Investing In Fine Wine

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All at once, fine wine conjures up images of discerning taste, ageing with style and perhaps a field day with unabashed connoisseurs. The allure of fine wine is not confined to consumption alone - you could also buy it to hold out for greater financial returns. In the world of investment, fine wine is in a class of its own, and I don't just mean asset class. Allow me to show you with a quick tour of the world of fine wine investment.

Why Invest in Fine Wine?

Fine wine is an alternative asset category with little performance correlation to the usual financial asset types, such as equities and bonds. This makes it an ideal diversification tool to reduce risk in an investment portfolio that is already filled with equities and bonds.

Fine wine can be considered a luxury item with premium pricing driven by supply and demand as well as its collectability value. Together, these give fine wine the potential to enhance long-term investment returns. To achieve a good mixture of uncorrelated assets, alternative investments - such as fine wine, land, art and other collectibles - could in total constitute up to 20-30% of an investor's overall portfolio.

The basic unit for wine is a 0.75-litre bottle, but a case of 12 bottles is a more appropriate quantity for investment purposes. A case of investment-grade wine could start from around $10,000, making it a reasonable minimum amount to invest, unlike some other alternative investments which may require larger initial capital.

However there are annual storage and insurance costs to consider. Ironically, wine is not a very liquid investment so an investor must be prepared to hold the wine (and avoid the temptation of drinking it!) for at least 5 to 10 years before possibly seeing reasonable returns on the investment.

Which Wines to Invest In?

While many wines are offered for investment, Bordeaux wines from the eponymous region in France present one of the best options for a number of reasons. Bordeaux has one of the most established and well-known markets, although - as with all forms of alternative assets - the market is not wholly transparent and is not regulated.

Within the wide range of Bordeaux wines, the following could be considered as "blue chips" for investment (in no particular order):

Chateau Haut Brion	Chateau Mouton Rothschild
Chateau Lafite Rothschild	Chateau Petrus
Chateau Latour	Chateau Cheval Blanc
Chateau Margaux	Chateau D'Yquem

Haut Brion, **Lafite**, **Latour** and **Margaux** are "First Growths" in the 1855 Bordeaux classification system; **Mouton** was promoted to First Growth in 1973.

Petrus, from the Pomerol region which does not have a classification system, has a worthy reputation as one of the top wines of Bordeaux, as well very limited annual production; **Le Pin** is another Pomerol wine that has achieved somewhat of a cult status.

Cheval Blanc is in the top tier of the St Emilion region's classification (not part of the 1855 system); **Ausone** is another top-tier St Emilion worth considering.

D'Yquem is the only wine in the top tier among the Sauternes. A Sauterne is a sweet dessert wine which could be described as liquid gold (given the D'Yquem prices, that may be a fair description!).

There are many other outstanding investment-grade wines, and some may even be found among the lower classification tiers. As wine quality varies from one vintage to the next, and prices are market-driven, they may even out-perform the First Growths, both in drinking and investment returns. However the list above is indicative of the topmost wines and is a good starting point when considering which wines to invest in.

5 Tips to Look Out For when Investing in Wine

1. *"En primeur"* wines

A good way to invest in Bordeaux wine is to buy during the "***en primeur***" campaign, when the wine is put up for sale while it is still in the barrel and before it gets bottled.

For example, the latest vintage of 2008 was harvested in September 2008, released for "*en primeur*" sale recently in April/May 2009 and will only be delivered around October or November of 2010. Because of this, "*en primeur*" is sometimes referred to as "wine futures".

There is no guarantee that the "*en primeur*" price will be lower than the price when the wine is delivered a year or so later, although for fine wines of topmost quality this is usually the case due to market forces. Even so, investors are unlikely to get their best returns by selling their wines immediately upon delivery.

As wine matures further while in the bottle to gain flavour and complexity, it may take 5 to 10 years before it reaches optimal drinking condition, and it may remain there for several more years before declining with age. For the best wines, this optimal age duration could even be longer!

2. Classic vintages

For various reasons, people may drink or sell their wine before it has reached its full potential, both in drinking and in investment terms. While it may or may not achieve better returns over a shorter period than "en primeurs", the wine is at least immediately in your possession.

However, over time, demand picks up as drinkers seek out wines which are approaching or at their optimal maturity for consumption. Supply (which is finite to start with) reduces as the wine is consumed, and for limited production fine wine this will also further raise its value due to rarity.

Just think: for every bottle consumed, the world inventory will be short of one bottle that can never be replaced! Eventually some of these wines may even acquire collectible status - imagine what returns you could command if you owned the last case or even the last bottle of a great wine such as Chateau Petrus 1982!

Hence it may be worth considering buying older vintages if they still have growth potential.

3. Top-rated Wines

Ideally I advocate that you select wines based on your own taste preferences, but a useful guide for investment is the numerical rating system used by wine critics when reviewing and evaluating wine. Principal amongst them is the renowned Robert Parker, who uses a 100-point scale.

For investment, only wines rated 90 points and above should be considered. Better still, you could consider raising the bar to 95 points, but that would narrow the field in terms of price and availability.

4. Dealing with Wine Merchants

Do note that the wine market is not transparent. There is no centrally regulated and organized exchange for the trading of wine and you generally have to rely on a wine merchant. Chateau owners and negociants (the wine brokers or distributors) are not obligated to release all their wine. This leads to artificial supply constraints and price controls, especially during the "*en primeur*" campaign.

Wine merchants may entice you with offers of the best wines at the best prices, but whether they can really deliver - and deliver on a sustainable basis - is sometimes questionable. Unfortunately, some investors are known to have fallen prey to merchants who over-promise and under-deliver, so do make sure you buy from a reputable wine merchant with a good track record.

Once you have taken delivery of your wine, it is advisable to store it with the merchant under properly controlled conditions to preserve its resale value.

5. Wine Funds

Recently many wine investment funds have been set up but these usually require high minimum initial investment amounts of $100,000 or more.

Besides, if you pardon the pun, wine funds are no fun! In my opinion it is preferable to invest in the physical product you can see, touch and taste - that way if you can't sell it for a profit, you can always enjoy drinking it!

Don't Forget...

Ultimately, wine is meant to be enjoyed, and it is even better enjoyed in good company! Interest in wine should be a lifestyle and a passion. While you invest in it, don't forget to drink it and appreciate it!

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While there are many benefits to be gained from investing in wine, there are many inherent risks as well – please see Financial Alliance's wine investment guide and seek the advice of one of our qualified financial consultant before investing in wine.