

Wine Critic Dispersion and Wine Returns

Carlos D. Ramirez
Department of Economics
George Mason University
Fairfax, VA 22030-4444
Tel. 703-993-1145
cramire2@gmu.edu

The purpose of this paper is investigate whether the dispersion in wine critic ratings affect future wine returns. I postulate that wines higher dispersion of ratings earn lower future returns. The intuition is straightforward: if the dispersion of ratings is very high for a particular wine, this would imply that there is a relatively large difference of opinions about the quality of the wine among the critics. Such a high dispersion can be an indication that the quality of the wine is not very robust. As a result, investing in this particular wine would be less appealing.

To evaluate this hypothesis, I regress the average annualized return on wines on the standard deviation of the reviewers (adjusted) ratings, the average ratings, and other variables that control for quantity characteristics. Because I am estimating a portfolio return regression, I also need to control for the risk free return (which measures the opportunity cost of investing in a particular wine).