



## Buy, hold and savour

Smart tips for building a wine portfolio

By Michael Ryval July 19, 2012 (From Morningstar.ca)

A wine aficionado for 15 years, Sandy Ward admits that it's difficult to distinguish between a \$500 bottle of second-growth Bordeaux and a \$50 bottle of fifth-growth Bordeaux.

"But I do know that certain wines will taste much better in five years -- and cost more," says Ward, the Toronto-based founder and CEO of HomeZilla, a one-stop information website for Canadian homebuyers. "For instance, the 2005 Pavilion Rouge is probably \$200 a bottle -- although I paid \$85 when it was released. By putting these bottles in my cellar today, I'll be saving hundreds of dollars," says Ward over a glass of 2005 Château Beaumont, a silky smooth red wine from the Haut-Médoc region.

That's why, in the French tradition, Ward has started to build a collection for his two sons, aged two and a half and seven months. Jacob, the elder, already has 18 bottles of Bordeaux, and Ward is considering some 2011 Bordeaux futures for his younger son, Finley. "By the time Jacob is 18, that cellar will be worth over \$6,000. There's a bottle of 2009 Château d'Armailhac, for instance, which will be great in 2027."

Investing in wine is a little like buying stocks or funds. You buy and hold for the long run. And then, given patience and careful selection, you can savour the fruits of your collection.

But it's trickier than that. Wine is a perishable product and subject to a host of demand-supply factors that collectors have to negotiate. With the rising tide of wealth in the Far East, prices for better wines have seen a staggering run-up in the past decade.

The Wine Spectator Auction Index, which tracks sales at fine wine auctions in the United States, hit 333 points in the second quarter of 2012, versus 170 points in the similar period in 2002. And with recent Hong Kong auctions averaging US\$6,477 per lot, or double the U.S. average, according to the Wine Spectator, this trend is likely to continue.

"Wine collecting and auctions really picked up speed in the 1990s," observes Alex Patinios, president of Dionysus Wines & Spirits Ltd., a Toronto wine importer and distributor. "A lot of the newly affluent in Hong Kong, Singapore and in China began buying. But there is limited supply with high-end wines. So prices tend to go up." Patinios notes, for instance, that some superior Bordeaux wines bought in the 1990s are fetching 10 to 20 times what they cost two decades ago.

Besides the pressure of rising prices, you have to accept that there is some risk involved in buying a young wine. Wines may get high scores on initial tasting, but might turn out to be expensive disappointments in, say, 2024. Part of the problem may be poor storage, or possibly drinking them too soon, or late, as the case may be.

With this in mind, aspiring wine buyers should consider a number of factors that will keep their cellars in good -- and investment-worthy -- order. One of the first considerations is proper storage, says Barry O'Brien, a Toronto-based product manager for the Liquor Control Board of Ontario (LCBO).

"Wine is very delicate, particularly fine wine," says O'Brien. "If you want to destroy your investment, you put it in an inappropriate facility -- under your stairs or a closet -- and it will deteriorate fairly quickly. That's why you need to have appropriate storage."

An investment in proper storage will pay off, adds O'Brien, should you decide to sell some of your wine at auction, as some collectors will occasionally do. "The first question any reputable auction house will ask is, 'What condition was the wine stored in?' They will want proof, some documentation to verify the condition."

Storage is relatively inexpensive, once you have several cases. There are two price points for storage at The Fine Wine Reserve Inc., a 5,500-square foot facility that is temperature controlled at around 12-13 degrees Celsius and extremely secure (multiple codes are required to enter) in downtown Toronto.

You can obtain so-called bulk storage, which costs \$3.20 a case per month for the first 50 cases, says Marc Russell, CEO and founder. This means your wine will share space with many other collections, "but it's still perfectly secure," says Russell, who opened the almost-full facility in January 2004.

Alternatively, you can rent a private locker that gives you unlimited 24/7 access. It costs \$38 a month for a 100-bottle locker (and averages at \$4.50 per case) and the price generally declines as the volume goes up. For instance, a locker for 500 bottles, or 48 cases, is \$150 per month.

Once you've secured the proper storage, an easy way to build a collection is to buy so-called Bordeaux futures, says Patinios, who only buys better wines to celebrate an anniversary or a birth year of a child. "You can spend as little as \$39 a bottle or \$117 for three bottles of Margaux," says Patinios, referring to the 2011 offering by the LCBO.

The LCBO only requires a 25% non-refundable deposit, followed by payment of the balance when the wine is delivered in the spring of 2014. "The big advantage when you buy futures is that you are 100% sure that [the wines] have come directly from the winery," says Patinios, adding that those who miss out now can participate in an additional offering in the fall. "The LCBO has done all the lab-testing and the product is 100% authentic. There is no question as to where the wine was stored, and where it came from."

To make the point, Patinios notes that if you bought a bottle of 1991 Château Lafite-Rothschild at auction today -- and paid about US\$900 -- you have little idea of how it was stored. "Even though auction houses check that the wine is authentic, there could be questions how it was stored. If the bottle was standing for five years, the cork could have shrunk. And you won't know until you open the bottle." Like buying art, he adds, you have to ask about the wine's provenance.

Auctions are another way to acquire wine, although you are up against knowledgeable collectors who may have deeper pockets. Consequently, Patinios recommends focusing on one or two wine regions that appeal to you, and learning and reading as much as you can, and of course, tasting.

"Learn about Bordeaux, for instance, or Burgundy. Taste some wines to make sure you like the style of wines, before you invest a lot of money. Focus on one area, and gradually evolve." As with any investment, adds Patinios, it's critical to show up prepared at auctions, knowing you've done some research. "Set a budget, and don't exceed it."

Sandy Ward, who spends on average about \$1,000 a month and stores more than 300 bottles in a locker at the Fine Wine Reserve, recommends buying so-called Second Label wines. "Pavilion Rouge is made of slightly lesser quality grapes as Château Margaux but comes from the same estate," he says.



#### About the Author

Michael Ryval, a regular contributor to Morningstar, is a Toronto-based freelance writer who specializes in business and investing. Among the other publications in which his articles appear are Investment Executive, The Globe and Mail and FORUM.