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Uncork higher returns with a bottle of Bordeaux

**BYLINE:** Leslie Gevirtz, Calgary Herald

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Investing in wine, not just top Bordeaux but even cheap varieties, can be good for your total portfolio and is especially useful during a financial crisis, according to two Swiss economists.

"Wine in a portfolio has produced higher returns and lower risks than the Russell 3000 equity index. . . . Especially in times of economic downturns" they said in a report in the American Association of Wine Economists.

The study comes as leading auction houses reported sales of fine wines totalling more than \$12 million US in the last two weeks.

Economists Philippe Masset, of Lausanne Hotel School, and Jean-Philippe Weisskopf, of the University of Fribourg, both in Switzerland, looked at auction prices from the Chicago Wine Company from January 1996 through January 2009.

"In a nutshell, our findings show that the inclusion of wine in a portfolio and, especially more prestigious wines, increases the portfolio's returns while reducing its risk, particularly during the financial crisis," they explained.

"This is true for all model portfolios both during bull and bear periods."

Masset and Weisskopf accumulated data from 144 auctions with a turnover exceeding \$237 million and covered a period that included two significant booms and downturns. They also constructed several indexes using the repeat-sale regression method. That method is an approach used by the economists who created the S&P/Case-Shiller home price indexes that are used to track and forecast home prices in the United States. Masset and Weisskopf created a general wine index (GWI) and other indexes that tracked different price categories as well as ones that followed five major wine regions. The GWI and the Russell 3000, which measures the performance of 3,000 publicly held U.S. companies, rose between 1996 and 1998. But while the Russell 3000 declined between 2001 and 2003, when the Internet bubble burst, the GWI steadily rose. "Neither the terrorist attacks in New York nor the burst of the Internet bubble, nor the boycott of French goods after the Iraq invasion have had much effect on wine prices," the pair said.

From 2005 to 2008, the GWI doubled. Since mid-2008, it has fallen 17 per cent as a result of the global financial crisis. The Russell 3000 index lost 47 per cent in the same period.

The economists also found that wine had a more positive effect, with a lower amount of risk, on investment portfolios than stocks.

Wines selling below \$200 a bottle saw a steady increase over the 13-year period and yielded a return of 120 per cent, while those selling for under \$100 a bottle generated a 170 per cent return.

Wines selling for more than \$200 and especially those over \$400 a bottle, such as Chateau Petrus or Chateau Haut-Brion, had a three-to fourfold price increase. These wines also suffered the most declines during the financial crisis, losing about 25 per cent.

The pair also created model portfolios mimicking the broad categories of investors from conservative to aggressive and found that allotting 20 per cent of a portfolio to wine had a positive effect on performance.