Invest in wine wisely and you'll **drink to your profits**

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The wines made by the very top Bordeaux châteaux and the great Burgundy domaines are effectively century-old luxury marques, and like luxury marques in other fields – for example Louis Vuitton, Dior and Gucci – they have been subject to unprecedented demand in recent years. However, when demand for an iconic scarf or handbag increases, fashion manufacturers can simply increase their production; in the case of a great wine marque like Châteaux Lafite Rothschild or Château Haut-Brion, production capacity is limited by the physical size of the vineyard and so generally cannot increase, no matter how much demand rises. This fixed and limited supply against ever-increasing demand lies at the very heart of their value as an investment.

Many of today's most sought-after and prestigious wines were already keenly collected centuries ago. Thomas Jefferson, who went on to be president of the United States, was a keen wine lover and visited France in the late 18th century. He toured the vineyards of Bordeaux and Burgundy and brought home cases of his preferred wines, amongst them Château Lafite Rothschild and Château Haut-Brion, as celebrated then as they are today. A 21st-century collector is in most cases likely to invest in wines that have been sought-after for many decades or even centuries. It's these wines, at the very top-end of the wine market – specifically bottles in the three to four-figure range – which are considered worthy of investment.

The arrival of the Asian consumer as a significant factor in global demand has changed the fine wine market for ever

The biggest markets for fine-wine have traditionally been Europe and North America, where demand has steadily increased over time at roughly the rate of GDP growth. As such, wine prices have generally tended steadily upwards, but without dramatic leaps in value. Collectors of wine have long enjoyed a stable growth in the value of their "liquid assets", but not significantly higher returns than might have been achieved by investing in stocks or shares.

However, all this has changed in the last 15 years. An unprecedented surge of new wine consumers from the burgeoning economies of Asia (China primarily, but also other markets such as Malaysia and Singapore) has resulted in an exponential increase in demand, and a resultant upwards leap in prices, with annual increases of more than 20 per cent common. There has also been a significant increase in demand from Latin American markets, Brazil in particular. Of course, moderated by cultural factors, the consumption of wine per capita in Asian countries is unlikely to ever grow to levels comparable with the West; but nonetheless, the arrival of the Asian consumer as a significant factor in global demand has changed the fine-wine market for ever.

The shrewdest investment is not necessarily the most expensive or the most fashionable wine, but often the wine that combines high demand with genuine rarity. This is again a question of production capacity limitation. For example, the appreciation in value of high-end Burgundy has surpassed that of Bordeaux in recent years, primarily because the estates on which Burgundy grapes are cultivated are far smaller, with a resultant far smaller production (Château Lafite Rothschild is 107 hectares, whereas Romanée-Conti, one of the very top Burgundy domaines, is only 1.6 hectares – less than two per cent of the size). Wine that is intrinsically scarce is generally less susceptible to wild fluctuations in value because demand primarily comes from long term collectors who 'buy and hold'. Contrast this to the larger vineyards, where a greater percentage of the float is bought and sold by investors with short-term interests – this can result in very rapid price rises, but also in equally rapid price falls, if sentiment turns negative.

Transaction costs in buying and selling wine are higher than those involved in trading stocks or shares. Wine investors should expect to wait at least five years before they are likely to see a significant return in real terms. While the underlying economics are very good, the market dropped in 2009-10 thanks to the global financial crisis and was flat in 2013. Nor is wine an asset class that should be selected by a 'DIY' investor; anyone tempted to invest in this asset class, if not an expert themselves, must seek the knowledge and experience of an industry specialist or fund manager. Pick your adviser wisely, however, and you're likely to drink to your profits. CW

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