



INVESTING IN WINE

EVERYTHING YOU NEED TO KNOW

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INVESTMENTGAB

Investing In Wine: Everything You Need To Know

Want to learn how to invest in wine?

Investing in wine has its intricacies. And you might not have a nose for good wine, that is ok, but you should have a good nose for money.

Today, wine investing is fast becoming part of most investment portfolios

There are now wine-specific investment funds, wine stock exchanges, professional storage solutions to store wine bottle investments as they age. Indeed there are plenty of avenues to easily buy and sell your assets.

In this article, we'll try to inform you of all you need to know about investing in wine, what you should expect, and three ways to invest in wines.

What Is A Wine Investment?

The quality and scarcity of fine wine appreciates over time as does its value and this is the underlying principle of investing in wine. You buy bottles of wine, and store them to sell them at a higher price later on.

In most cases, you may not physically possess the bottle of wine you bought. You can have them stored professionally in specialized facilities for years, This way you are not tempted to drink them and your valuable wines are safe and in perfect condition until you turn a profit!

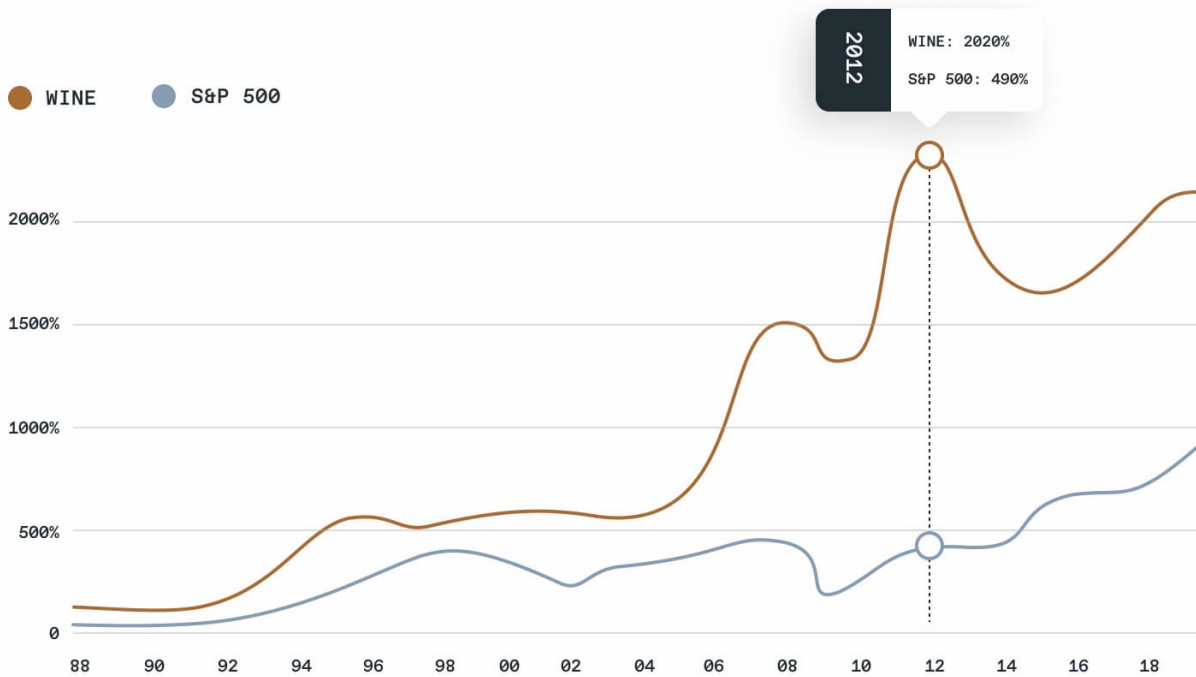
A simpler solution, is to invest with a wine investment company who buy and store your wines for you, without you having to take on any of the headaches of having to store them yourself

Why Invest In Wines?

