THE WALL STREET JOURNAL.
WSJ.com

APRIL 25, 2011

Drink to That? Acquiring a Taste for Wine Investment

By JOHN JANNARONE

With many stocks setting records, it is tempting to open a fine bottle of wine and celebrate. But richer rewards might await investors who let it age.

After a bout of monetary easing, the hunt is on for scarce physical assets that offer protection against inflation and potential for strong returns. The Mei Moses World All Art Index, for instance, rose an annualized 5.8% in the past 10 years, while the Standard & Poor's 500-stock index was flat.

Even more profitable, though, were rare wines—up an annualized 6.8%. That is based on the Liv-ex Fine Wine Investables Index, a sampling from top Bordeaux chateaux.

One way for investors to join the toast is through funds that trade wine. These are structured like private-equity funds, charging fees equal to roughly 2% of assets and 20% of any profit. Such funds have increased to $100 million to $150 million from practically nothing several years ago, according to Hedge Fund Research.

Some funds already have had vintage performances. Take the Wine Investment Fund. Its first four funds, raised from 2003 through 2005, had annualized returns of 13% to 17%. The fund's strategy is to buy and hold with little turnover, which worked beautifully as prices soared.

Another fund, Bacchus Partners, relies less on rising prices. It attempts to exploit mismatches in demand around the world, trading actively, with a 40% annual turnover. The transparency of online auctions mean that isn't as simple as buying in New York and selling in Hong Kong. But tracking world-wide demand and trading small collections helps it discover opportunities.

Bacchus Partners began investing just before wine prices troughed in early 2009, which probably helps explain its 25%-plus annualized returns. That means investors still need to weigh the odds of a rally carefully.

The future depends much on China, where an expanding upper class wants more fine wine than it can find locally. Some of that demand was unleashed in 2008, when wine import taxes were abolished in neighboring Hong Kong, having been as high as 80%. Hong Kong sales last year were double those in New York at Acker Merrall & Condit, the world's largest wine auctioneer, says Chief Executive John Kapon.

While education and interest in wine are still in the early stages in China, government interference is a risk. Beijing officially limits individuals to just $50,000 in foreign-currency exchanges each year and has discretion on anything higher. Any clamp-downs could spoil the Hong Kong party for a while.

Even so, the supply of elite wine is almost certain to remain constant. With wealth increasing across emerging markets, and the seriously rich immune to many economic shocks, investors are unlikely to regret trying a taste.

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