STEP JOURNAL

Liquid assets

Rodney Birrell of the wine investment fund makes the case for Bordeaux to Jennifer Palmer-Violet.

Wine investment is an easy sell, according to Rodney Birrell. You take investors' money to buy and store the wine, sell it, then distribute the profit. 'There is obviously lots of expertise in knowing what to buy,' he says, 'but in effect it's great money.' Before absolute return funds, connoisseurs could buy bottles to leave in their cellars and risk the wine going off after 30 to 40 years. 'Now we're always selling back into market,' he says. 'There's always a turnover.'

Being a consumable good gives wine an advantage. It's also immune from inflation, making it attractive to investors as a store of value in uncertain times. In the UK, wine is deemed as a wasting asset (an asset that has a maximum lifespan of 50 years), so it is not subject to capital gains tax. In 2006, Hong Kong's 80 per cent duty on wine was reduced to 60 per cent. By 2008, there was 0 per cent duty on wine imported into Hong Kong, so that's been a boom. Now India is looking to reduce its taxes, says Birrell.

As an asset class, fine wine has a perfect inverse supply curve: the older and rarer it is, the less there is and the more valuable it is. Take Bordeaux, the investment-grade wine of choice for Birrell's fund. 'The interesting thing is that you can't buy any more land,' he says. 'You can't buy a square metre of land next to it and call it the same thing, so that means the supply is fixed at the time of bottling.'

But the investment concept is a 'double-edged sword', admits Birrell. Joining a fund is about business: it's not a wine club, so investors can't drink the profits. 'We try to down play the passion aspect to some extent,' he says, 'but on the other hand, people are only going to invest in what they're passionate about. It's a lot more fun to invest in fine wine and talk about it than it is to invest in stocks and shares.'

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Wine is Birrell's passion. With a background in finance and law, he launched the investment company nine years ago and he's still excited about the business. It's something that draws a lot of attention. 'Every single dinner party, reception or meeting I go to, when people ask what I do, the conversation always goes towards wine,' he says. 'Regardless of whether people drink it or not, everyone seems to have an opinion about it, which is very important.'

Birrell believes investment will become more active, having seen more than 80 per cent of clients reinvest multiple times in the fund. He says there's a lot of social dialogue about wine and increasing interest. But what if talk turns to bad press? What if, for example, an article in a paper says wine causes serious health problems? Will people stop buying it? 'Right now, a few glasses of red wine is supposed to be therapeutic,' he claims, playing down any concerns. He also dismisses style change as an immediate concern. 'Style is going to evolve and we haven't even seen the start of that evolution.'

Immediate downside risk comes from a possible failure of the eurozone stabilisation plans or a significant slowing of the Chinese economy, but even in these circumstances wine has a competitive edge. ‘I can’t think of any real inherent risk [at the moment] because people are not going to not drink wine,’ says Birrell. ‘OK, maybe in another 100 years, but not in this lifetime.’

Best buyers’ market for three years

The main wine index, Liv-ex 100, will be 10 per cent above its 2011 year-end level this year, according to The Wine Investment Fund (TWIF). Fine wine prices fell by 15 per cent in 2011 as the market corrected from the sharp rises of 76 per cent since the end of 2008, and some stockholders took profits and returned to cash, given the uncertain economic conditions in the eurozone. Nevertheless, wine has still proved itself to be an excellent longer-term investment, with prices over five years rising by 66 per cent compared to 0.9 per cent on the FTSE 100.

Looking forward, the only two previous bear markets for fine wine in the past 25 years (1998 and 2008) saw the market hit a low point in December and recover sharply the following year. With graphical analysis also pointing to wine having been oversold, TWIF believes this could be the most advantageous time to buy into the market since January 2009.

The graph shows how in 1998 and 2008 the bottom of the market was in December of the year and the next year saw a robust recovery; the current market position has been added.

The first ‘fan chart’ relating to the wine market has been published by TWIF to help investors understand the risks involved and probability of a range of returns. It is in the same format used by the Bank of England to forecast inflation.

‘Falls such as those in 2011 are extremely rare in the fine wine market and have generally been followed by strong returns for those investing at the right time. We believe now could be the ‘right’ time, with our prediction for double digit growth this year,’ says Rodney Birrell.

Key points

- a 50 per cent chance of growth in 2012 between 5 per cent and 15 per cent
- a 35 per cent chance of growth between -5 per cent and +5 per cent or between +15 per cent and +22 per cent
- a 14 per cent chance of growth between -15 per cent and -5 per cent or +22 per cent and +30 per cent, and
- a very remote chance (1 per cent) of growth either below -15 per cent or above 30 per cent.

Source:www.liv-ex.com* (using the Fine Wine Investables Index) and calculations by The Wine Investment Fund