Liquid assets - Fine wine has become a viable investment option for more than just the wine enthusiast

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More and more British investors are choosing to turn their backs on banks and traditional ways of saving and investing, instead opting for tangible assets that they can touch and feel such as art, gold and even diamonds. Fine wine is one such asset that is leading the way in terms of current returns and predicted future growth.

The laying down or cellaring of fine wine to drink once matured is an age-old tradition. Utilising this increased quality as the basis of an investment is of course nothing new, although it was only in the late 1970s and early 1980s that the formal and organised sale and resale of the best wines for profit became an established industry.

Over the last two decades the popularity of the Fine Wine Investment Market(FWIM) has been on the rise, particularly more recently in response to the volatility in the traditional equity markets and banking sectors. Globally, levels of investment have increased tenfold in as many years. This is mainly due to its tax efficient structure and low correlation to other traditional assets, all of which has helped to contribute to a high degree of stability.

With increasing amounts of buyers worldwide and with a permanently limited availability, prices over time are generally expected to rise. As Daniel Paterson ,senior market analyst at BWC Management & Consulting, has identified, we have seen “staggering levels” of increased interest from the BRIC economies as well as in Europe and the United States. The Chinese, Russian, Indian and wealthy South American countries are also consolidating their positions as both consumers and investors. Meanwhile, Robert Beynat, chief executive of Vinexpo, an international wine and spirits exhibition, forecasts that: “between 2012 and 2016, wine consumption will grow by 145 million nine-litre cases worldwide, an increase of 5.31 per cent. Three markets in particular will drive this growth: the United States with an extra 40.5 million cases, China up 70.5 million cases and Russia with a further 17.4 million cases.”

These views are already being reflected in the returns. For example, a £1,000 case bought in 2001 would now be worth a healthy £2,760 – a return of approximately 180 per cent – though most top grade fine wines can cost more than £5,000 a case these days.

Châteaux in prime positions are the Bordeaux First Growths, such as Château Lafite Rothschild, Mouton Rothschild, Latour, Margaux and Haut-Brion. There are also a few others with healthy contributions to the market, such as the Pétrus, Cheval Blanc, Ausone, Pavie and Angélus. These two handfuls are considered to be the Blue Chip wines due to the reputation, quality, history and track record they have achieved over a considerable period of time.

Most merchants and brokers advise that fine wine should always be stored in government regulated bonded warehouses, which means the wine retains its provenance and a purchase is VAT and duty-free. These specialist storage facilities will have the correct temperature and environment for the wines to mature properly. The wines can then be sold on – achieving what is largely a capital gains tax-free return, according to HMRC’s Wasting Assets: Wine and Spirit tax treatment.

A good fine wine investment should offer an affordable entry point (something that will vary from investor to investor); a sustainable growth catering to various aspects of the trade, including retail, consumption and auction (something all investors or collectors should want – and a flexible and relatively straight forward optimised exit strategy. Doing so one can
expect to exceed the averages and in certain cases extrapolate far beyond them.

Unlike the drinking of fine wine, you do not need to be a connoisseur to benefit from the market, but if you know what you should be looking for, the chances are, the better your appreciation will be because of it.

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