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# PERSONAL BUSINESS
## Open Bar

# Uncorking Profits from Wine

By Elin McCoy

Eight years ago, I realized that the case of the scarce 1982 Chateau Lafleur Bordeaux I was hoarding in my cellar was simply too valuable to drink. I'd brought the wine before it was even bottled, as futures, for $350, and I unloaded it for enough money to purchase a car. In March, it was trading for more than $40,000. Maybe I should have waited.

With this kind of potential appreciation, investors are starting to eye fine wine not just as a luxury product but also as a place to park serious money and watch it grow. "2006 was the best year in a decade for return on money invested in wine," says Miles Davis, co-founder of the new London-based Fine Wine Fund. Davis, 41, and partner William Beck, 39, who have backgrounds in finance, started the $5 million (2.5 million pound) "members association" fund last August and reported a 10.1 percent return during its first six months. They're aiming for $100 million in assets and plan to launch a similar institutional fund soon.

The Fine Wine Fund is one of three London-based bunds started in the past few years to generate returns for investors by buying, holding and selling fine wine. "Wine as an alternative asset class is gaining ground," Davis says. "We're still in the early days." (I own none of the funds or wines mentioned in this article.)

Analyzing the performance of 50 investment-grade wines from1983 to 2002, Mahesh Kumar, author of *Wine Investment for Portfolio Diversification* (Wine Appreciation Guild, 179 pages, $45), found that wine outperformed the Dow Jones Industrial Average, the FTSE 100 Index and a U.K. government bonds index with lower volatility. "And investing in wine seems sexy," Kumar, 35 says. "People like to talk about "my wine investment" even if they don't make any money."

Not just any old wine qualifies as investment grade. The best returns are mostly for top-tier red Bordeaux from the finest vintages: 1982, '86, '89, '90, '96 and 2000. That's because these wines come with long track records of quality and high prices, have the ability to improve with age and carry brands that are instantly recognized worldwide. They're also made in sufficient quantities to be traded regularly; top Burgundies like Domaine de la Romanee-Conti are also highly investment worthy, but they aren't available in the volume most funds require.

As with any commodity, the law of supply and demand rules in pushing prices up or down. Fine wine is produced in finite quantities, and every time someone pulls a cork, the number of bottles of a particular label dwindles.

Rapid worldwide wealth creation is driving demand, as is the entry of new players from Russia, China and the rest of Asia who want the best, regardless of cost. "Wine is much different from the art market," says Andrew Davison, 39, who co-manages the 50 million euro ($67 million) Vintage wine Fund, which is registered in the Cayman Islands. "For a $20 million Picasso, you need the guy who will spend that. Lots of people can buy a case of Lafite at $30,000."

The London International Vintners Exchange, or Liv-ex, an electronic trading and information platform for wine merchants launched in 2000 by ex-stockbrokers James Miles and Justin Gibbs, has encouraged professional investors by making prices more transparent. (In October 2006, Liv-ex began allowing private collectors to subscribe to its price database.) Its Liv-ex 100 Index tracks prices of the 100 blue-chip wines that trade most regularly among the exchange's 150 members. (For a description of the index, type LIVX100<Index>DES<Go> on the Bloomberg Professional service.) The index rose a staggering 49.7 percent in 2006 and 4.9 percent in the first two months of 2007. "The king brand was Lafite," Miles, 37, says. "It's outperforming all other Bordeaux first growths in every vintage. The power of the brand, especially in Asia, has rubbed off on the chateau's second wine, Carruades de Lafite."

The rating that American wine critic Robert Parker gives a wine has a huge impact, Miles says. "We found 99- to 100-point wines traded at two times the price of 97- to 98-point wines, and so on down," he says.

Last year, making money was about holding high-scoring first-growth Bordeaux, but the story is changing, says Peter Lunzer, director of the £10 million Wine Investment Fund. "There's a huge price gap between the Bordeaux first growths and second growths," Lunzer, 47, says. "Our fund is now focusing on the bits left behind. Second growths like Pichon Lalande and 1998 St.-Émilions may offer bigger returns. The growth for '82, '86 and '90 vintages of the first growths continues but is slower." According to Lunzer's price step theory, prices of wines don't rise in an ever-upward curve; they eventually reach a high plateau, where they sit until scarcity and global demand push them up again. Château Pétrus, for example, seems to be at that point now.

Lunzer's fund has offered a series of five-year tranches to private investors since 2003 and has added tranches for institutional investors. Lunzer avoids buying futures, saying back vintages now give better value and return.

Let's not forget that wine investment has risks too. Prices do go down. Bordeaux cult wine La Mondotte is no longer so fashionable, and prices for the 2000 vintage dropped 37 percent from 2004 to '06.

Just what makes one wine go from being hot to not is complicated, though wines without a long track record, such as cult California cabernets and Australian shirazes, are especially vulnerable. With a high score from Parker, they might shoot up in price because of initial demand. They often lack the staying power of blue chips, though, and their prices may lag later.

And in the past few years, three wine funds have gone into liquidation. A fall in Australian cult wine prices, for example, contributed to the collapse in 2005 of Sydney-based investment fund Heritage Fine Wines.

Wine consultant and Sleepy Hollow Wine Co. President Mark Golodetz is convinced the market is due for a small correction in the near future, after the effects of the 2005 Bordeaux prices go through. "If there's a big downturn in the world markets, wine will be the first investment to go," Golodetz, 51, says.  Despite a drop in global financial markets in February, though, the Liv-ex 100 rose 2.9 percent that month.

The U.K. leads in wine investment opportunities, but other funds are in the works in Hong Kong and the U.S., where Richard Bakal, who heads up a private family collection, called The Wine Trust, plans to launch the Wine Trust 2 for interested outside investors at the end of 2007 or early in '08.  Unlike Lunzer and others, Bakal, 79, has faith in buying top vintages *en primeur* - as futures.  "You have to have patience," he says.  "Prices of the 2005s will be a whole lot higher in 2015."

To get in on the game, you can buy a share of an investment fund, costing anywhere from £10,000 to €100,000.  Or you can turn to a specialist wine investment company, such as Edgware, England-based Premier Cru Fine Wine Investments Ltd., or to a wine merchant or private consultant to help you put together a portfolio, arrange insurance and storage and advise you when to sell.  And even if you do it all yourself, you still need to plan on investing at least $10,000.  Like other blue-chip assets, fine Bordeaux doesn't come cheap.