Wine Investment Review

Investing in wine is by no means a new phenomenon – many years before fine wine became truly 'global' in the mid-1990s, wily buyers would often buy more than they intended to drink, selling the excess at a later date to fund subsequent purchases.

In the 1990s, demand for the best wines from Bordeaux boomed as the 'traditional' market for these wines – namely Europe and North America – was joined by a new one in the Far East. Prices increased and though the cost of some top Bordeaux châteaux dropped in 1998 due to the Asian economic collapse, the general trend in wine prices has been up. Whilst it is difficult to find totally accurate records and, therefore, data it is fair to say that the prices for the very best wines have risen over the past 10 years or so, with quieter periods being more than compensated for by busy ones.

The correlation between the financial and fine wine markets is traditionally relatively small, but the more people invest in wine, the more this market will behave like an investment. Prices for a few wines, such as Lafite Rothschild, have shown some volatility, but the wine market as a whole has been fairly resilient when compared with more traditional investment sectors. The reason for this is relatively easy to explain: fine wine is a tangible asset; it's a luxury product that we aspire to own, consume and know more about. For many it's far more useful than gold, and easier to enjoy than art. Interest in wine is growing at all levels. Most important is the supply, which is limited; the supply of any particular vintage is constantly diminishing while in the case of younger vintages it's constantly improving.

The key to investing in wine is buying the right wines, and at the correct prices. The wines that have exhibited the best performance historically are the top 30 or so châteaux of Bordeaux. These are often best bought at their opening price *en primeur*, but because supply is so restricted and release prices have increased over the past few years, looking at back vintages could offer a valuable alternative.

The practical advantages to wine investing are fairly straightforward. Wine is an easily transferable asset, plus there is an established fine wine market and a thriving auction market. There are no limits to wine investing, though the current prices of the top wines are such that one really should start with £5,000 to £10,000.

Whilst customers who bought well before the financial crisis in 2008 will have done very well indeed over a matter of a couple of years, it is best to view any investment these days as a long-term one. Experience suggests that a minimum eight-to-10-year term is a good benchmark, but one should bear in mind that for the most part you will be buying wines with a lifespan of 10 to 20 years and more, and that their financial maturity will be linked with their drinking maturity. For example, 1996 First Growths are still young wines yet to show their full potential and, as alluded to before, are well-priced compared to their modern counterparts (ie 2009 and 2010).

Correct storage of investment wines is crucial for two reasons: firstly, wines should be stored ‘under bond’ to avoid paying excise duty and VAT on the wine, which cannot be reclaimed. Second of all, provenance is key to a wine’s future value; fine wine has to be stored in specific conditions. Professional storage with Berry Bros. & Rudd currently costs £10.80 per case per annum in our own private, temperature- and humidity-controlled facility. The storage charge also includes insurance at full market value.

The logistics of buying and selling are relatively simple, though it is important to note that the transaction costs are considerably higher than those for stocks and shares, for example. A merchant’s buying price for a case of fine wine will usually be 10 percent to 20 percent lower than their selling price, this margin depending on prevalent demand for the wine in question and the merchant’s stock position at the time. This a major reason for wine being a long-term investment.

Berry Bros. & Rudd are merchants, and subject to market conditions and the wine in question, we will either make an outright offer to buy wines that are held in customers’ private reserves or will offer to sell the wines on a broking basis through our online trading platform, BBX – the Berry Bros. & Rudd Broking Exchange can boast as many as 120,000 unique visits per month. Our customers are collectively one of our key suppliers; one of the key advantages of this is that we (and our customers) can be absolutely confident of the provenance of wine stored by us. Customers are by no means bound to sell to us, though, and we can arrange delivery to an outside bond – with written instructions – if their wine is sold elsewhere.

