

Wine as an Investment Opportunity

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Abstract

Market development with non-traditional commodities is not as developed and widespread as the market with traditional commodities. There is much information regarding investments into antiquarian objects but there is not so much regarding other types of commodities. The traditional slovak investor is an investor into classic investment products with lower risk and lower revenue at the same time. As Warren Buffett said, price does not matter, but value matters. In case of some commodities, with we can gain the high appreciation with a small investment, too, despite the high risk. We have to look forward and to think about the future with non-traditional investments as it is the long-term investment. It represents goods that are little liquid, and there is an inactiveness sometimes needed, but on the other hand it is still necessary to follow the market. There are more and more possibilities of investments with the fast-changing world. Sometimes we can get interesting revenues from some irrational investments. The aim of this paper is to analyze conditions of the market with possibilities to invest into non-traditional commodities, where also the investments into wine belong. We have used the description of alternative investments, analysis of facts and conditions as well as the possibilities of non-traditional investments in Slovakia to reach this aim. On the basis of observing the price development, we have made recommendations for the traditional slovak investor with the positive relationship to non-traditional investments and with the positive relationship to risk.

Keywords: commodity, wine, non-traditional investing, market

Introduction

Theoretical background

Trading with commodities is a very old job that dates back further than trading with shares and bonds. Ancient civilizations traded with many commodities from shells to spices. The power of empires can be considered as its reasonable ability to create and manage the complex commercial systems and to ease the exchange of commodities that serve as wheels of trade, economic development and taxation of royal treasury.

The expression commodity is defined also in the slovak legislation and it is defined as „a tangible object and manageable natural power, mainly a product, energy and raw material, including precious metals except of gold which is traded or can be traded on the market of goods and services “(Act no. 92/2008 Coll. on Commodity Exchange).

Some commodities have the great history, that dates back to the beginnings of civilization, but they have one thing in common- they will be attractive again and their value will increase. (Schipman, 2007)

Price of commodities is often connected to inflation. If inflation grows, prices of commodities grow, too. Prices are almost independent from the development of financial markets. Value of commodities does not need to grow only, it can also decrease, but the value will never be zero. As price of commodities is unpredictable, they belong into risk investments.

Trading in commodities is mostly very attractive for small tradesmen because it offers the possibility of the fast enrichment. The old rule still applies, if it is possible to get rich on something very fast, it is possible to go bankrupt very fast, too. Commodities are considered as the awesome trade tool. Every trade has always two sides of one coin, and this applies also for trading in commodities. (Turek, 2007)

Non-traditional commodities

There is a new phenomenon in the world and it is investing into non-traditional, resp. alternative commodities. Nowadays, it is possible to invest into anything. Except of the common forms of investments, there are many non-traditional ones. Non-traditional forms of investing represent new opportunities and the chance for high revenues. Trades with precious coins, art, precious stones, wine and other antiquarian objects belong here. These trades are not very widespread so far, so they represent much higher risk of liquidity. They are traded in the long-term investment horizon, and it is necessary to count with higher risk in a decline of value.

Traditional investments are realized to gold, silver, precious stones or to diamonds. Wine is also a non-traditional investment. A wine expert is not necessary, but it is advisable to use them. The annual revenue from the purchase of this type of alcohol moves between 10 – 15%. In some cases, the future value can increase by 200 % from acquisition price. In some unique cases it can be up to 400% from original price. The wines for investments are red varieties, mainly from the french provinces, that has the potential of maturing. Some wines mature up to 30 years and therefore they become a curiosity after years, and their value increases. The most qualitative wines come from Italy, Spain or Portugal, but it is necessary to purchase them in verified viticulture, where the high quality is guaranteed.

Among the main market indices in this category belongs Liv-ex Fine Wine 100, where there are monthly reflected movements of prices of hundreds qualitative, most searched wines. The value of index is influenced by the price of french wines mainly from the region of Bordeaux, but also by the demand for the wine from the region of Champagne, Burgundy, and also from Italy. (Makarova, 2011)

The best is to purchase wines that mature in barrels, it is possible to get it for the low price on the principle „en primeur “. It is bottled after two years and at that time the price begins to grow. More factors influence price increase, as for example small number of particular bottles and its high demand. The big influence has also the evaluation of tasters, the quality of vintage and prizes won. It is also important in investing into wine its storage and it is necessary to take care of it, too.

