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CHINA WEALTH

2011 China Investment Guide: What Will Be The Next Lafite?

Feb. 8 2011 - 5:47 pm | 2,031 views | 0 recommendations | 0 comments

By RUSSELL FLANNERY

An investment in wine has been one of the best places to put your money of late. The Liv-ex Fine Wine Investables Index has gained 42% in the past year, and purchases by Chinese buyers helped that advance. To find out what's ahead for the market and how investors large and small can profit, we talked to Stephen Wickens, managing director at Wickens & Co. in Hong Kong. The company provides consulting for wine investment and portfolio management. (Click here for links to the complete 2011 China Investment Guide in [English](#) or [Chinese](#).)

Q. What's driving the big increase in demand that's pushing up prices?

A. Russia seems to have dropped out for now. Europe is pretty flat. America still has strong demand but it's not growing fast. China is the big story, particularly in terms of branding. The Chinese collectors don't see vintages as much as they see brands. Of course, Chateau Lafite is the big story and is by far leading the pack, selling at 2-3 times the value of equivalent quality wine from Chateau Margaux, Chateau Mouton and Chateau Latour.

Q. Why?

A Lafite has established itself as a brand leader. If you will, it's the Gucci, Louis Vuitton or Tiffany of the wine world. It's because they were almost first in the market for real luxury wines. They had an importer in China who brought in some stock 15 years ago. He started to get people interested and then in the late 90's he ran out of stock. This caused a bit of market fury. People wanted to get it. It was like the latest toy at Christmas. Your son wants it but you can't get it, so you buy it in Europe and fly it over. It was that kind of furor.

That coupled with the fact that the name "Lafite" translates very well into Chinese. That has given it the edge. If you look at 1982 Lafite, for instance, Robert Parker, the most influential wine critic, recently downgraded the 1982 to 97-plus points out of 100. Yet Mouton, which received 100 out of 100 points, is trading at a third the price of Lafite!

I put this all down to its good name, and (that) Lafite has established itself with the mainland Chinese government officials. If you want to seal a deal, you need to serve Lafite. But to make money out of wine investment, one of the best ways to do it is to catch the next wave, and for China, that means to catch whatever will be the new Lafite.

Q. So what's ahead for this year?

A. It's very exciting times because with wine we have a new vintage every year. There is a lot to look forward to because 2010 in Bordeaux was a smaller than usual crop, although of very high quality. It's very interesting how the market has reacted to this because 2009 has been declared one of the finest vintages ever. Prices were extremely high. We're talking double what the previous best vintage like the '05 had been released at. We've already had vintages in 2000, '03, '05 and now '09 that were rated extremely highly. '08 as well was rated very highly in certain regions.

Q. Why is this happening so frequently?

A. It has probably to do with improvements in technology and vineyard practices.

Q. What wines should investors be looking at now?

A. I don't think we need to break the traditional rules of buying from the best producer during a good vintage. However, we've seen some interesting demand for off vintages of Lafite and certain other wines, only because they have become a brand and they're perceived differently. What we would consider as "off vintage" or "weaker vintage" can earn some credible returns.

The reason why I'm concentrating on Bordeaux, though, is because the fine wine investment market is really limited to 200-300 wines, and the vast majority of them come from Bordeaux. Some wines such as Screaming Eagle from California can produce great returns for you as well. But to acquire them you need to be on their mailing list, and you may get three bottles per year. It's very hard to consider that a major investment. And this again is one of the difficulties in wine investment: you have to be able to invest an adequate amount of money. If you're just given an allocation of three bottles, you could double your money. But it is, overall, not a big amount of money.

Q. So what are some of the other promising brands besides Lafite?

A. The one that's trading most actively is Chateau Mouton Rothschild, a fellow First Growth Claret, also from Pauillac and from very nearby Chateau Lafite. However it's quite a different style of wine. It's a very rich wine, more masculine than Lafite, which can be called feminine in a beautiful, delicious way.

So we see Mouton Rothschild leaving the chasing pack, and although not catching Lafite, certainly now shadowing it at around 40-50% of the value of Lafite. About 10-15% below that, you have Chateau Latour, and finally after that you have Margaux, Cheval Blanc and the wines of Haut Brion. Right Bank wines such as Chateau Petrus and Lafleur make exceptional wines but in very small quantities, worth investing in if you get the chance.

I think the most interesting area recently has been the second wines of the top producers. Chateau Lafite also produces a second wine that historically came from grapes that was considered not quite good enough to be made into first wine. It's now made partly from grapes from additional vineyards and Carruades de Lafite.

It's now trading at 3,800 pounds per case which is an extremely high price for that quality of wine. That's purely a China-driven thing. It's to do with the Lafite brand. The Rothschild family connection is helping Mouton Rothschild gain value in the wine investment circles, too.

Q. Typically, how do investors that you work with approach investments?

A. We deal with high net worth individuals who are mostly fascinated by wine and are happy to buy some wine to drink and some wine to invest with. Quite a few of them still follow the old adage, which that says if you buy three cases of wine, and you keep them for 3-5 years, you should then be able to sell two of them at a price that would allow you to buy three more cases of the latest vintage and keep the first case of your original vintage for yourself for drinking. So it's self-perpetuating. However, that's more about supplying your drinking needs than investing in fine wines.

Q. What would be a large portfolio by Hong Kong standards?

A. Twenty to thirty cases would probably be a medium portfolio, and of course the top portfolios are into many thousands of cases.

Q. How many individuals are like that in Hong Kong?

A. Tough question, I'm not sure if anyone really knows, but I would say there are several hundred collectors in Hong Kong who have substantial portfolios into the thousands of cases. There are thousands of cases of top wines, so we're talking \$5-10 million of wine, which becomes a significant investment.

One key thing when investing in wine is to maximize the value in each case, rather than maximizing the quantity of the cases. So if you have \$10,000 to invest in wine, I'd always recommend one case at \$10,000, rather than 10 cases at \$1,000 each. You do have annual overheads such as insurance and administration. Once you've achieved your objective and you want to sell, you'll have a lot more administration involved then.

Q. How much of the price run-up is driven by quantitative easing and would be vulnerable to a downshift of the Fed policy?

A. That's an interesting question. In 2008 with the crash, we saw for the first time a significant correlation between stock markets and fine wine investment. This hasn't particularly occurred before. Fine wine was seen as a fairly steady horse trading along and giving you 10-12% return per year. The fine wine market did crash down 25% in the last quarter of 2008, but it's recovered magnificently.

If you do look at the major crashes — fine wine investments over the last 50 years, fine wine has been a very good investment for the five years following a major stock market correction. It's to do with people fleeing into fixed assets. Particularly in this time when people are concerned about hyperinflation and what have you, we see a lot of people looking at not just wine but of course art, property and so on. Fine wine has become seen as a new investment class, yet



certain banks, such as the Swiss Banks, have been offering it as an alternative part of your portfolio for hundreds of years. Now it's more available. It's become a mainstream product.