WHAT DO WE KNOW ABOUT WINE AS AN ALTERNATIVE FINANCIAL ASSET?

A RETURN COMPARISON OF SEVERAL PORTFOLIOS

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Abstract:

During the 2000s, investing in wine became very fashionable. MASSET et al. (2012) point out the underlying reasons: on the one hand, the yields of these investments coupled with low correlations with traditional asset markets (stocks and bonds); on the other hand, a fad reinforced at the end of this decade because of vintages 2009 and 2010 deemed exceptional and highly rated by leading experts including Robert Parker. At the same time, the effect of Asian demand due in part to the elimination of customs duties in Hong Kong in February 2008 and the bubble on the Lafitte-Rothschild linked to the Chinese craze for this Chateau increased the attractiveness of wine as an alternative investment. From then on, we observed an increase in the number of investment funds specialized in wine and also in the number of price indices. The academic literature on the subject "Wine and Finance" developed as well.

However, the characteristics of the wine market are actually relatively unknown and available information very incomplete. A few important elements show that we must remain very cautious concerning investment in wine: heterogeneity of academic studies, modes of indices calculation or composition and valuation of funds. With regard to the funds, the first problems have already arisen and we can legitimately wonder about opaque methods of valuation. This issue is compounded by the fall in auction prices and in the number of transactions since 2011 (see graph 1, issued of our worldwide database).

The purpose of this paper is therefore to develop a critical analysis of this fashionable investment and to show all the obstacles for an investor who wishes to integrate wine in an assets portfolio. The schedule of the paper is as follows.

First of all, we study the fine wines market and reveal the methodological problems. These problems occur at two levels: the market organization and the academic literature, in all cases that’s an information problem. Considering the market itself, the analysis of actors and rules that govern the fine wines market demonstrate the vagueness around it: incomplete information, product
heterogeneity, opacity of valuation rules. An exhaustive review of the academic literature gives the same feeling. Most of the literature is based on partial information and results are heterogeneous. These outcomes are not surprising because most of the data are in the hands of Bordeaux producers and negociants (around 80% of the transaction) and are totally secret.

Thereafter, we use an exhaustive database on auction prices for the 5 first growths chateaux in Bordeaux (Haut-Brion, Lafitte Rothschild, Latour, Margaux, and Mouton Rothschild). Data are issued from 30 auction houses operating in six countries over the period from 2000 to 2012 and cover vintage 1945 to 2008. The econometric analysis reveals that systematic price differences occur depending on the places where wines are traded. The market is not well arbitraged. We then use a CAPM model for assessing fine wines yield in each place (or area). This part of the work is still in progress and we don’t have any result yet. However it will be very interesting to reproduce the Liv-ex 50 with our data and to test the yield volatility of several portfolios with different composition. We hope to extend the database to other wines by June and to test more portfolios composition.

Graph 1: transactions number evolution by continent

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