Investing in wine is a very profitable but also secure investment vehicle for investors to diversify their portfolio. The wine industry is rarely attached to any stock market fluctuations or any world crisis.

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The fine wine market has outperformed most global equities and exchange-traded funds (ETFs), and is less volatile than real estate or gold. More importantly, it has delivered 13.6% annualized returns over the past 15 years.



Source: Liv-Ex.com

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What Is Investment-Grade Wine?

Fine wine that has a good opportunity to increase in value after around five years is known as investment-grade wine.

But how do you go about identifying great investment opportunities like these?

You would know if the wine is worth your money based on these factors:

Age-worthiness: Do the finest wines really get better with age? To be investment-worthy, you need to know whether a wine is or not. It should have the right mix of acidity, alcohol, flavor and tannins to increase in quality as it ages.

Scarcity: An investment-grade wine - like as Example Dom Perignon 2002- is finite and decreases in quantity over time. Limited edition wines are usually (expensive, and) more valuable.

Futures: (wines that are still in the barrel) are cheaper, and give you the first chance to buy a new vintage wine. While en primeur investing (buying wine while it is still in the barrel) is riskier, you could increase your margins if the price goes up after they're bottled and stored.

Critics ratings: High quality wines that are rated as "classic" or equivalent (a rating of 95 on a scale of 100) by wine critics are investment worthy.

Pedigree: Investment wines are made by winemakers of high reputation. Wines made in the Bordeaux region, Burgundy, Rhone Valley, Tuscany in Italy and in other areas designated as "viticultural areas" tend to be more valuable over time.

Price appreciation: The wine price must have appreciated over a 10-year period, or longer.

Longevity: Investment-grade wines reach peak maturity at least 10 years after bottling, and can even age for over 25 years.

But what if you're investing in a new wine with no history at auctions? How would you know if it's a good investment or not?

Check the price appreciation track record of previous vintages from the same winery. If it comes from an exceptional vintage year and is produced in a famous region like Bordeaux or Burgundy, it stands a good chance of future appreciation.

The Key Ways to Invest in Wines

Buying and selling great wines and champagnes may seem like a complex proposition - like investing in whiskey.

But as long as you understand the market, you'll be fine!

Buying Bottles Yourself: How To Invest In Wine In Five Steps

Here are all the steps involved in DIY wine investing.

Step 1 – Research About Wines

Do thorough research on which vintages and wine makers have done well in the past and look at predictive trends by wine experts and analysts.

Watch auction results, and track market data on online wine exchanges like London International Vintners Exchange (Liv-Ex). Scrutinize reviews by wine critics, and the manufacturer's details on websites like Wine Searcher and Wine Spectator.

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INVEST IN THE FINE WINE MARKET

Wine has always been regarded as a safe haven for investors capital during times of economic uncertainty.

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Step 2 – Determine How Much You Can Invest

A common recommendation is that you need a minimum of 10,000 USD to start investing in fine wine.

Just like dividend-paying stocks and bonds, it makes sense to invest in a diverse portfolio from different wine regions and vintages.

Plan a good mix of established names and upcoming collectibles like:

- Bordeaux Grand Crus, and first growth Bordeaux wines like Leoville Las Cases, Mouton Rothschild, Haut-Brion, Chateau Lafite Rothschild, Chateau Margaux, Cabernet Sauvignon, and Chateau Latour.
- Burgundy wines like vintage Domaines and wine futures.
- SuperTuscans and Barolos from Italy, and the best wines from Napa Valley in the United States.
- Wines from emerging countries like Chile.

Step 3 – Decide Where You Want To Buy Wines From

You can physically buy wine through several channels.

Some of them are:

Auctions:

Bid in-person at auction houses like Sotheby's Wine, Christie's, and Acker Merrall. You can also opt for online auctions through platforms like WineCommune, VinFolio, and Spectrum Wine Auctions.

For lower prices and taxes, you can also leverage arbitrage opportunities between the three large markets - New York, London and Hong Kong.

