Research in International Business and Finance 34 (2015) 33–51

Contents lists available at ScienceDirect

Research in International Business and Finance

journal homepage: www.elsevier.com/locate/ribaf

# Was wine a premier cru investment?

Brian M. Lucey*, Liam Devine

*Trinity College, School of Business Studies, College Green, Dublin, Ireland*

ARTICLE INFO

*Article history:*
Received 15 January 2014
Accepted 3 September 2014
Available online 11 December 2014

*Keywords:*
Wine
Repeat sales

ABSTRACT

We investigate the case for Bordeaux and Rhone wine as an investment. The raw data analysed comprises of approx. 335,000 observations of wine sales prices and is analysed using the repeat sales regression method. General Red Bordeaux and Rhone wine indices are constructed for the period January 1996–January 2007, which are compared with each other, with the Dow Jones Industrial Average (DJIA), and with a number of wine funds and finally with the Liv-Ex Fine Wine 100 (FW100) Index. The findings suggest that Rhone and Bordeaux wines can provide average returns in excess of risk-free investments with lower risk at index level. Individual wines and sub-regions carry higher risk than the general indices with varying return levels and so direct investment in such wine by inexperienced, low volume or individual investors carries a high level of risk. Returns on indirect investment via wine funds vary, however all average returns of funds analysed exceed the general Rhone and Bordeaux Index in this research. Volatility for some wine funds was particularly high and may not suit risk-averse investors. This is reinforced by inspection of the higher moments.

© 2014 Elsevier B.V. All rights reserved.

## 1. Introduction

In the wake of the global financial crisis of 2008, which saw financial institutions with asset values greater than the GDP of many countries file for bankruptcy (Areppim, 2008), investors are seeking

* Corresponding author. Tel.: +353 1 896 1552.
*E-mail addresses:* blucey@tcd.ie, brianmlucey@gmail.com (B.M. Lucey).

http://dx.doi.org/10.1016/j.ribaf.2014.09.003
0275-5319/© 2014 Elsevier B.V. All rights reserved.

new asset classes to diversify the risk in their portfolios. The market crash of 2008 wiped unprecedented value from equities, bonds and other asset classes across almost all major stock markets. Already, economists are predicting when the next crash will happen, even suggesting that the success of emerging economies such as China may be a bubble (Ovide, 2011). It is not surprising; therefore, that many investors are deflecting from traditional equity and fixed income products that performed poorly at times of crisis. Alternative investments now present a very real opportunity for individual and institutional investors alike to make healthy returns in the hope that they do not follow the market in the same way as equities and bonds. One investment area of particular interest is the case for wine as an investment.

Wine is not an obvious investment vehicle, as it does not behave like a traditional investment in physical terms. Firstly, wine is a tangible, consumable asset that must be stored and cared for after purchase. It cannot be delivered electronically like many common stocks, derivatives and bonds. Generally speaking, a case of wine does not pay a dividend or a coupon before the asset is sold as investment grade wine is mostly sold at auction. Additionally, the value of wine to the purchaser is derived from either the utility of consumption or the difference between the purchase price and the sales price minus related costs. However, monthly auction turnover and the trading frequency of many wines make the asset attractive as an investment instrument (Sanning et al., 2007).

There have been documented cases where wine earned an average return of up to 70% per annum over a period of six years (Masset and Weisskopf, 2010). Whilst returns as high as this are unusual and not limited to wine, there is further evidence of strong financial performance of wine investment vehicles. The Wine Investment Fund (TWIF) invests in fine wines worldwide which are stored in the U.K. with the aim of maximising returns for investors. The fund invests in tranches of wines with an investment term of five years and a minimum investment of £10,000 GBP. The fund performance was analysed in order to assess an example of the case for wine investment (TWIF, 2010). TWIF generates a higher average annual return per tranche than the Dow Jones Industrial Average (DJIA) for the period since the fund's inception (13.62% vs. 5.82%), however the DJIA had a much higher variance than TWIF (18.16% vs. 4.79%). It must also be noted that there are more TWIF investment tranches per year than DJIA year-end return observations, which distorts results somewhat. Despite this, however, TWIF emerges as a fund with strong returns across the period 2003–2010, with low volatility relative to the DJIA and hence lower risk. By contrast, the DJIA has a much larger variance and risk, of which the GFC was a large contributor. In total, out of 20 tranches of TWIF, the majority (55%) outperformed the corresponding DJIA annual return.

The case of TWIF shows the potential benefits of investing in wine and specifically the potential of wine to generate returns stronger than equity indices with lower levels of risk. There has been some research in the past into specific wines as an investment, with most researchers constructing indices at a regional or multiple-region level. Some wines, such as Red Bordeaux wines, trade particularly frequently at auction and are ideal for analysis. This trading frequency is particularly apparent in the data from The Chicago Wine Company (TCWC) auction house, with the majority of wines traded originating in this region. Red Bordeaux wines have shown promising returns in the past with studies analysing general returns to this wine category (Sanning et al., 2007). It was found that other French wines are of particular interest to wine investors and research has shown their returns to be attractive also. This paper examines Red Bordeaux and Rhone wines both of which performed strongly in recent times (Masset and Weisskopf, 2010) and which the most frequently traded wines regions with TCWC.

## 2. Review of relevant literature

Studies of the return that wine as an asset class generates have been far from in agreement. Krasker (1979) tests the consensus belief of experts at the time that purchasing and holding wine gives "very large" returns and concludes that this belief is false. The study even goes as far as to say that wine yields returns no larger than that of holding low-yield "risk free" US Treasury Bills (T-bills). Subsequently, Jaeger (1981) extends and reinterprets Krasker's study using a much larger dataset and produces contradictory results. Jaeger's results show that wine does carry a risk premium over other asset classes and generates positive returns in excess of T-bills. Jaeger's contradiction of Krasker focuses on two main points, the storage cost estimate used in his analysis and the limited dataset used by Krasker.

Download English Version:

https://daneshyari.com/en/article/1003100

Download Persian Version:

https://daneshyari.com/article/1003100

Daneshyari.com