

WINE INVESTMENTS

- *Guy Willings MD, L'Assemblage Fine Wine Traders*

Time again we hear of speculators snapping up cases of sought after wines and making over 1000% growth in profit over their investment period. Only last week we had a customer bragging about the fact he had paid £20 per bottle for Hermitage La Chapelle '78 twenty years ago and sold them for £400 each last month. This does not happen all the time but by adopting certain principles one can comfortably make returns of at least 10-15% per annum, often outperforming the FTSE 100 index, Victorian painting, gold and most other commodities. (See figure 1.0)

THE BENEFITS.

Over the last few months we have heard the hype about SIPPS and wine. Some well-established merchants were cashing in on the opportunity before the Chancellor had spoken, artificially inflating some prices. At L'Assemblage we weren't surprised with the U-turn. In reality there was never any need to include wine in your SIPPS as the main advantage of investing in wine has always been the fact that it is a wasting chattel and in theory exempt from capital gains tax. Wine should be used to supplement your pension.

Fine wine is also a finite product, as the winery produces a limited quantity each vintage, which diminishes with consumption. With less around, prices rise with demand. One also has the security of a physical asset and not just a paper certificate. It is easily realisable and when times are good or bad there is still something to drink at the end of the day.

L'Assemblage fine wine traders began trading ten years with the main objective of supplying the finest wines to the most discerning clientele worldwide. Over this time we have noticed an ever-increasing interest in wine portfolios as people look for alternative ways to invest their hard earned income. First and foremost we are a specialist wine-merchant with a pulse on the market supplying investment wines to private, trade and corporate clients, including IFAs. We propose investment wines at competitive release prices and will only recommend wines that we have tasted and meet our criteria for maximizing returns.

THE MAIN PRINCIPLES

- 1) Buy the best wines with a proven track record.
- 2) Only buy in the best years, or vintages.
- 3) Look for wines achieving the highest scores from the most influential journalists and wine shows.

- 3) Buy only from established and reputable merchants.
- 4) Always store in bond with a reliable bonded warehouse.

WHICH WINES TO INVEST IN

For pure investment stick rigidly with wines that have a consistent track record and be careful not to gamble with lesser known personal favourites. Apart from established quality aim for desirability as the rarest of the elite may show the fastest growth.

Red Bordeaux

Historically, the top '*crus*' or growths from Bordeaux have been the highest achievers and set the benchmark for cabernet and merlot based wines throughout the world. These chateaux are not just those listed in their 1855 classification but also the top properties on the right bank of the Gironde in Pomerol and St Emilion. Chateaux such as Pétrus and Lafleur were hardly known sixty years ago. Their main markets were in Belgium and Scandinavia but over time the lush merlot style has taken off in the US, UK and Asia. Production remains small but enough to create a traded commodity.

Bordeaux's first fifteen most desirable chateaux.

Lafite -Rothschild, *1er Grand Cru Pauillac*
Latour, *1er Grand Cru Pauillac*
Mouton- Rothschild, *1er Grand Cru Pauillac*
Margaux, *1er Grand Cru Margaux*
Haut Brion, *1er Grand Cru Graves*
Cheval Blanc, *1er Grand Cru Classé Saint Emilion*
Ausone, *1er Grand Cru Classé Saint Emilion*
Pavie, *Grand Cru Classé Saint Emilion*
Pétrus, *Pomerol*
Lafleur, *Pomerol*
Le Pin, *Pomerol*,
Léoville Lascases, *2ème Cru St Julien*
Léoville Barton, *2ème Cru St Julien*
Montrose, *2ème Cru St Estèphe*
Palmer, *3ème Cru Margaux*

Burgundy

This is one of the most fickle of regions and most complex to understand. For example, there are dozens of wines with the word 'Chambertin' on the label, denoting the vineyard, village name or appellation. Here there are many good and average growers but only a handful of exceptional Chambertins. The grower's name is more important than the wine name. Burgundy has an excellent secondary investment market as quantities are minute compared to Bordeaux and serious collectors will pay top dollar especially for rare old domaine wines.

Pinot Noir is the classic red grape of Burgundy and highly fashionable at the moment. Chardonnay is the main white grape and the top growers in Montrachet, Corton Charlemagne and Meursault are considered by many to be the best. They do not appreciate in value as much as the reds and tend to reach a price plateau after five to ten years.

