

Raise your Glass:

Wine Investment and the Financial Crisis

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Abstract

This paper uses auction hammer prices over the period 1996-2009, with a special emphasis on periods of economic downturns, to examine risk, return and diversification benefits of fine wine. Our research shows evidence that the wine market is heterogeneous with wine regions and price categories evolving differently in terms of volume and turnover. We construct wine indices for various wine regions and prices using repeat-sales regressions and find out that fine wine yields higher returns and has a lower volatility compared to stocks especially in times of economic crises. Forming portfolios for typical investors and taking risk aversion, different financial assets and various wine indices into consideration we confirm that the addition of wine to a portfolio as a separate asset-class is beneficial for private investors. Not only are returns favourably impacted and risk being minimised but skewness and kurtosis are also positively affected. Particularly, during the recent financial crisis these effects are most pronounced and improve portfolio diversification when it is most needed. Most importantly, balancing a portfolio with fine wine has resulted in added return while reducing volatility with the most prestigious and expensive vintages and estates outperforming the General Wine Index (GWI) during the entire research period. Results from the CAPM show that alpha is significantly positive over the period 1996-2009 while showing a low beta coefficient. The use of a conditional CAPM model allows us to clarify the time-variance of alphas and betas depending on the economic environment that is not generally captured by the traditional CAPM. The time-varying dynamics of alphas and betas are in particular best explained by the spread between BAA- and AAA-rated bonds and the USD/EUR foreign exchange rate. Our findings confirm that wine returns are primarily related to economic conditions and not to the market risk.

JEL Classification: C60, G11, Q11

Keywords: wine, alternative assets, financial contagion, portfolio diversification, conditional CAPM

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