Through a broker

Wine brokers offer personalized advisory services, and transact and trade on your behalf.

Wine Stock Exchanges:

Wine stock exchanges like Cavex, Liv-Ex, and Berrys' Broking Exchange have a good collection of fine wines that can be shipped internationally.

Wineries:

Buy wines directly from a prestigious chateau or local vineyard, and get them shipped to your address. However with international wineries, there are several regulations that may not allow you to buy wines directly.

Specialty Stores:

Some smaller boutique stores and wine merchants like Berry Bros. & Rudd stock a hand-picked selection of fine wines, including investment-grade wines.

Note:

There will be a commission or buyer's premium in most of these cases. For instance, Cavex takes a 3% commission from the buyer and seller. Christie's New York charges a 25% buyer's premium on the hammer price of each lot. Wineries also charge a huge buyer's premium.

Transportation prices and taxes are also applicable across all these options.

Step 4 – Determine How You Want To Store Wines

Storage is key in long-term wine investments.

Store fine wine carelessly, and you lose its flavor over time, or it may mature too early, thereby ruining your investment.

You have two options:

Storing wine on your own:

Store wine in a customized, climate-controlled storage area in your home. Convert your basement into a wine cellar, or buy a wine cooling unit. It has to have a consistent temperature (around 55° F), humidity control (60% relative humidity), and should be kept away from light and vibration. Apart from the storage costs, you have to bear the costs of insurance and maintenance of your facility.

Storing wine in a professional storage facility:

The other option is to cellar your wine with a reputed storage facility. Use facilities offered by auction houses and exchanges, or dedicated wine storage facilities such as those used by Vinovest. You pay a fee for their services, and for insurance, but it guarantees optimal and secure storage conditions for the long term.

Step 5 – Decide Where You Want To Sell It

There are several ways to sell your wine:

Auctions

In-person and online auctions are the most popular way to sell wines. The commission charges in an online auction house would be lower than that of a physical auction house like Sotheby's.

Wine Stock Exchanges

Wine exchanges like Cavex and Liv-Ex facilitate person-to-person selling. You have to pay a selling commission (usually less than 10%) to the exchange.

To another private collector

You can also sell your fine wine collection to private wine collectors or wine enthusiasts.

Four Tips To Help You Out

Here are four expert tips to remember before you get started with wine investments.

A. Understand Market Risks

Fine wines are known to be less volatile than most other alternative investment opportunities.

But there are some risks involved.

- Your expensive wines could get mishandled or damaged in storage or in transit, or due to a natural disaster..
- The value of wine does not increase indefinitely. After a certain age, it becomes less desirable as a beverage, and its value goes down. It is also tough to predict the right time to sell it.
- Scams that involve fake versions of investment-grade wines is also something to be wary of.

B. Keep a Check on Taxes and Shipping Costs

Wine has a limited lifespan (predictable useful life of less than 50 years), and irreversibly declines in value over time. So it is considered a “wasting asset” in countries like Austria, Germany, France, the UK, and Hong Kong. Here, wine investments are free of capital gains tax - but with a caveat - investment grade wines with a life of over 50 years are not tax free.

Apart from these places, and tax havens like Bermuda, Panama etc. where wine investing is tax free, most other countries have their own wine tax laws.

Transportation charges will also be applicable when your wines are shipped by specialized wine shipping companies.

C. Trace the Wine's Provenance

The history, source, authenticity, life cycle and storage of a wine is known as its provenance. This information will help you pay the right price for fine wine, and sell it at the right valuation. You should trace the wine's provenance as far back as possible by:

- Checking its ownership history.
- Getting a certificate of authenticity.
- Reviewing its storage conditions and locations.

D. Use A Portfolio Manager

A DIY approach to wine investing could become time consuming and too risky. You will need a good deal of specialized knowledge to pick out the best investment opportunities from the rest.

But why waste time and resources on that, when you can use specialized wine portfolio managers instead?



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