The most reputable and reliable investment wines are the premier and grand crus from these growers:-

Reds

Domaine Romanée-Conti (DRC)
Comtes de Vögué
Armand Rousseau
Claude Dugat
Roumier
Méo-Camuzet
Anne Gros
Henri Mayer

Whites

DRC
Coche Dury
Comte Lafon
Vincent Leflaive

Red Rhône

There are only a handful of producers worth investing in despite many excellent wines. The market for mature Rhône is not as strong as claret or burgundy. The few exceptions include the single vineyard or special reserve wines from Guigal in Côte Rotie, Jaboulet's Hermitage 'La Chapelle', Hermitages from JL Chave and Marc Chapoutier, and Ch de Beaucastel's 'Hommage de Beaucastel' in Chateauneuf du pape. This is traditionally the bargain region of France for regular drinking reds but we are noticing more superb investment potential wines being made. Watch this space.

Australia and California

Penfold's Grange is regarded as Australia's greatest red and is produced in good quantities compared to Henschke's 'Hill Of Grace' or Clarendon Hills 'Astralis'.

These are the best performing three but most other cult Australian wines are produced in too smaller quantities. This is usually the case for Californian wines as well. Here the top wines fetch the highest prices within the home market. The leading names amongst collectors are Mondavi, Bryant, Colgin, Caymus, Stags Leap, Harlan and the legendary Screaming Eagle. The last is only available on release price from the cellar door at \$250 per bottle. In the secondary market it jumps up rapidly to \$1000 +. Unless you are on the mailing list forget it.

Italy, Spain & Germany

Some of the greatest wine improvements over the last decade have come out of Italy and Spain. They have shaken off their past reputations for cheap inferior adulterated reds and over sulphured whites.

Tenuta San Guido's Sassicaia is still Italy's numéro uno investment wine and numerous other 'supertuscans' have tried to emulate their success. For investment purposes also buy Antinori's Solaia and Massetto. In the north look towards Angelo Gaja who has successfully marketed his best Barbaresco and Barolo wines with opening prices now matching Bordeaux's premier crus, (£800 plus per dozen).

Spain is a hot bed of activity and now it is not just the legendary Vega Sicilia's Unico stealing the show but also some stunning modern reds from the likes of Pingus, Artadi and L'Ermita. Quantities are very small and demand is high amongst specialist collectors. We first took a punt on seven cases of Pingus 1995 when it was first released at £500 per dozen. Within a year it had achieved a perfect 100 point score from Robert Parker and the price kept doubling up, especially when much of the production sank in the Atlantic destined for America. Now it is worth £5000 per dozen if you can find it.

Germany makes great whites but the best wines are produced in too smaller quantities for investment trading. The top wines of JJ Prum and Dr Loosen, for example, are normally sold in public auctions within Germany on release.

Vintage Port

Traditionally a good line for a portofolio but Port is not as fashionable as it used to be and the great ports mature and appreciate slowly. The Inland Revenue view Port as a wasting asset and therefore subject to capital gains tax. Taylor Fladgate, Fonseca, Graham and Quinta do Noval Nacional are the most serious brands.

THE RIGHT VINTAGE.

In the cooler climate regions such as Bordeaux and Burgundy, great vintages occur once in every four years on average so take good advice prior to purchase. 1960 was a terrible vintage in Bordeaux but the following 1961 was sensational and considered arguably the greatest of the last century. Famous vintages of the last 25 years include 1982, 1986, 1990, 1996 & 2000. Note that vintage quality is more dependant on the successful ripening period and harvest conditions of individual grape varieties. 1999 was much better for Pinot Noir in Burgundy than 2000 but the cabernet and merlot varieties of Bordeaux performed far better in 2000 than 1999.

HIGH WINE SCORES.

The most influential writer and powerful journalist is the American guru Robert Parker. He scores wines out of 100 points and is considered an authority on Bordeaux, the Rhone amongst other regions. His *Wine Advocate* publication can make or break wine prices. As a policy, buy wines that receive at least 92 points or more. At L'Assemblage we also refer to Clive Coates (*The Vine*), Stephen Tanzer (*International Wine Cellar*), The Wine Spectator and for burgundy Allen Meadows of *Burghound.com*.

