, the stamp’s market value. Certification of a stamp’s value through independent grading adjusts the grade down to where the market would value the stamp, providing quality assurance and quality control to stamp investors, many of whom might purchase a stamp sight-unseen. For example, two stamps in the same state with the same grade would be expected to command approximately the same market value.

Third-party independent stamp grading has, of course, raised the rancor of old-time stamp dealers, used to huge returns on sales under the earlier, more freewheeling seller grading approach. Some, comfortable with their approach to grading, have complained that “I can do it myself. Why do I need to pay?” Other stamp dealers have asserted that “I don’t need it.” But even while some may loathe the idea of independent grading, they perceive it as a fact of life that is necessary in order to sell stamps faster. In the future, an ungraded stamp market will continue to exist, but will be limited primarily to the lower value, lower quality stamps. The higher quality and higher value stamps will in the future be available largely through the graded marketplace.

For the novice philatelist keen to purchase stamps of high quality, independent third-party grading is practically essential. As Brian Bleckwenn, Senior Expert at PF, explained, a graded stamp carries a form

of insurance as to its quality, something that is particularly vital if one does not have the necessary level of knowledge to ascertain the subtle nuances of a stamp's condition. Is the stamp sound, or does it have defects? Is it very fine, or extremely fine? Graded stamps enable neophyte stamp collectors to know that they are getting what they are paying for, which is particularly beneficial if they intend to spend a lot up-front for the higher quality and less common stamps.

Stamp Grading: The Two Systems

Grading is more than just verifying that a stamp is genuine rather than counterfeit, or just ranking a stamp's visual qualities compared to other known examples of that stamp, although both of these are involved in the grading process. Rather, grading is both a science and an art. It is a science, inasmuch as clear parameters are identified for judging the merits of each stamp and assigning it a grade. At the same time, it is an art, because no two stamps are completely identical, and eye appeal can vary somewhat from one person to another. Objective standards, however, insure that professionals can apply the same grading system and reach a similar, perhaps even identical, grade for a certain stamp. Also, although there are currently two common approaches to the grading of American stamps as discussed below, both grading methods yield approximately the same result. In other words, oftentimes a stamp can receive identical grades when graded under both the PF and PSE systems. Therefore, either, or both, grading approaches may be used with confidence to convey a stamp's level of quality.

The Professional Stamp Experts (PSE) Grading System

The first major organization to introduce the concept of standardized grading for stamps, PSE first implemented its grading system in early 2001. Since then, PSE has graded over 160,000 stamps. The PSE system determines a single net grade on the basis of three factors: soundness, centering, and eye appeal. This numerical grading scale was officially

recognized by the Philatelic Foundation in 2005, and then by Scott Publishing a year later. As explained by PSE on page three of “A Guide to Grading and Expertizing United States Stamps, “Grading is the process of grouping stamps of a given Scott number and state, (e.g., Used, Mint OGnh, Mint OGph, etc...) with a similar fair market value into discrete categories.” Grading places a relative rank on a stamp in terms of both value and condition.

PSE grading entails two steps. First, a preliminary grade is achieved by considering soundness and centering. **Soundness** considers the presence or absence of faults in a stamp, while **centering** addresses how well a stamp is balanced among its four margins. Then, various eye appeal factors are considered for possible adjustment of the stamp’s preliminary grade to reach a final one. Most U.S. stamps from 1920 or earlier have some sort of fault, which might include thins, creases, spots or stains, color fading, and tears. The soundness scale takes into consideration that a fault tolerated in an older stamp (produced with more primitive methods) would likely not be acceptable in a newer one. The centering scale is based upon an aesthetic ideal of a perfectly centered stamp with wide margins. In addition to a numeric score, the finest mint stamps are also designated “Jumbo” if they are judged to have unusually wide margins. Scores for centering and soundness of a stamp are combined in a matrix that provides a preliminary grade based upon the two.

In the second step, experts at PSE make adjustments to a stamp’s preliminary grade, which reflect the stamp’s degree of visual appeal. For used stamps, visual appeal chiefly concerns the cancellation, with a lighter cancellation with limited coverage generally preferred over a dark one that obliterates most of a stamp’s image. In the case of mint stamps, eye appeal considers the color, margin size, freshness, and impression quality of the stamp. After these negative and/or positive adjustments are applied, a final grade is reached for the stamp.

In addition to the standard grading process, PSE also expertizes each stamp. In this process, a stamp expert confirms the Scott number of the

stamp, establishing that the stamp is genuine rather than counterfeit. The expert also determines whether the stamp is mint (unused) or used. For mint stamps, PSE also assesses condition of the gum on the back of the stamp. Handling, environmental conditions, and previous use of hinges to place stamps in an album are all factors that can affect the gum condition. For perforated stamps, the perforations are also examined to ensure that the stamp was not re-perforated at some point after its production.

The Philatelic Foundation Grading System

A non-profit organization for stamp collectors, the Philatelic Foundation (PF) was established in 1945. In October, 2005, PF added stamp grading to its ensemble of services for philatelists. Like PSE, PF's grading system emphasizes a stamp's centering, margins, and overall condition. Unlike PSE, PF does not grade stamps that have faults. Also, the grade itself is calculated in a slightly different fashion, with greater emphasis on stamp symmetry.

In PF's approach to grading, **centering** is emphasized as the most important quality of a stamp, the quality that is used to determine a base grade. For perforated stamps, centering is determined by measuring the distance from design edge to the nearest perforation hole on all four sides of a stamp. For imperforate stamps, centering is measured from edge of design to the edge of the margin on each side. The result is a base grade, ranging from Very Good (50) to Gem (100).

The final grade, which consists of both a numerical value and a qualitative descriptor or descriptors, is determined through two modifications to the base grade. The first modification consists of assessment of several aspects of the stamp's condition, which usually result in either no change of the grade or a lowering of it. The factors include size of stamp, color, impression quality, paper condition, perforation quality, gum condition, presence/extent of inclusions, presence/extent of toned spots, paper manufacture or production irregularities, presence of guide lines, and condition and type of cancellation.

In some cases, stamps may be particularly noteworthy for one of the factors assessed. For instance, a stamp may have an unusually rich, vivid color. Such special qualities are noted and, if deemed sufficient by the expert grading the stamp, can result in a designation of “XQ” (Exceptional Quality) being given to the stamp. In the particular case of a stamp having much wider than average margins, the stamp is designated “Jumbo”. These designations follow the numeric grade; for example, “95 XQ” and “98 Jumbo”.

In addition to determining the grade, PF also expertizes the stamp, certifying it as a genuine member of its type. The aspects examined by PF are similar to those of PSE, discussed above. However, unlike PSE, PF also expertizes other U.S. postal history materials, along with foreign stamps and postal history items as well.

Conclusion

The grading of stamps is a vital facet of philately today. Grading is a science and an art. Grading insures that each stamp is described accurately, “leveling the playing field” so that everyone can participate in philately, regardless of experience and prior knowledge. Two organizations are at the forefront of U.S. stamp grading: Philatelic Stamp Experts, Inc. (PSE) and the Philatelic Foundation (PF). Although their grading methods differ slightly, both provide reliable, consistent grades for stamps and may be used interchangeably or in combination for objectively ascertaining a stamp’s quality.