Demand for fine wine continues to grow – even if, currently, at a slower rate. Throughout the life of a fine wine, we see these peaks and troughs while the asset itself reacts to extenuating circumstances in the larger global perspective, but due to its finite supply etc, wine becomes a rarer commodity as time passes and premiums on these over their younger counterparts are more easily parted with. The number of potential new wine lovers, drinkers, buyers and connoisseurs in this world continues to increase as people aspire to own objects of quality and desirability.

The Status Quo

Investing in wine has become increasingly popular even during the recent economic uncertainty. It is undeniable that the best wines have proved to be sound long-term investments over the past 20 years, though it is important to remember that one has to take the long-term view (a minimum of eight to 10-plus years).

While the fine wine market has historically experienced some very buoyant years, and customers who bought at the right time will have done very well indeed, wine prices are not immune to economic malaise; the past few years have been evidence of this. To put this in perspective, 2005 Ch. Lafite-Rothschild was released *en primeur* in June 2006 at £3,760 per case in bond. By the summer of 2008 it was fetching just under £10,000 per case in bond. In November 2008 brave buyers could buy the same wine at just under £6,000 per case in bond, and in August 2011 it was trading at around £12,000 per case.

The stress of the economic climate hit again at the end of 2011 and 2005 Ch. Lafite-Rothschild is currently circa £5,900 per 12 bottle case in bond (October 2013). Potentially a good time to stock up? Have the prices settled? Yet the main point here is that wine needs time on the market to see any sort of return and this time frame can be 10 or more years.

The activity in wine investment saw unprecedented growth a few years back with the advent of new emerging markets, most notably China. Lately this movement in the Far East has slowed however, the feeling being that demand has not so much disappeared as quietened down. This is mainly due to the fact that their customers' vinous knowledge is increasing and maturing, and alongside this they have expanded their appetite not just to more everyday drinking-classed growths but also to wines from beyond Bordeaux. One area that has proved increasingly popular is that of the high-end Burgundy producers, though with this comes lack of supply due to limited production.

Current buyers can benefit from attractive pricing, in part due to the tough economic climate. Wine is becoming increasingly attractive to those with the long-term view and who want to put their money into something tangible. The iconic vintages of 2009 and 2010 still hold cachet for those wanting the highest-quality wines within their portfolio, but this has also encouraged the shrewd buyer to seek out quality and better value from somewhat previously under-priced vintages such as 2006, 2008 and even the likes of the 2005.

In many instances, current pricing seems to offer real value given their additional age, which means they will be consumed more quickly, restricting supply. Our thoughts are echoed by the market, with increased interest in these past vintages, although values are yet to move significantly. When the market does begin to budge, it may be that these are the vintages to move first as they look to be undervalued when compared to more recent years.

Apart from a few sparks of confidence, the Liv-ex Fine Wine 100 Index has been on the downturn since summer 2011. This has been due mainly to the unrealistically high prices of most Bordeaux châteaux at *en primeur* time, causing a general lack of interest in their wines. One could say that the high prices of 2009 and 2010 were warranted to some degree due to their stand-out quality. It took the 2011 and 2012 vintages however for the Bordelais to work out their pricing strategies into a more realistic model more akin to the good (rather than exemplary) quality of the vintages. This sensible strategy of correct pricing versus the quality of the vintage is certainly a move in the right direction and is one step in rebuilding confidence with the buying public back to Bordeaux.

In the last two months we have seen small but consecutive increases in the Liv-ex 100 Index. In September 2014 we saw the Liv-ex 100 rising 0.3 percent, the first month since March that the index had risen, according to Liv-ex: "Those fearing that it might have been an anomaly may be reassured by September's level, which shows that prices are holding steady." In relation to bids vs offers on the Liv-ex exchange they are quoted as saying "...in the last few weeks the value of bids has begun to rise, pushing the Liv-ex 100 up for the first time in 17 months." Could we be at the bottom and ready for an upturn? Whether the market can end the year on a positive lies firmly with the buyer.