AVOID FRAUD AND USE GOOD MERCHANTS.

Every month we receive calls from victims of dodgy wine companies claiming to be reputable fund managers. One client was sold 10 cases of Ch Latour 1996 and was told that he would double his money in three years. This was unlikely from the outset as the wine was inflated at three times the average market price.

Be especially aware of high-pressure telephone sales. Often they receive lists from the financial markets and use slick brochures and promises they can't fulfill. Check Jim Budd's www.investdrinks.org for suspect firms. Also check www.companies-house.gov.uk to see if they have filed a tax return.

Some may sell you '*en primeur*' wines that they don't own and because these wines spend up to two years in the barrel it buys them time to disappear on you. Be also aware of fake bottles and ask for guarantees of authenticity. We offer this and certificates of ownership.

THE INVESTMENT PROCESS.

At L'Assemblage the wine proposal is based on the following practices.

The Budget

Work out how much you would like to put aside. Our portfolios start at £500 to over £100,000. Our objective is purely to maximize your return and as in most commodities invest in less quantity but better and higher value; For example, one case at £1000 as opposed to five at £200 each. You may wish to drink some of your wines with the profit from resale of other cases. Certain very rare age worthy wines maybe worth buying in large bottle sizes but never in half bottles. As a rule, magnums (150cl) can age twice as slowly as standard 75cl bottles and first growths in great years are worth having in magnums formats.

The Time Period

There are several options here. Some investors like to buy at opening prices *en primeur* and sell as the wine arrives, making a modest return in a good vintage. Others like to wait five to ten years when the wine has become scarcer and demand has climbed. At L'Assemblage we recommend the latter but keep a close eye on economic conditions and opportunities. We advise when the time is right and will provide an annual valuation. Should you choose to sell we operate a broking service on a 10% commission basis.

The Storage

We recommend storage in a reputable bonded warehouse where conditions and care are ideal for fine wine. At L'Assemblage we will set up your own account at one of the leading bonds. Then you have complete control of your cases and will be charged by the bond the going rate per annum, around £8 to £10 per dozen per year including insurance at replacement value. Better storage firms have on-line stock control systems but not as accurate as www.cellarrange.com where you can check precise notes, pictures of bottles, locations and prices. Always buy in original cases where possible as the value of your wine may be affected.

As a policy always buy your wine **in bond**. All bonds are supervised by HM Customs & Excise. If you pay £1000 per case in bond then the only other charge you pay is the storage per year. However, if you decide to have that case delivered to your home you have to pay the duty (around £15 per dozen bottles for wine and £20 for Port or Champagne) and then 17.5% VAT on top of the cost. Your case then costs £1192.63 with £192.63 wiped off the investment potential.

Make sure the **provenance** is acceptable on all your fine wine. Buying *en primeur* means that the wine will be in barrel at the chateau before it reaches the merchant, usually eighteen months to two years after vintage release in Bordeaux and Burgundy. Take special care with old wines. We sell many mature wines at L'Assemblage and always check the cellarage history when purchasing old vintages. Some of the great names and vintages, such as Latour 1961, may have passed several hands and roamed the world in variable climatic conditions before reaching you. Check for storage certificates, signs of seepage, ullage and cork movement. Raised corks and low levels are signs of heat damage and will seriously affect the value of your wine.

