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Prospecting for *Liquid Gold*

Interested in wine investments? Lim Hwee Peng shares his views and analysis for those seeking investments in such liquid assets.

There are generally two types of wine enthusiasts: one who simply enjoys the pleasure of wines, collects them and awaits the right moment to indulge, while the other buys it as an investment and waits for the right time to sell and reap the financial returns.

Because of heightened interest in wines, interest is gradually building up when it comes to investments in this fermented grape juice. Why? Extraordinary returns from such investments are not just wishful thinking. According to a report in the Financial Times in June 2005, some S$30,000 invested in blue chip wine stocks will now be worth S$3 million. The returns are indeed attractive but investing in wines isn't for everyone as the process is not a walk in the park.

WINE 101

It is not difficult to grasp the economic principles that have underpinned and propelled wines to become precious liquid assets. Firstly, there is a limited

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supply of good asset class wines each year; yet at the same time, there are increasing numbers of interested buyers which are growing by the leaps and bounds. The resulting imbalance between demand and supply results in fine wines becoming a valued commodity.

For example, the great 1961 Chateau Latour cost less than S$100 a case (comprising 12 standard bottles) back then. This premium fine wine, depending on the provenance of the wines, is now worth an average of S$60,000 a case today. The June 2005 Financial Times report even highlights that a case of 1990 Chateau Cheval Blanc which was priced under S$1,200 upon release has now gone up to an average of S$12,000.

Unlike other goods or commodities, wines tend to get better with age. The ageing process allows wines to mature and it improves over a long period of time. Fine wines also tend to be consumed, thereby raising the scarcity level and fueling higher prices for the remaining stocks. Which rightly explains why one should be prepared to pay an arm and a leg for older vintage fine wines like benchmark vintages of 1961, 1966, 1982 and 1990.

Consider the various categories of investment-grade wines available in the market before making any investment. Bear in mind that there are both 'long-term' and 'medium-term' fine wines; because of improper advice or the lack of thorough knowledge, there are investors who will eventually end up with 'drink now' wines - such wines will not have any potential returns and only offer drinking pleasure.

What are the good asset-class wines worthy of your investment and time? Most wine investors will agree that fine blue-chip wines are few and far in between. It will not be too pretentious to include only the five 'First-Growth' Bordeaux red wines (or clarets), namely: Chateau Mouton, Chateau Lafite, Chateau Margaux, Chateau Latour and Chateau Haut Brion for guaranteed returns. There are even some super Second-Growth and Fifth Growth which may make good investments as well.

For the uninitiated, it is important to note that there are essentially only between 50 and 76 wine labels in the wine world worth investing in.

Investors are spoilt for choice especially with the recent surge in interest in Californian cult wines like Screaming Eagle and Harlan Estate, Australian boutique wines like Three Rivers and Duck Muck and Italian Super-Tuscan wines like Sassicaia. Some of these wines are viewed as fads by the savvy investors for their lack of track records and historical values.

Port wines are another category to seek out but one has to be patient for its value will require a longer period of time to materialise.

Though investment-grade wines are known to offer positive returns over the long-term, not all Bordeaux or Burgundy wines will appreciate in value year-after-year. For example, despite the Chateaux proclaiming its greatness, two vintages of Bordeaux wines were 'lemons' – the clarets of 1997 and 1999 are now selling at lower values than their original pricing when released.

WINE GUIDES

The role of wine media has been strengthened as consumers look to them for guidance and information. Views and comments from established wine critics are highly regarded by investors. These include 'Wine Emperor' Robert Parker, whose review and ratings of fine wines can make or break a wine's value.

A controversial figure in the wine world, Mr Parker's influence is, without a doubt, highly well-regarded. His comments are closely watched by investors, chateaux and winery owners. It was even mentioned that some wineries intentionally made wines which catered to Mr Parker's palate in the hope that favourable ratings be awarded to their wines. Many wine investment companies use his 100-point ratings scale and reviews as a barometer in determining the value of investment-grade wines.

London-based personalities have their share of followers too; these include Michael Broadbent, Serena Sutcliffe MW (MW is the title 'Master of Wine', a rare breed of wine specialists in the wine world) and Clive Coats. Each has its own focus and specialty. For example, Coats' views on Burgundy wines carry more weight and it is more authoritative. It is therefore not surprising that many Bourgogne fans turn to him for enlightenment on the quality of classic Pinot Noir and Chardonnay.

THE COMPLEXITY OF WINE INVESTMENTS

For the uninitiated, it is important to note that there are essentially only between 50 and 76 wine labels in the wine world worth investing in. It is therefore necessary to differentiate the 'men from the boys' or the great wines from the mediocre ones.

But acquiring the required knowledge can be difficult and overwhelming. On top of understanding each wine type, there are regional and vintage variations, as well as market trends which have to be monitored. Though information is readily available for reference and research, the explosion of wine literature and reviews from many supposedly wine gurus has resulted in more confused potential investors rather than enlightened ones.

For novice investors, the most prudent step forward is to make a conscientious effort to understand wines as a product before even considering its future monetary value. After which, scout around for the right investment advice and seek recommendations before taking the plunge.

Should assistance and advice be required from third parties like wine investment companies, conduct diligent research on such establishments including their credibility and track records, the assurance of stocks, the provision of storage facilities and well as the types of wines they deal in,

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among other things. These factors can make the difference between a portfolio which increases in value or one that disappears altogether, along with the bogus operator. Such incidents are common and it is not surprising that overly-anxious investors have been targets and victims of unscrupulous operators preying on those with the quick-buck mentality.

When it comes to selecting investment-grade wines, always buy the best wines from the great vintages. Make an early purchase to ensure the best price is obtained. For provenance, keep the wines in its original condition and store them in a bonded warehouse providing the ideal storage condition. By so doing, a higher pricing can be obtained when they are released back into the market.

Bear in mind that desirability outweighs the impressive quality of any wine. It is the appeal that ensures that the price of a chosen wine stock continues to soar for attractive returns on investment.

Wine investments may not be everyone's cup of tea as it is more for a very specialised group of wine enthusiasts. Personally, the clinical approach to the whole dealing process can sometimes be rather unpleasant especially for wine lovers who genuinely adore such heavenly nectars.

Whether one invests or not, investment-grade wines are sure to delight what with their flavours especially when the chosen stocks do not provide the desired bottom line.

Happy prospecting and cheers!