Wine as an Investment

by Dr. Stephen Reiss

If there is one thing people feel they know about wine, it is that some bottles, especially very old bottles, are quite valuable. What is it about the transformation of a simple fruit, such as grapes, into an alcoholic beverage, that warrants such value? What makes one wine worth a small fortune, while another, perhaps even one of comparable quality, worth so much less? Can any wine really be worth $1000 or more?

Wine is a simple product of the fermentation of mashed grapes. Its quality may vary greatly due to climate, soil, age of the vines, genetics of the vines, and most importantly, the skill of the winemaker. Every year the climate changes bringing variations to the final products that are classified as vintages. The soil and genetics of the vines tend to remain the same; however the vines continue to age, yielding less, but more intense fruit, with every passing year. Winemakers come and go, often leaving their mark on each successive vintage. As in any profession, some winemakers exhibit greater skills than others. All of these factors are combined to produce the final test of the wine, its quality.

Each of the wine producing countries of Europe has tried to qualify this ethereal concept of quality by defining procedures and yields to be followed for specific regions. Certain vineyards and regions have been recognized as being an historic factor in the quality of the wines, and as such are rewarded in some way. This classification system allows for instant recognition of quality, just by glancing at the label. At least that is the premise, and like so many labors of man, it tends to suffer from human error and inflexibility.

The wines of the New World are not straddled with any such classification systems. For better or worse, it is up to the consumer to decide which producers, vineyards, or regions, have historically yielded quality wines.

However quality is determined, it is price that is considered the final indicator of quality. Quality is not the only factor in price. Scarcity, as it does with any product, can drive up a price. As wines age, they may increase in quality and in scarcity, thus increasing in value.

Not all wines improve with age, and those that do have an upper limit of age. It requires constant monitoring of the aging potential of wines to determine at which stage of maturity they are at any given time. This monitoring can only be done by actually tasting the wines. The results of these wine tastings are closely followed by the wine press, and in turn by the wine investors, who use the data collected to determine in their own minds, the relative value of the wine.

Most investment grade wine is sold at auction. In the U.S. these auctions are almost exclusively held in Chicago. For the rest of the world it is the auctions in London that are used as bellwether marks for setting prices. Any serious wine collector or appraiser must have the results of these auctions, as well as the current retail pricing of the most popular wines, in order to determine the value of a wine at any given moment. The collection of these figures is a daunting task that fortunately is now done by someone else. William Edgerton has undertaken the role as collector of wine prices in a regularly published document, entitled *Wine Price File*. Many auctions are in fact charity affairs, where the price of the wine may be exaggerated by the desire to donate more than the value of the wine to the charity.

Just how much does a wine increase in value over time? Let's take a look at a 1961 Château Latour. On release in 1961 dollars, it cost $3 to purchase. Currently it is selling at auction for approximately $500. This is a return on investment of just over 15 percent annually for 35 years. I picked 1961 Latour because it is a best case scenario. For our second case, let us pick something less illustrious: 1975 Château Cissac, a lesser Bordeaux wine from a lesser vintage. Château Cissac was released for about $4 a bottle; it currently fetches $15 at auction, which is a ROI of only 6.5 percent. Clearly not all wines make great investments. Let us return to Château Latour for our third example, but from 1975. Great wine, moderate year. Released at $20, it would now bring $75 at auction. Again our ROI is only 6.5 percent.

"Most investment grade wine is sold at auction."

Not considered in the above examples of ROI are the costs involved in storing the wine (condition of the wine at at the time of the auction can vary the value as much as 100 percent). If you have a passive cellar with existing racking than these costs may not enter the equation. If you use a plug in device to moderate the temperature of the aging wine then you need to add as much as $10 a month for the cost of utilities, much more in Europe and other countries where electricity is more expensive than the US. In the above best possible scenario, the 1961 Latour, reduces the ROI from 15 percent to around

Varietal

Varietal describes wines made from a single named grape variety. This term is also used to describe particular subspecies of coffee.

As vintners and consumers have become aware of the characteristics of individual varieties of wine grapes, wines have also come to be identified by varietal names. Varietal wines are made primarily from a single variety of grape, and identify this variety on the label.

Marketing Relevance

The alternatives to the marketing differentiation of wines by grape variety are branded wine, such as Hearty Burgundy, or geographical appellations, such as Champagne or Bordeaux. The poor quality and unknown provenance of many branded wines and the multitude of potentially confusing, sometimes difficult to pronounce appellations leaves varietal labeling as perhaps the most popular for quality wines in many markets. This is much less the case in places where appellations have a long and strong tradition, as for instance in France. In the past, the grape variety was very uncommonly mentioned on the labels of French wine bottles, and was forbidden for almost all AOC wines. New World varietal wines from newcomers like Australia and Chile have made a significant dent in traditional French export markets like the UK, and so the French are adopting varietal labeling in some cases, particularly for vin du pays. Also, in its own way, "Chardonnay" is now a powerful brand.