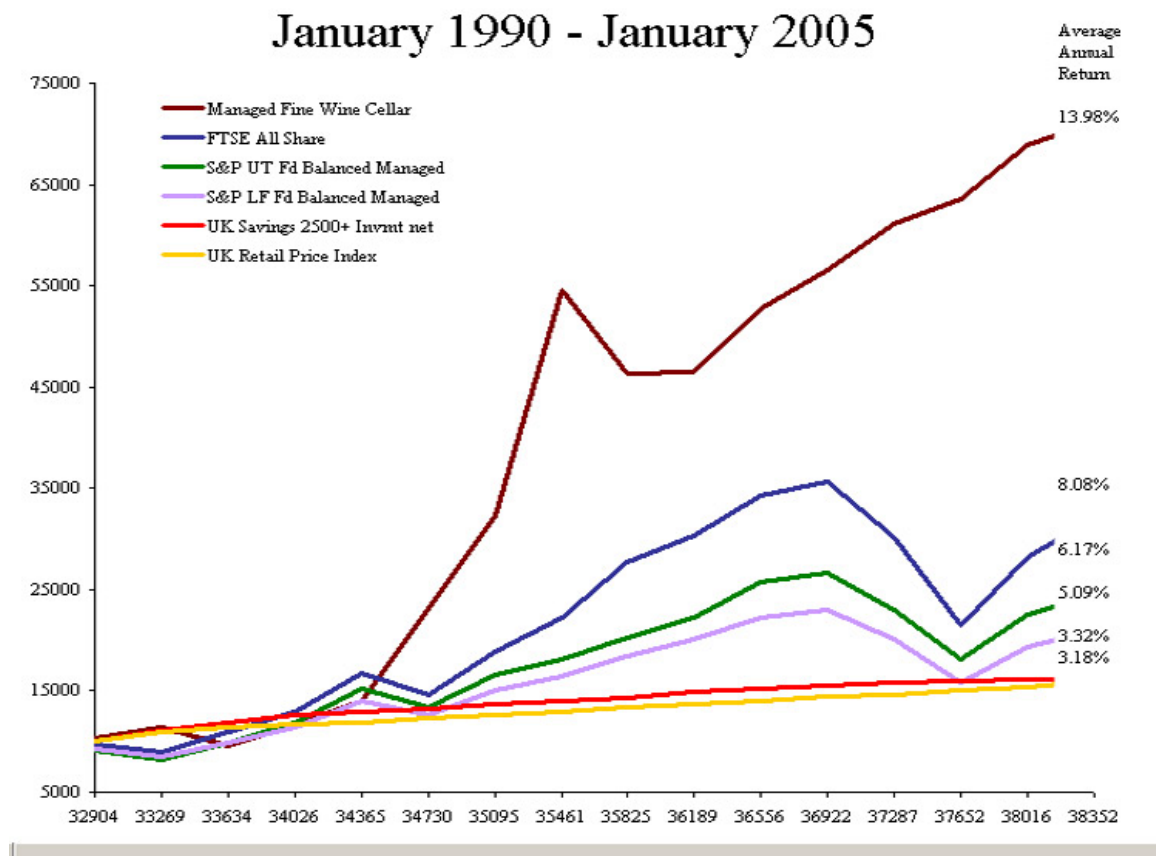
THE WINE MARKET AND THE FUTURE

Twenty years ago one was able to buy good quantities of the greatest wines and pay relatively low prices. Nowadays production levels have dropped slightly amongst the established leading brands as owners strive for better quality and higher scores at all costs. Consumers know a lot more about wine today due to better exposure and education

from influential writers. The wine revolution has led to a surge in demand all over the world including huge emerging markets in Asia and Eastern Europe. Recent auction results indicate this. We may complain when a case of Chateau Latour 2000 costs £1800 per dozen on release but in ten years time this case will be over £7000 per dozen and en primeur prices will start at £4000+ per case for first growths. There will also be a lot more traders fighting for these finite quantities but well-established merchants will secure the best allocations.

The 2005 vintage is released this year and the Bordelais and Burgundians are talking this up as a great vintage. We at L'Assemblage will know from our initial barrel tastings in April when we will be happy to recommend our favourites for investment and drinking.

Figure 1.0



£10,000 Invested in January 1990

The above graph is based on financial results from 1/1/1990 - 31/12/2004 as supplied by Micropal of Standard & Poors, and shows the best returns averaged from the 10 top producing life assurance companies. Assuming an Offer to Bid price at UK basic rate tax. Wine indices calculated using actual sale values achieved.

	Jan- 02	Jan-03	Jan-04	Jan -05
MANAGED FINE WINE PORTFOLIO	£61,147	£63,534	£68,959	£71,197
FT All Share Index	£30,101	£21,415	£28,184	£32,075
Managed Unit Trust	£22,966	£18,047	£22,519	£24,534
Managed Life Assurance Fund	£20,107	£15,775	£19,403	£21,058
UK Building Society	£15,765	£15,948	£16,104	£16,318
UK Retail Price Index	£14,588	£15,017	£15,412	£15,985