A Liquid Investment

Wine isn't just for drinking. As a growing number of oenophiles are discovering, it's also for investing.

Like a bottle of fine wine that matures over time, wine connoisseurs are evolving in growing numbers. Today, many acquire fine wines not just for drinking and collecting, but also for investing.

One such connoisseur is Mark Ricardo, who began casually investing in 2002 when he scored an exceptional deal on two cases of 2000 Lynch-Bages. "I got such a good deal on that wine that I decided to take two cases – one to drink and one to invest – because I knew I'd make money on it at that price," says Ricardo, whose personal collection includes approximately 500 bottles.

The main difference in wine collecting and wine investing is final intent. "Wine is an investment if you intend to sell it at some point. If you intend to consume it, it's a collection," says Marc Lazar, president of Cellar Advisors, a St. Louis-based wine consultancy, and Domaine Wine Storage, an affiliated network of wine storage facilities.

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Making the move from wine collector to wine investor requires a new way of thinking. "If you want to make money selling wine, you should act and buy differently because it's not about what you like and want to drink; it's about what's going to go up in value," Lazar says.

Why Wine?

Advocates of wine investing tout a number of benefits, including long-term appreciation, low volatility and high risk-adjusted returns, says Ricardo, who in 2011 founded Trellis Fine Wine Investments, an independent wine investment company based in Alexandria, Va.

Wine's consumable nature might increase its demand over time. "If you buy a case and hold onto it for 50 years, most of the other cases of that product will be consumed, making what you have not just old, but also scarce," Lazar says.

Investing in wine also can improve portfolio diversification. Historically, the investment-grade wine market has not moved in lockstep with other major equity-type asset classes, Ricardo says, adding that like other tangible assets, wine typically holds its value during times of inflation. In fact, investment-grade wines historically have produced an average annual gross return of between 12% and 15%.

However, wine investments aren't without

risk, including potential loss. Although appreciation can be significant, fine wines do not pay income, says Ricardo. Therefore, wine should be viewed primarily as a portfolio diversifier rather than a return generator.

Finally, there are substantial costs of investing, which often include storage, insurance and sales brokerage commissions or auction seller fees. "[Fees] could be as high as 50 basis points per year," Ricardo says.

What Makes a Good Investment Wine?

Although many factors influence wines' cost and appreciation, some of the most important are:

- **Place of Origin:** Investment-grade wines make up less than 1% of the global wine market, Ricardo says. Of those, 80% come from the Bordeaux region in France, with the remaining 20% coming primarily from Burgundy, the Rhone Valley and Champagne, and Tuscany and Piedmont in northern Italy.
- **Pedigree:** "The wine has to come from a chateau that has some level of pedigree," Ricardo says. In other words, it must come from a prestigious producer, such as Château Mouton Rothschild, Domaine de la Romanee Conti or Château Margaux.
- **Longevity:** Investment-grade wines typically reach their early stage of drinkability after about 10 years and should be able to age for at least 25 years, Ricardo says. Because

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longevity allows for consistent long-term appreciation, most investment-grade wine is red.

- **Scarcity:** "Wine that's made in massive quantities never will be as valuable as wine [that's scarce]," Lazar says.
- **Price History:** Ricardo says the best investment-grade wines come from producers with a history of consistent price appreciation across a number of different vintages.
- **Provenance:** Provenance – who owned the wine previously, for how long and under what conditions – is especially important, says Per Holmberg, head of wine at Christie's auction house.
- **Critical Acclaim:** "The higher a wine is rated by various wine critics and wine magazines, the more perceived value it's going to have," Lazar says.

How Can I Start Investing in Wine?

Step one is identifying the most prominent producers and understanding how their vintages rank among critics. Subscribing to industry publications such as *Wine Spectator, Wine Enthusiast* and *The Wine Advocate* can help. From there, investors have several options:

- **Direct Investment:** Investors can acquire and sell investment-grade wines through multiple channels, including merchants, wholesalers, auction houses and private collectors.
- **Wine Consultants:** Wine consultants assemble wine portfolios for investing based on market opportunity. Lazar recommends investors understand the consultant's fees, investment strategy and return history – and ask for references. Investors should avoid consultants with conflicts of interest, including those who have financial relationships with the wines they recommend. Client funds should be segregated, and money and wine should be stored in the client's name rather than in a co-mingled corporate account owned by the consultant, Ricardo says.
- **Wine Exchanges:** Although they're typically accessible only to wine professionals, wine exchanges like the London International Vintners Exchange (Liv-ex) are a common avenue for buying and selling fine wines.
- **Wine Funds:** Instead of physically owning and storing their own wine, investors can buy into a managed investment fund. The benefit, Ricardo says, is a lower barrier of entry: It costs $25,000 to $50,000 to create a reasonably diversified, separately managed wine portfolio; individuals typically can invest in wine funds for much less. The downside is funds generally require a lock-in period during which investors can't withdraw

MAKE THE MOST OF A WINE INVESTMENT

- **Remember, cash is king.** "If you buy in large quantities, pay quickly and have an established relationship with the seller. That's always your best bet [for getting a good deal]," says Marc Lazar, president of Cellar Advisors.
- **Mind your costs.** "People forget about taxes, shipping, storage and insurance," Lazar says. "The best wine investors buy efficiently, not just cheaply."
- **Diversify.** "Buy from a variety of sources so you have protection against any one source overcharging you," Lazar says.
- **Keep good records.** "It's amazing how much more you can sell wine for 12 years later when you show someone your original receipt," Lazar says.

their money. Also, if the fund goes under, investors could lose their investment, as the wine is titled to the fund rather than to individual investors.

Even if you buy wine solely for investment, investors should allow themselves to pop the occasional cork, as wines are worth the most when they taste the best.

"Keep up with your drinking," Holmberg says. "If you have multiple [cases], sip the wine every now and then to see when it is at its peak."

After all, the best reason to get into wine investing in the first place isn't the economics; it's the enjoyment. "People who are [the most successful wine investors] have a real passion for wine," Holmberg says. "They go to wine tastings to learn more about wines. They like to break down wines and decide what they like about them – which regions they like and what types of grapes. It's the chase of finding the perfect wine." ■