Champagne is an excellent investment and it is sometimes more affordable than investing into the wine Bordeaux. It is still new and growing market. The average annual growth of Vintage Champagnes was around 10% from 2014 to 2015. The example of even bigger growth was Krug Brut 96, that grew in 5 years by fifty percent. (Colagrosi) They are luxurious products and it is predicted that the demand will be always higher. The advantage of Champagne is, that the availability of stock is regulated so they do not damage the market and do not change prices. Similarly, it is also important for Champagne to be stored appropriately, in the dark room with the humidity around seventy degrees. It is essential not to expose it to the sun.

Methodology

The aim of this paper is to analyze the possibilities of investing into wine for slovak investor and verification of availability of non-traditional commodities as the part of investment strategy.

We have created the analysis divided into particular parts from the relevant and available information. After analysis we worked with text synthesis. We also used the methods of induction, description and deduction. All the relevant information have been gained from professionals from the particular field. Information were provided directly from professional by means of electronic mail. They were also gained by the market observation on investment portals. We analyzed in more detailed way the possibilities of investing into the particular types of wine. Information were gathered from professionals from this field and from portals dealing with investments into this commodity.

The paper presents the results of the analysis of the market with wine, where Europe is the leading global producer of wine with more than 45% of vineyards and 60% of production of wine. It also belongs into the leading consumers what represents almost 60% of the world consumption. It is the leading exporter and the biggest import market. In the last years, productions of wine in European Union have reached the average production approximately 26 000 millions of hectoliters. France is the biggest producer with the average of 55 million of hectoliters of wine, that represents 30,6% of the total volume in European Union. After France, Italy follows with the approximately 51 million of hectoliters of wine. Spain is the third biggest european producer, with the annual production of approximately 43 million of hectoliters. The production of Germany from the point

of view of value is almost the same as in Spain despite the considerably lower volume of production. Portugal produces approximately 7,2 million of hectoliters of wine and has the value approximately 1 billion EUR. Hungary, Greece and Austria follow. Finally, there are more small producers as for example also Slovakia with 440 000 hectoliters of wine. France and Italy represent more than 40% of the world wine production and they are still dominating in this field. European Union exports around 13 million of hectoliters of wine.

The states as Australia, South Africa, New Zealand, Chile and Argentina have developed the growing reputation for the production of quality wine. This growth of wine production and quality of wine have created some exports and opportunities and therefore it has caused the changes in the types of produces wines. The development of production capacity of these main competitors has caused the worldwide decline of the exported amount of wine and also the decline of its production in European Union.

Results

It is possible to invest into wine by various ways. Firstly, we have to think over what the aim of investment is. It is possible to invest also into vineyards. Investing into this real estate is more and more popular. Nowadays, there is a high demand for it, but the offer is low, i.e., it has been waiting for rise of prices. Owners rent it profitably or sell the production of grapes to processors.

The Czech Club GWC provided the possibility to partially participate on the profit by the form of convertible bonds. These bonds were issued at the beginning of the project to get another capital to start. These bonds were issued in 2016, and will be payable next year, i.e. in 2019. Just then it will be possible to realize single-use profit or to change their bonds with shares. Just one part is being sold, that was originally reserved for Slovakia and a part that was kept by one investor for a short time.

The other possibility is to invest into viticultures. These investments carry with themselves also a part of its own entrepreneur risk that is transformed to investor in proportion to their engagement with the particular project.

