

# THE BUSINESS TIMES

## A sensible approach to wine investment

*It can bring safer returns than real estate or equity. Here are some tips*

By N K Yong

*The Business Times, 15th April 2005*

THIS is the time of the year when, for a whole month, the wine world focuses on Bordeaux. It is the time when Bordeaux stages the en primeur tastings and the press, trade and wine amateurs descend en masse on Bordeaux to taste the most recent vintage, in this case 2004, to make their 'expert' pronouncements while the rest of the world hangs on to their lips - or their pens.

Soon after this, the Chateaux announce their en primeur prices - the release prices - of their wines and then the real fun starts. But even before all this activity much talk has already appeared in print and in discussions throughout the wine world about the 'market', with predictions, comments, guesses and even advice being offered about opening prices and the effect on the market.

It is also about this time that fine wine as a vehicle for investment becomes topical, with sometimes unrealistic forecasts about the profitability of investing in wine.

### What is hype and what is reality?

In my youth I eschewed the idea of investing in wine, regarding it as almost sacrilegious. Observing and studying the wine scene over a period of almost a quarter century have brought acceptance that wine investment is a reality that is here to stay - and if applied sensibly, brings safer returns than real estate and equity investments.

Wine investment really started with the Bordeaux 1982 vintage. Hyped as the vintage of the century (the first of many the past century!) and boosted by the glowing report (and points) of Robert Parker, it was the beginning of the market as we now know it. The bull run on the 1982s carried over into the next few years, with some disastrous consequences, notably the wholly unjustifiably high opening prices of the 1984 Bordeaux, with predictable effects. There have been a few more bull runs, notably with the 2000 and 2003 vintages.

What is a sensible approach to wine investment? There is no better analogy than the equity market - simple stocks and shares. For the ordinary investor, the best advice has always been to invest in 'blue chips', lock them away and take profit from capital growth. There are no dividends - except the occasional bottle you pull out for your own pleasure!

What can one reasonably expect in the way of capital growth? The general experience is 10 per cent to 15 per cent annually, but there is a rider here. The waiting game, I call it. One cannot expect to buy and sell within a year and make the 10 per cent to 15 per cent. It does not in most cases work that way. Generally one has to wait for some years for the gains to accrue. There are precious few wines where one can realise this level of profit in the first few years - these are the collector's items such as the perennial but rare, difficult-to-get Petrus, the 'hot' items such as Chateau Montrose and Chateau Ausone in the 2003 vintage. Some wines will increase steeply in price for the first few years, and then plateau off until the next upward climb. Others will show little growth in the first years, and then as the market recognises the true quality, rises occur more steeply. A case in point is the 1996 Firsts.

### What is a sensible policy?

There are only a very small handful of wines, which one could label as investment wines. **In Bordeaux, the First Growths, including those of the right bank, a selected few of the 'Super-Seconds'**; in Burgundy, Romanee-Conti, Henri Mayer (before he retired), de Vogue's Grands Crus, and a handful of the other top 'boutique' growers like Dujac, Dugat-Py, Claude Dugat, Lafon, Coche-Dury; in Rhone, Guigal's single-vineyard Cote Roties, perhaps Chateau Rayas, but this is not a perennial constant, and Chave's Hermitage.

For the rest of Europe, Spain's Vega Sicilia Unico, Italy's Solaia, Sassicaia and Masseto. **I would forget the New World wines.**



*Capital appreciation: The general experience is 10 to 15 per cent growth annually. Also, one has to wait for some years for the gains to accrue*

Now the realities about the en primeur trade. It is useful to know a little about how the Bordeaux market works. The en primeur price is determined between broker, Chateau and negociant. The Chateau sets the quantity of its first tranche (slice or instalment) that it will release at this opening price. The quantity of this first tranche varies - it is hardly ever very large.

In top vintages such as 2000 and 2003, the first tranche was miserably small. The market reaction to the first tranche and price is watched carefully and if hot enough, a second tranche is released at a higher price. Sometimes much higher!

The Chateaux offer their first and subsequent tranches to their list of preferred negociants - each is offered a pre-determined allocation which is dependent on their past record of buying and support. If a negociant opts to cut down its purchase in a lesser vintage, it runs the risk of having its allocation in top vintages similarly reduced - or even cancelled.

The negociant re-sells to his worldwide network of distributors - UK, Europe, US, Asia, etc - who in turn offer to their trade and private customers. The final price is thus increased by the mark-ups of the negociant, and the distributor - at least one, possibly two tiers, between private buyer and negociant.

One does not need to be a rocket scientist to grasp the fact that the lowest price at which one can buy is that price offered by the negociant to its distributors - the wholesale price as it were. Thus the maximum potential for growth (and profit) comes when one is able to buy direct from the negociant and in reasonable quantities.

This is hardly ever available to the private buyer. That is the main hurdle.

### **Some caveats about buying en primeur**

What is your purpose in investing? To be able to drink fine wine as well as make some money to defray the cost of your own drinking? For this purpose one could buy two cases, one for own pleasure and the other to sell when price is right, and the profit will then reduce one's drinking cost. This is for me the most sensible and safest approach. If the profit is not attractive, you can always drink the other case!

If one is investing as a financial exercise, the considerations are different.

**First, is this an investment vintage? 1982, 1990, 2000 and 2003 were the best recent examples.** Do not believe wholesale the press reports and vintage assessments. Consult the unbiased, non-trade-related assessments - the vintage reports in Decanter magazine are balanced, realistic, devoid of hype, and extravagant claims. Other wine press worth looking at include Steven Tanzer's International Wine Letter, and Parker's Wine Advocate - here you have to understand where Mr Parker comes from, in other words what his own personal preferences are like.

Second, whom do you buy from? This is where extreme caution needs to be exercised. Always, always buy only from those wine merchants whom you have done business with and know to be reliable. Never, never from new or unproven merchants.

Never buy until you know that the en primeur campaign in Bordeaux has commenced. En primeur prices come out in April. If a merchant offers you en primeur prices before Bordeaux has come out with the prices, he is taking a punt - gambling - with your money and your wines. A con game.

One thing that needs to be emphasised. When you buy en primeur, you pay your money up front with the merchants' assurance that you will get the wine when it is released from the Chateau two years after the vintage. If the merchant disappears or becomes insolvent in the interim, you have lost your money and your wine. This is not a horror story. It has happened.

As the morale of the story goes: caveat emptor!

### **About the author: Dr. N K Yong**

Respected palate and well-known wine connoisseur, Dr Yong is one of the select few who influenced the development of wine appreciation for over three decades.

The French government honoured him with the Officier de l'Ordre du Mérite Agricole for distinguished service to the international Wine & Food Society in 1989. Dr Yong is also a member of the Confrerie des Chevaliers du Tastvin of Burgundy, Commanderie du Bontemps de Médoc et des Graves in Bordeaux, as well as the Jurade de Saint-Emilion. In 2004, he was awarded officier de l'ordre national du Mérite by the French Ambassador to Singapore.