USA

In the USA, the Alcohol and Tobacco Tax and Trade Bureau regulations specify a minimum varietal content of 75 percent of the labeled grape, for Vitis vinifera wines, and 51 percent for Vitis labrusca wines. There is no restriction on the identity of the balance. Many states in the United States require specific compositions to qualify for sale under a particular varietal labels. For example, in Oregon, wines subject to its regulation must be identified by the grape varietal from which it was made, and must contain at least 95 percent of that varietal.

Australia

Australia has virtually completed a three decade long transition from labeling by style, eg "claret", "burgundy", "hock", "chablis" to a varietal system. While this has been done in response to pressure from the EU, particularly France, it has paved the way for growing interest among Australian consumers for so called alternative varietals, such as Pinot Grigio / (Pinot Gris), Sangiovese and Tempranillo.

France

In most regions of France, terroir is thought to surpass the impact of variety, so most French wines have no variety listed at all. Champagne, for instance, is typically a blend of Chardonnay, Pinot Noir and Pinot Meunier, but this is not indicated anywhere on the label. In Alsace, winemakers adopt the German custom of varietal labeling, and varietal wines must be 100 percent made from the named grape.

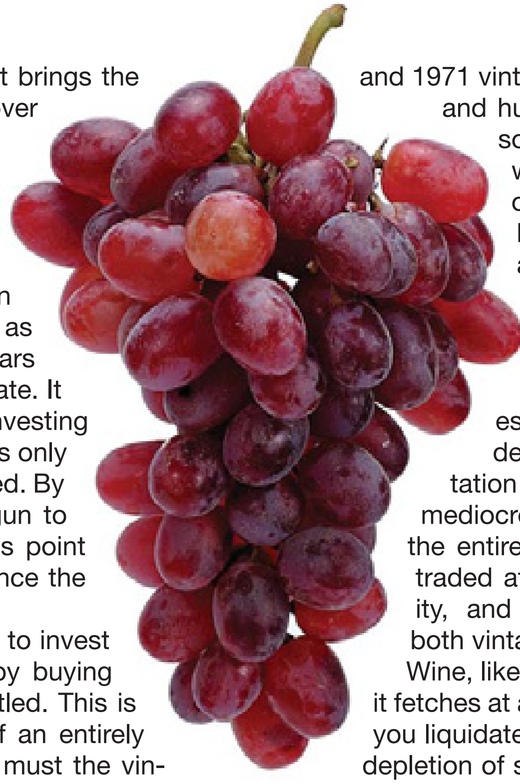
See Wikipedia, *Varietal*

12 percent. In the other scenarios it brings the 6.5 percent down to a loss of over 200 percent!

While great wines in great years constitute above average investments, almost any other combination yields, at best, below average returns. There is much speculation about the quality of a vintage as early as harvest. However, only truly bad years can be predicted at such an early date. It is one of the precarious truths of investing in wine that the quality of a vintage is only told after five to 10 years have passed. By this time the wine has already begun to appreciate, and if purchased at this point the ROI will be considerably less once the wine has matured.

One of the most common ways to invest in wines, especially Bordeaux, is by buying the wines before they are even bottled. This is referred to as *Futures*, and is itself an entirely separate type of gamble. Not only must the vintage and demand for the wine be favorable, but chances are that currency fluctuations will also play a role in the value of the wine. All too often the demand is low, and the currency fluctuations are high, and the delivered wine is worth less than you paid for it.

This scenario is exactly what happened in the 1970 and 1971 vintages. Wine speculation became trendy, and huge amounts of wine were bought and sold at auction, long before the wine was ever released. The wine press, too often the sheep rather than the shepherds, took this volume of trading, and its consequential rise in prices, to be an indication of the quality of the vintage, and started to declare the 1970 and 1971 vintages as equals to the famed 1961 and 1959 vintages. Eventually the wine was bottled and delivered. With great fanfare and expectation the wine was tasted and declared... mediocre. The prices started to plunge and the entire market collapsed. The wines are still traded at prices that are too high for the quality, and any knowledgeable collector avoids both vintages.