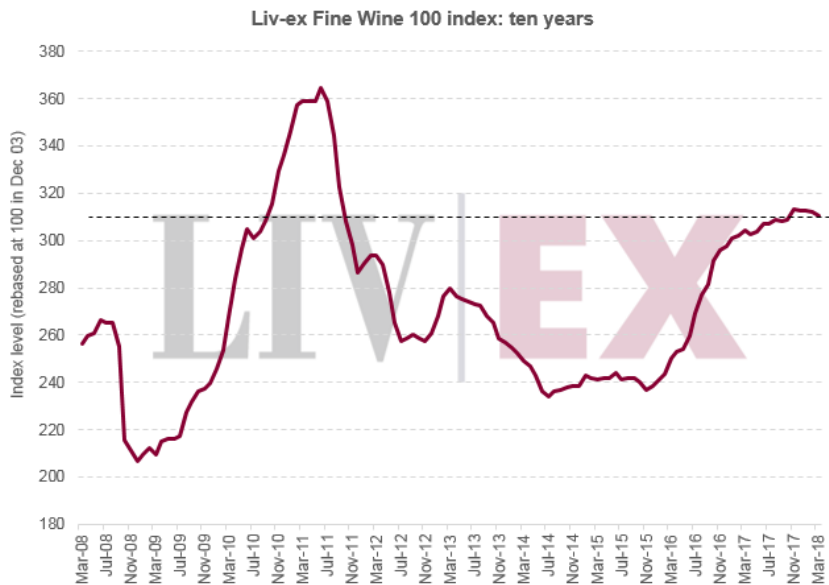
The third option is to invest into wine itself. Nobody will dedicate their time to this type of investment if they do not have any relationship and they will regard it as the common investment, similarly as in works of art and collectors' pieces. As all traditional investments, also investments into wine have its specific rules. Firstly, it is necessary to realize that not every wine is convenient to invest into. Above all, it should deal with the wines from aromatic varieties and it should be attributive. Firstly, it is essential to consider the region of origin and producer. Then it is necessary to consider the upper limit of maturity from which then quality begins to decrease. The essential part is also wine storage as it is the investment for around 5 to 15 years and it carries with itself additional costs for storing.

The price is influenced by different factors as already mentioned origin, vintage, quality but also market availability. The price is very much influenced also in case if a wine has won any prize. The availability is connected to scarcity of particular wine, that grows with the time as well as quality. Appreciation in selling moves between 10% to 15% a year but in some cases, it can be 30%. Appreciation is not linear what means that in the first years the growth rate of value is lower than later. In the shorter horizon, for example around 3 years, it is possible to have profit around 15%.

The good example is also Château Le Pin, that in 1982 cost only few dollars and in 2007 was auctioned for 47,800 USD in the auction in Chicago. It reached 7500% appreciation. These revenues were reached by only few wines mainly the wines Château.

Liv-ex is the global market with wine that provides to tradesmen all around the world services in the area of data, investments and clearing. It provides various services as sale, logistics, different data, accounting, marketing and also research. Liv-ex Fine Wine 100 is an industrial measuring tool that was concluded in March 2018 on the value 310,69 after 0,47% decrease in comparison with previous month, see picture 4. It was the fourth in sequence decrease of index, although every month the decrease was lower and lower. The best movements in March were from the regions of Burgundy a Bordeaux. Two wines from Dve Armand Rousseau Chambertin held the best positions. In 2012 and 2013 it increased by 22,6% respectively by 11%. The highest march decreases were from the regions of Burgundy, Champagne, Bordeaux and Rhone.

Picture 1 Liv-ex Wine 100 index in 10 years



Source: Liv-ex.com

Source: Liv-ex

On the picture, we can see variations of index level in the last 10 years. The highest values were represented in 2011, when it got over the value of 360. In March 2018 the value was 310,69, after it had four times in sequence decreasing tendency. The lowest values during the followed period were in 2008 – 2009. After this period the tendency rose although with smaller decrease and it went up to its maximum. Consequently, it decreased with smaller or bigger rises and in years 2015 – 2016 the tendency again rose.

