Investor sentiments and uncertainty on the market for fine wine

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Abstract

“Investment-grade”, “speculative”, “investable”, adjectives, which are generally employed for stocks and bonds, are becoming increasingly common when referring to specific fine wine categories (mostly from Bordeaux, Burgundy and other renowned wine-growing regions). More and more investors hold wine in their portfolios by investing either directly in bottles and cases or indirectly through wine investment funds. The rapid expansion of wine as an asset class creates new needs in terms of investor information and market analysis tools. For instance, in the UK, the Liv-ex, a now well-established marketplace, not only gives the opportunity to trade fine wine, but also calculates various wine indices and conducts market surveys. The success story of this company founded in 1999 demonstrates that investors are avid of such information.

Although these developments are spectacular, this new market still suffers from several weaknesses. In particular, the determinants of wine price changes remain unclear. Previous studies suggest that returns on the wine market are only slightly influenced by economic and financial factors. Moreover, the volatility of wine returns is not yet completely understood. It is actually quite difficult to characterize it due to a lack of liquidity on this market. This problem, if not treated appropriately may induce spurious autocorrelation and a severe downward bias when estimating volatility.

In this paper, we follow a different path to study the wine market. We use an original dataset that allows us to infer a variety of investor sentiment indicators that are specific to the fine wine market. We then study the relation between these indicators and the rate of returns on fine wine. Our objective is twofold. First, we want to gain a better comprehension of the way the wine market functions. More specifically, we assess if investor sentiments are related to wine price changes and, if yes, how both interact together (e.g. do sentiments lead or lag price changes). Second, we aim at providing investors with new analysis tools that should ultimately help them to

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1 In general, an investment-grade wine can be defined as a wine that can be traded (either purchased or sold) on a secondary market at a price, which is not systematically lower than on the primary market. For instance, Mouton Cadet (the perfect example of a supermarket wine that can easily be found almost anywhere in the world) and Mouton Rothschild (a first classified growth from Pauillac with a strong reputation) both satisfy the first condition, while only the latter satisfies the second condition.

understand and anticipate market behavior. A recent quote by Liv-ex director James Miles illustrates the potential importance of investor sentiments on wine financial performance.

“Although the Liv-ex 100 fell slightly in October, the predictions from our members highlight that market sentiment remains positive” (reported by wine-searcher.com),

To the best of our knowledge this is the very first paper that analyzes the relation between investor sentiments and wine returns. Hence, from a wine economics perspective, this paper definitely contributes to expanding our knowledge on the functioning of the wine market. From a broader economics perspective, we believe that this paper contributes to the growing literature on behavioral finance.

**JEL Classification:** C60, G11, Q11

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