Whilst I would still tread carefully in recommending very high-value Bordeaux, I think now may be a reasonable time to begin looking to Second Growths and below for good value buys. Wine prices have softened over the past few years and the sense would be for the seller to hold onto their wines and for the shrewd buyer to look for well-priced cases.

The increased investment in wines is not without its effect: more buyers push prices up in the same way that sellers pull them down and we may well see more ups and downs than we have witnessed in the past. Wine is a relatively illiquid asset when compared to stocks and shares, though it is more tradable than ever before.

A noticeable change over the last year or so has been the widening of portfolios beyond Bordeaux. This is still the core region for wine demand (and therefore investment), with the visibility, transparency and liquidity that other regions perhaps do not have, although the latter are starting to gain ground, and a balanced portfolio should take these in account. As mentioned previously Burgundy is becoming a more important player, although it’s a notoriously difficult area to navigate due to its appellation complications, patchwork of vineyards and variety of producer quality. In short, it is an area which demands the guidance of a good and knowledgeable wine merchant.

Other areas of burgeoning interest during this temporary malaise in Bordeaux are the likes of Spain, Italy and North America. The high quality wines from these countries are of comparable if not equal quality to their Bordeaux counterparts but price-wise represent what many would perceive as good value. Away from Bordeaux, there have been many other attractive releases of late. Amongst the highlights are the 2010 Super Tuscan releases – Tignanello, Sassicaia, Ornellaia, Masseto et al; the Icon and Luxury Collection from Penfolds (following last year’s 100 point endorsement of 2008 Penfolds Grange); Champagne releases from Dom Pérignon, Krug, Bollinger and Cristal; and the long awaited 2004 release of Vega Sicilia Unico.

In a recent article by Liv-ex they allude to the penance paid by Bordeaux with their historic high pricing, but is this too harsh on Bordeaux; will forgiveness follow soon? We think so, but as to when, we are less certain. “But what is clear from the recent numbers,” posited the Liv-ex market update on 8th October 2014, “is how tough things remain for Bordeaux, particularly the First Growths. Last week they accounted for just 21 percent of exchange turnover – at peak they touched on 70 percent. Now this, one could argue, is healthy. Clearly the narrow focus of the market back in mid-2011 was unsustainable.”

There has been much comment in the market regarding alternatives to Bordeaux for investment. Portfolio diversification achieved by adding Super Tuscans, Champagne, Burgundy and the iconic New World wines, among others, is very sensible. It has always held true that a diverse portfolio spreads risk and can also maximise returns. However, the exit strategy from these alternatives is not yet fully proven, with the markets for them naturally being more specialised. Ease of selling is key and the secondary market for these wines is not as established, with their long-term performance less certain. Nevertheless, as markets continue to mature and evolve, interest is likely to continue to grow. Whilst such wines should not form the mainstay of your strategy, they could account for up to 30 percent of your holdings.

Bordeaux will remain the backbone of any investment but the percentage share of the portfolio I believe has filtered down to the likes of these other high-quality wine producing areas across the world, and so do not be surprised to see a few more iconic wines within your collection from other high-end producers besides the classed growth Bordeaux estates.

Berry Bros & Rudd wine investment: Salient points

Berry Bros & Rudd has a strict policy on wine investments as follows:

- We do not give financial advice or advice on investments.
- We do not offer any guarantees on a particular wine's monetary appreciation potential.
- For customers seeking advice on the above two issues we recommend you contact an IFA (Independent Financial Advisor).
- We strongly encourage a medium to long term view with eight to 10 or more years as a minimum.
- We do advise on quality of wine, on wine's potential longevity and consequently its suitability for inclusion in a cellar.
- We can offer solid advice on current valuations of particular wines or vintages, since our opinion can be backed by concrete evidence of recent transactions of these wines, providing a definitive point of reference.
- We can offer our opinion, based purely on our extensive experience and on demonstrable market history, on whether a particular wine will appreciate in value over a period of time, stressing that many factors can influence the price in that time, for good or bad.