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## Liquid assets in your portfolio

Wine is a high-return low-risk delicious kind of investment

**Leslie Gevirtz, Reuters**



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 US\$12-million 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."

The economists accumulated data from 144 auctions with a turnover exceeding US\$237-million and covered a period that included two significant economic booms and downturns. They also constructed several indices using the repeat-sale regression method, an approach used by the economists who created the S&P/Case-Shiller Home Price Indices that are used to track and forecast home prices in the United States.

Mr. Masset and Mr. Weisskopf created a General Wine Index (GWI) and other indices 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% as a result of the global financial crisis. The Russell 3000 index lost 47% 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 US\$200 a bottle saw a steady increase over the 13-year period and yielded a return of 120%, while those selling for under US\$100 a bottle generated a 170% return.

Wines selling for more than US\$200, and especially those over US\$400 a bottle, such as Chateau Petrus or Chateau Haut-Brion, had a three-to-four-fold price increase. These wines also suffered the most declines during the financial crisis, losing about 25%. Wines under US\$200 a bottle lost between 5% and 10% during that time.

Different wine regions followed the upward trend of the GWI, but as in real estate, location played a role. For the time period, U.S. wines showed a positive return of only 63%, while Italy had 125%. Bordeaux and Burgundy, by comparison, yielded returns of nearly 200%, while wines from the Rhone Valley yielded almost 300%.

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

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