Wine, like all art, has an intrinsic value above that it fetches at auction. Unlike most investments, when you liquidate wine, you can do it through the actual depletion of stocks, that is, you can drink it. The joy that comes from sharing a well aged wine with friends can not be quantified, and this is doubly true for a wine that has spent its entire life in your cellar waiting for this very moment.

Are wines with outrageous price tags worth it? Again, there is no way to judge the answer to this. Let me instead relate an analogy. I have a client that makes over $20,000,000 a year. If this person works the usual 240 days a year, eight hours a day (he of course works much more), his hourly rate is $10,416.67. For this person to pay for a $1,000 bottle of wine, he has to work only about six minutes. If you make $20 an hour, you have to work 50 hours to afford the same bottle of wine. For those of us in the $20 an hour range, a $1,000 bottle of wine is the ultimate extravagance. For those in the $10,000 an hour range, it is no more a stretch of the budget than a $2 bottle of wine would be to us. In fact, since there are so few good $2 bottles of wine, the millionaire is actually getting a bargain.

The cost of the wine may well not be an indicator of the quality of the wine. This is especially true in New World wines where the main factor in the pricing of the wine is the demand. Many wines become chic, propelled by the press who are too afraid or ill informed to speak a dissenting opinion. These wines often sport huge price tags that place them in the highest leagues of World Class wines, without the wine itself being

Appellation d'Origine Contrôlée

Appellation d'origine contrôlée (AOC), which translates as "term of controlled origin" is the French certification granted to certain French geographical indications for wines, cheeses, butters, and other agricultural products, by the government bureau *Institut National des Appellations d'Origine* (INAO). Under French law, it is illegal to manufacture and sell a product under one of the AOC-controlled geographical indications if it does not comply with the criteria of the AOC.

All AOC products are identified by a seal, which is printed on the label or the rind (in the case of an AOC cheese). To prevent any possible misrepresentation, no part of an AOC name may be used on a label of a product not qualifying for that AOC. However, many producers are located in towns where the AOC is the name of the town, and thus are enjoined from listing anything more than a cryptic postal code.

Certain AOCs for wine are recognized as being superior to others in their region as first established by the Bordeaux Wine Official Classification of 1855. Typically these are variations on "cru," the French word for growth, and depend on the region. In general, wines called "Grand Cru" are at the top of the quality hierarchy, with "premiers crus" one level below. Beneath these are simple named places. Depending on the region, a cru might be assigned to an estate or to a legally-defined vineyard area. While in theory a Grand Cru should be the finest expression of its site, it is generally a more accurate indicator of price than quality.

The Bordeaux wine classification was based entirely on recent wine prices in 1855. However, many châteaux now own different vineyards, grow different grapes, and use different wine-making techniques than they did when the ranking system was established. Wine critic Robert M. Parker, Jr. says the classification causes mediocre wine to be sold for too much, and superior wine to be sold for too little for lack of a ranking. As a result, the system victimizes the consumer. He says the 1855 classifications "should be regarded by both the wine connoisseur and the novice as informational items of historical significance only." (Ironically, the same criticism - that oenophiles follow this dogma slavishly and uncritically when the matters are in fact variable and subjective - has been leveled against their adherence to the writings and ratings of Mr. Parker himself). AOCs vary dramatically in size. Some cover vast expanses with a variety of climatic and soil characteristics, while others are small and highly uniform. For example, the Cotes-du-Rhone AOC "covers some 40,000 hectares, but within its area lies one of the smallest AOCs, Château Grillet, which occupies less than four hectares of land."

See Wikipedia, *Appellation d'Origine Contrôlée*

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that good. Since money is no guarantee of taste, these wines sell briskly, increasing their value out of proportion to their quality. I would go so far as to say this is the case for the majority of New World wines that find themselves selling at the highest prices. The cost of advertising and promotion, especially if the producer maintains lavish grounds or houses, can necessitate a retail price far above a wine of similar quality with less overhead. Simple touches, such as gold embossed labels may add several dollars to the wine, before any wine is even added to the bottle. It requires a well trained palate and great deal of confidence to weed out the pretenders from the truly great wines. Time often tells, and those chic and trendy wines rarely keep their value over the long haul.

The bottom line is that wine as an investment is so risky as to only make it worth while for those that would be as content drinking the wine at maturity, as selling it. To make matters worse, almost all localities have stringent laws relating to the commerce of alcoholic beverages that may make selling a collection all but impossible.

Dr. Stephen Reiss, author of WineEducation.com and the book, "How To Talk About Wine," is a certified wine educator with more than 20 years experience in the wine industry. He teaches the nationally acclaimed Aspen Wine Program and is an expert in helping people learn how to communicate about wine in an easy, universal way.