Research shows fine wine investors should diversify

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Wine investors are warned not to put all their eggs in one French basket in a new report from the University of East Anglia.

The fine wine investment market, valued at around US $4 billion a year, is currently dominated by French wines.

But research published today in *International Review of Financial Analysis* shows that diversification – specifically across Italian, Australian and Portuguese wines – could prove a shrewd move for investors.

The wine industry is built around one of the most ancient global commodity markets. Prices of fine wines have soared in recent years due to the fast-growing demand from Asian and Far Eastern markets.

But prices can fluctuate, and depend on a number of factors including weather, reputation, year of vintage, stock availability, and the wider economic situation.

The new study investigates the benefits of diversifying investments across countries and wine varieties.

The report traces nine indices that track the price of the most sought after fine wines – such as the Fine Wine 100 Index, the Rhone 50 Index, the Australia 20 Index and the Port 10 Index – over 10 years from 2001. It also looks at figures from the London International Vintners Exchange

(Liv-ex), which holds the most comprehensive price data on almost 100,000 fine wines.

The research goes on to assess the risk factors that could affect wine prices by investigating how returns are related to stock market performance, interest rates, and the general performance of agriculture and food industries.

Lead author Dr Apostolos Kourtis from UEA's Norwich Business School said: "The investment market deals mostly with French wines, but we found that diversification across the different varieties of French wine is not that effective.

"However, our results suggest that diversification across other wine-producing countries is likely to be much more efficient in reducing overall investment portfolio risk. This is probably due to the fact that fine wine prices are sensitive to climate variations at a geographical level.

"As with all commodities, the fine wine market has great potential for producers and investors alike. The continuing success of this market will depend on the ability to monitor and manage price risk in a transparent manner. This is why we propose the development of fine wine derivative markets which could trade options and futures contracts on standardized wine price indices. Our work shows how such derivative contracts could be analyzed and priced.

More information: 'Wine Price Risk Management: International Diversification and Derivative Instruments' is published by *International Review of Financial Analysis* on May 31, 2012.

Provided by University of East Anglia

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