Table 1 The change of middle values february - march 2018

Wine	Vintage	Middle value in february 2018	Middle value in march 2018	Change
Armand Rousseau, Chambertin	2012	12 045 GBP	14 763 GBP	22,6%
Armand Rousseau, Chambertin	2013	9 406 GBP	10 441 GBP	11,0%
Haut Brion	2000	6 600 GBP	6 785 GBP	2,8%
Margaux	2000	7 750 GBP	7 948 GBP	2,6%
Vieux Chateau Certan	2009	2 400 GBP	2 460 GBP	2,5%
Comte Vogue, Mosigny Vv	2014	4 780 GBP	4 533 GBP	-5,2%
Taittinger, Comtes Champagne	2006	746 GBP	706 GBP	-5,4%
Angelus	2010	3 130 GBP	2 950 GBP	-5,8%
Krug, Vintage Brut	2002	3 000 GBP	2 800 GBP	-6,7%
Beaucastel, Chateaneuf Du Pape	2012	520 GBP	477 GBP	-8,3%

Source: Own procession on the basis of Liv-ex

In the table, there is a list of 5 wines, that reached from February 2018 to March 2018 the biggest change from the point of view of the middle values expressed in british sterling and 5 wines that reached the smallest change in this period. The biggest change of the middle value was reached by the wine from 2012 Armand Rousseau, Champertin. While in February it had the value of 12 045 british pounds, in March it reached the value of 14 763 GBP. It reached the total change of 22,6% from february 2018 to March 2018. On the other side, the smallest monthly change was reached by the wine also from the

year 2012 Beaucastel, Chateauneuf Du pape, as its price from February 2018 has decreased from the value of 520 GBP to 477 GBP. This decline represents 8,3%, and by this it got the last place in the list.

In the last years, wine has shown that it is more stable investment than classic cars, precious works of art or jewellery and it has overcome these products by its growth of value. Wine Enthusiast has made the list of 100 best wine cellars. There are 100 best, exclusive wines in this list, that were selected from more than 22 000 wines. Wines were given points from different points of view, and there are also 4 wines in that list with the full score what was 100 points. These wines come from regions as Bordeaux, Champagne and Douro in Portugal. The rest comes from the different parts of the globe as it is the classic Burgundy, Tuscany and Rioja, but also California, Washington, Oregon and New York. While many wines in this list have the high value, almost a half has the value under 100 USD. It proves that the star investments can be also reached for the appropriate price.

Recommendations for investors

Every investor has to be very patient if he decides to invest either in traditional or non-traditional commodities. In the case of non-traditional commodities, it is very important to be interested in the particular commodity before making investment in it. The best thing is to be an expert in the particular industry or it should be also the investor's hobby. If they are interested in commodity that they decided to invest into, they have higher chance for higher profits. This type of investment is for a longer time period. Investors should not be afraid to invest into this commodity even if it represents high risk. Non-traditional commodities will never have zero value. Its value will be rising by time passing because there will be less of them on the market. The market with the particular commodity has to be examined. Sometimes, also from the absurd investments, high profits can be reached. It is then for investor the most important to be patient and to wait. They have to follow the market, current position and development of prices.

Conclusion

In case of wine, it is an investment that is riskier. If the risk is higher, the higher profit can be reached. The price of wine does not have big oscillations. We know more varieties of wine and every country has its specifications, too. It is not possible to invest into every wine. In case of wine, it is very important to store it correctly and to treat it in a correct way. Investments to alternative commodities as wine are the commodities for a long time investing. Wine matures and by this its value increases. The more valuable is the particular variety of wine is, the more precious is the wine. The value depends on variety, place of production, vintage and other different factors. Bad weather and vintage do not influence the value of wine. It happens very often that we can have the highly valued wine also from the bad vintage. If the vintage is weak there is less wine produced and therefore these wines are more valued by the time. For many people, some vintages are more valued, and they are able to pay more for it, for example, this year vintages 1948 or 1918 can be more valued. The price can also be influenced by the year of wedding, starting of business, when a couple became parents, etc. The value is different with different people. In case of investment, varieties are important, mainly those, that are few and are less valued. The volcanic wines are becoming valued, too.

It can be said that the older wine is, the more valued it is, but it is not always the case. In case of wine or alternative commodities as such, it is about the trades on OTC markets or auctions. They do not have their market created on stock exchange market. Alternative commodities are less liquid, and its future values are unpredictable. In case of wine, it is possible to invest also with the low starting investment. It is possible to get wines from specialized sellers, winemakers, wineproducers but also through investment portals dealing with investments into wine.

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