

WEINAKADEMIE ÖSTERREICH

A critical analysis of treating wine as an investment asset

By

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ABSTRACT

1. Motivation

Wine investment is gaining popularity among high-net-worth individuals and increasingly among retail investors. Historically, only institutional investors and wealthy individuals could invest in fine wine due to the knowledge required to select suitable bottles, the need for insurance and storage, and the difficulty of finding buyers. Recently, numerous companies have reduced the hurdles of investing in wine, increased transparency, and made wine investing more accessible to a broader audience. These companies employ wine experts to consult their clients, source rare wines directly from wineries, and store them in temperature-controlled and insured warehouses, increasing liquidity. It is also increasingly possible to start investing in wine with small amounts of money. Often, wine investment companies claim an outperformance over traditional asset classes like stocks or real estate. However, historical comparisons of wine and stock market performance may be misleading for several reasons.

2. Research questions

The combination of lower entry barriers and solid historical performance will likely cause more money to enter the wine investment market. Hence, the question arises whether the treatment of wine as an investment asset, i.e., for the sole purpose of selling it later at a higher price, is sustainable for the wine market as well as the investors. Therefore, this study aims to look beyond the raw financials by understanding the supply and demand drivers of investment-grade wines and analyzing the fundamentals of treating wine as an alternative investment asset. The study poses the following research questions:

(RQ.1) What are the drivers for the supply and demand of investment-grade wines?

(RQ.2) *What is the effect of investment-driven demand on investment-grade wine over time?*

(RQ.3) *Is wine as an alternative asset a sustainable investment?*

3. Methodology

The primary sources for this study are research papers, news articles, and websites of wine investment companies in combination with the author's knowledge and experiences in fine wine investment, finance, portfolio management, and consulting. The main methods used were analyzing and synthesizing the available data and developing a conceptual model.

4. Content

The main body of this study consists of four main parts.

First, the concept of wine as an alternative investment asset is introduced. Alternative investment assets are increasingly used to further diversify investment portfolios but also as a form of passion investment. Wine ranks fourth in popularity among passion investments, according to the Knight Frank Wealth Report 2022. Additionally, there is a growing demand for wine investment services, which now target retail investors. However, prior research shows mixed results regarding the historical performance and risk-return profile of fine wines compared to equities.

Second, drivers of supply and demand of investment-grade wines and their impact on price are identified. On the demand side, factors such as investment trends, demographic changes, and economic and regulatory changes can impact demand for fine wines. On the supply side, factors such as new quality wines entering the market, changes in vineyard acreage, and climate change can affect supply.

Third, a conceptual model is developed to show the impact of an increase in investment-driven demand on price, availability, and total available volume of wines. Further, the long-term effects on the fine wine market are outlined.

Fourth, the results of this study and their implications on fine wine investors as well as collectors are discussed.

5. Conclusion

This thesis analyzes treating wine as an investment asset and identifies various factors influencing demand and supply: *investment, society, economy, legislation, and nature*. Demand can be broken down into two overarching types: consumption-driven and investment-driven. The latter is fueled by more and more wine investment companies lowering the hurdles for retail investors.

The conceptual model shows that an increase in investment-driven demand would increase the total available volume of wine over time, negatively impacting consumption-driven demand. Eventually, a large volume of available wines at or near the end of peak maturity will stand against drastically reduced consumption-driven demand, leading to a significant drop in prices. However, too many drivers are still reducing supply and increasing demand, so a dramatic correction is unlikely in the near future.

Wine investors should be aware of the different drivers for demand and supply and the fundamentals of wine as an investment asset. However, wine collectors, enthusiasts, and drinkers do not have to worry; it is mainly about the price-enjoyment ratio for these individuals. If prices for a specific wine increase dramatically, the knowledgeable drinker will always find an alternative at lower price points and leave the higher-priced wines for investors.

To get a more nuanced understanding of wine as an alternative investment asset, future research should aim to develop a comprehensive dataset for investment-grade wines that tracks their whereabouts, intentions of buyers, and price performance. Additionally, the conceptual model should be further refined by modeling demand and supply functions and the price sensitivity of consumers.