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How to invest in wine

Emma Wall, 24 Sep 2009

The Liv-ex 100 index, the index which tracks the world's most sought after wines, is up 10pc this year – although it is down 20pc over the past 12 months.

Consumers are no longer picking French wines Photo: Christopher Jones

Wine investment is no longer the preserve of the rich and flash city types; you don't even need a cellar to take advantage of the large returns wine can offer.

In the last ten years the wine investment market has become both more accessible and complex, with many funds and investment vehicles being set up. While investors can still buy cases of wine to store and drink themselves, wine investment companies will manage a wine portfolio in the same way a stocks and shares portfolio would be managed, trading on the clients' behalf sometimes without any investor input.

While some wine investment companies will have their own storage facilities and move any wine they acquire on a clients behalf into the company's cellar, most will buy and sell without ever moving the wine. This allows the investment body to be very selective about which chateaux and years they chose to invest in, often selecting either only 'first growth' – the most expensive and exclusive classification of wines, or those in the 'super seconds' tier just below.

Premier Cru Fine Wine Investments only invests in Bordeaux wines, and of the 4,000 chateaux in the region only 50 are considered high enough standard. Investors pay a minimum of £5,000 and are advised to invest for a minimum of three years, though it is not compulsory.

The Liv-ex 100 index- the index which tracks the world's most sought after wines- is up 10pc in the last year. Prices were hit by the economic crisis, a case of Lafite 2005 was worth in the region of £12,000 two years ago, but the market as a whole fell about 20pc, and Lafite prices were especially hit with bottles dropping by more than 50pc to just £5,500 in December last year. You can now pick up a case for around £7,500.

Stacey Golding of wine investment company Premier Cru said: "Lafite didn't stay inexpensive for long, bottom feeders soon pushed the price up again. Wine is seen as a luxury item and most people buy it to drink it- which provides security for investors."

Wine is not a short term investment however. In the past you would buy half a dozen cases of wine, wait ten years, drink 5 and sell one to pay for the rest.

The investor then chooses the level of risk they wish to take- as with stocks and shares higher risk can mean higher rewards, and Premier Cru then decides the wines that fit the clients profile and source, buy and store the wine on their behalf. They then manage and sell the wine, or 'turn' their portfolio when they deem necessary. Investors can put invest extra lump sums and sell off part of the portfolio as and when their financial situation changes.

Director Stacey Golding explained why wine is a popular choice for investors: "Very few of our investors pulled out during the financial crisis – in fact we saw the opposite effect. I think people have a need to invest in a tangible thing and this kind of investment is flexible. If you want to sell a case to pay for the school fees you can do."

Premier Cru charges are £9.02 per case per annum, regardless of value, for storage and insurance, plus a 1.5pc management fee.

Berry Bros and Rudd (BBR) is Britain's oldest wine and spirit merchant, established in 1698 since when it has traded from the same shop. The merchant has a website www.bbr.com where buyers can peruse their stock and buy directly but they also provide a popular "cellar plan" service. Investors pay a lump sum, BBR suggest £10,000, or an unspecified monthly direct debit and outline their taste profile of region, age and whether they wish to store the wine for any length.

They then provide a cellar management service suggesting wines that are available that suit your tastes or which might be a good investment. You can choose to have whatever level of involvement you wish. There is a fee for storage of £10.80 per case per year. Transaction costs for a merchant or broker are typically 10pc. Buying wine like this can have a smoothing effect on any dips in the market – you buy more when prices fall and less when prices rise.

Joss Fowler of BBR said: "The wine market seemed immune until late October, early November last year, when the price of some wines, notably top 2005 clarets, dropped off by as much as 40pc in a handful of extreme cases. Prices are firming up, though, and I should stress that only a handful of wines fell to such a degree. The bulls would say that this is a clever time to buy, and prices to seem to be on an upward march again."

Of course you can always cut out the middle man and buy wine directly from the dealer, auction house or chateaux. Storage is paramount with wine or it will lose its value so if you do not have a cellar, source a competitively priced one. Good dealers will include transportation upon purchase and auction houses will safely deliver for a small fee.

Serena Sutcliffe MW is international head of auction house Sotheby's wine department. She said: "Traditionally people who had a disposable income would buy more wine than they needed, store it and then sell it off at a later date to fund what they drank. Top end stuff will accrue value after a decade, but I've only come across one person in all my time in the industry who only bought wine to invest."

It is important to remember that wine investment is a largely unregulated industry. Anyone can call themselves a wine dealer and there is no protection from statutory safety nets that protect investors in authorised funds and bonds.

Ensure that anyone you do business with is a reputable trader- if you are spending large sums of money always consult an independent financial adviser. Although you may pay a premium if buying through them well-known auction houses will have experts which guarantee value and authenticity. Christie's experts will value items of interest free of charge, however, so should you have made a purchase you can call them to arrange a viewing.

"The market is very lively at the moment," said Ms Sutcliffe, "worldwide there is a lot of demand- especially in Asia. They are very active investors and as they are relatively new to the market they open bottles, increasing the value of what is left. Asian buyers are like the Americans were 30 years ago."

The labels that make the most profit remain the same- the first growth. Especially chateaux such as Lafite. The super seconds, the unofficial term for second growths, are a good place for beginners to start as they almost match the first growth in quality but are considerably less expensive.

Ms Sutcliffe recommended young wines for those starting out. "The last 20 years have produced some great wines, even this century- 2000, 2003."

If you do decide to buy, however, you must remember that wine is like art- you shouldn't buy it unless you enjoy it. And if it all goes wrong, at least you can drink it.

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