

Bonjour,

How is wine investment holding up amid the global credit crisis? Liv-Ex, the premier wine exchange in London has the answer to this question. In this issue, we share their take on the resilience of wine investments.

Plus, check out the story about us in *The Malaysian Insider*.

Au revoir!

*Chris Low and The Vintage Assets Team*

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## SNIPPETS FROM LIV-EX

### Credit Crisis questions

Liv-ex was recently asked a number of questions by a journalist on the effect of the credit crunch/crisis on the

fine wine market.

#### Do you expect the credit crisis to have a lasting effect on the wine market?

The credit crisis, and its effect on the wider economy, will certainly have an impact on the wine market in the medium terms and prices are likely to remain soft into 2009. There have been previous periods of price deflation for fine wines, such as during the recession of the early

70's and following the Asian crisis of the late 90s, but **the market has always recovered strongly**. Indeed, **top Bordeaux wines have increased**, on average, by 10% a year over the past 50 years. There is nothing to suggest this pattern won't continue.

#### Should people buy or rather sell their bottles right now? Is this the time for bargain hunters? There are certainly some excellent buying opportunities available at the moment,

although whether prices still have further to fall is open to argument. The best way to keep on top of market moves is to subscribe to a Liv-ex Cellar Watch package, giving access to real time trade prices and also enabling collectors to track the value of the contents of their cellar.

## NEWS FROM THE MALAYSIAN INSIDER

### A drop of hope in the bear market

By Shannon Teoh

KUALA LUMPUR, Oct 29 - With recession looming large and central banks forced to guarantee deposits, investors both great and small are running helter-skelter looking for somewhere other than under their mattresses to store their money.

Investing in wine is turning into an attractive option for investors in Malaysia and the region.

Wine, especially highly sought after vintages from Bordeaux in France, has been consistently outperforming equities in terms of returns over the past few years.

This has been largely due to the seemingly insatiable demand for all things fine from countries such as China and Russia, as well as the traditional wine markets in Europe and the United States.

A number of wine investment companies are now offering investors here a chance to put their money into wine as an alternative to the bearish market in stocks.

Chris Low, the general manager of Vintage Assets Pte Ltd, a Singapore wine investment company with operations in Malaysia, says that the stumbling block previously was access to the trading mechanism.

"But with the Internet gaining acceptance as a trading tool and widely-accepted market prices thanks to the Liv-ex and other indices like the Bordeaux Index, Malaysians can now trade remotely and at standard market prices," he explains.

In 2001, The London International Vintners Exchange (Liv-ex) began its 100 Fine Wine Benchmark Index which Bloomberg began listing alongside indices such as the Dow Jones Industrial Average and the Standard & Poor's 500 in 2006. According to a Financial Times report in May, since 2001, fine wine has significantly outperformed the leading equity indices in western markets, with an average annual return of 16 per cent.

It also reports that fine wine has yielded positive returns for over two decades, spanning two economic downturns, making it the newest and possibly the least-risky recession-proof investment in the market today.

But it is Liv-ex's acceptance into mainstream financial markets plus 21st century technology that has opened up the door to international traders, meaning even ordinary Malaysians can now buy into the game through companies like Vintage Assets.

According to Low, trading in wine is not unlike trading in the stock market. One usually goes through a broker who arranges the purchase, the storage, insurance and the eventual sale.

One can invest in a high-risk dark horse which, should it become critically acclaimed or popular in a certain market, will result in instant returns.

Alternatively, there are medium-risk en primeurs, which are basically wines from established winemakers that are yet to be bottled.

It may turn out to be a dud but the power of the brand will help it hold its value.

Finally, one can simply buy bottled wines from blue-chip wineries mainly situated in Bordeaux, France.

"It's like buying cars. A Ferrari is a Ferrari but only once in awhile does Nissan make a super car," Low said.

There are also investment funds of various risk levels where experts invest your money for you and dividends will be accorded to the investor. However, these tend to require huge initial buy-ins of over RMI million whereas purchases of individual cases of wine can be from as low as RM20,000.

Traditionally, fine wine was traded by connoisseurs and collectors. The former drank the wines while the latter collected bottles as one would collect stamps.

As such, even though many wines can age for decades, those that become undrinkable still fetch high prices. In April, two bottles of the previously unreleased champagne - which is usually undrinkable beyond 20 years - Dom Perignon Rose 1959 were auctioned for RM303,000.

But the key reason why investors have begun to flock into the wine market is that it appears to work in a unique safety bubble of its own.

"For wine, there is no such thing as 'ramping up production.' You can produce more whisky of any particular age or blend but you cannot replenish the stock of a particular wine," Low says. With wines categorised according to vintage, variety and producer, there can only be one production of any wine, leading to a finite amount of any wine.

"There is no replenishing when stocks of a certain wine diminish. When winemakers bottle a certain harvest, they say 'this will never happen again' because the next vintage will be different," said Low. The fact that supply can only move in one direction gives the market its recession-proofing. In theory, a recession only slows appreciation of a wine but cannot reverse it.

Low describes a hypothetical situation where billionaire Warren Buffett may lose RM10 billion in net worth over this economic downturn: "He may now have to drink his fine wines at a slower rate. Maybe one bottle a day instead of two. It still means there is less one bottle of that wine at the end of the day."

Moreover, as supply diminishes, each bottle consumed removes a larger percentage of available stock left on the market, i.e., one bottle out of 10, is a higher proportion than one bottle out of 100.

Coupled with the fact that fine wines drink better with age this results, in a long-term upward curve in the rate of return for a specific wine. This provides an inherent mechanism which encourages investors to hold onto their stock for as long as possible rather than indulge in quick profit-taking, another stabilising factor against recession panic.

It is no wonder that the last three years have seen the Liv-ex experience its best growth so far, gaining 140 per cent from 105.69 to 253.00.

However, this extreme rate of return is also due to a truly global demand for luxury products with emerging markets such as China, India and Russia joining the mature markets of Hong Kong and Singapore as well as the traditional hubs of Europe and America.

Still, there is no reason why demand will ever diminish once these new markets are established. At the most basic level, wine bought after bottling will eventually reach optimum drinking age, where it will definitely return a profit.

~ Taken from *themalaysianinsider.com*, October 29, 2008