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Diappointing vintage: the 2011 harvest in Bordeaux

ALTERNATIVE INVESTMENT » WINE

Beware Bordelais greed

Claret is back — but choose carefully and be patient

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The world of wine investment has certainly changed since I last wrote about it for *The Spectator* in 2011.

Alan Rayne, who more or less invented wine investment in Britain in the late 1970s, retired last year and sold his company Magnum Fine Wines to Farr Vintners, while Premier Cru Fine Wine Investments, founded in 1995, was sold to the up-and-coming Cult Wines. Added to these developments was a trickle of wine investment companies that drifted into insolvency, or whose principals were prosecuted for fraud, while other wine funds have been forced into liquidation because of flawed business models or a surfeit of redemptions.

The past four years have witnessed three years of declining prices for Bordeaux wines followed by six flat months, but there are now signs of upward movement. Buying *en primeur* has been a disaster in recent years. The 2013 vintage was disappointing and overpriced, as were the two previous vintages. The 2009 was a great vintage and 2010 was almost as good, but both have fallen in value since issue. In particular, prices of first growths — the main wines of the five leading châteaux of Latour, Lafite Rothschild, Margaux, Haut Brion and Mouton Rothschild — have fallen the most.

'A big factor has been what happened with the '09, a brilliant vintage, in which a huge number of wines were given perfect scores of 100 points,' says Tom Hudson of Farr Vintners. 'You had Pétrus and Le Pin getting 100, but you also had Smith Haut Lafitte and Léoville Poyferré getting 100. In the eyes of the consumer, the value is in the cheaper wine with the very high score rather than the expensive one. This has had an effect on the marketability of young first growths at extremely high price levels.'

British wine merchants have written an open letter to Bordeaux producers urging them to price the 2014 vintage sensibly. Otherwise, they believe, disaster beckons.

For those with long memories, the last few years have been reminiscent of the last Bordeaux slump, when a weak, overpriced 1972 vintage followed by the 1973 oil crisis caused market collapse. As Wine Asset Managers put it in a recent blog post, the key factors were 'a combination of Bordelais greed, denial, obduracy and macroeconomic shock'. Again, since 2011, greed has coincided with shock, namely the sudden departure of Chinese buyers from the market owing to restrictions on 'gift-giving' by state officials and corporate executives: the result is another slump.

For investors coming into the market now, Hudson recommends blue-chip wines from 2000 and 2005 and possibly 2009, whose prices are much cheaper than on issue: 'Some 2009 first growths are nearly back to 50 per cent.' Lafite 2008, for example, once considered the greatest investment wine because superstitious Chinese prize the number eight, peaked at £16,000 a case, but Farrs were selling it in February at £5,200. A year ago Gary Boom, the former City trader who founded Bordeaux Index, was recommending vintage champagnes and Italian reds, especially the 'Super Tuscans'. They have outperformed since, but now Boom believes that they have been overbought and that market strength is returning to claret. 'Bordeaux is back,' he says, 'and it's back with a vengeance.'

The combination of low prices and a strong dollar against the euro means that American buyers are returning after several years. Also, the better vintages are coming into their own. 'The '05s could be one of the greatest vintages, if not the greatest vintage since the '61s,' Boom says. 'Ten years on, they're just starting to drink and they'll last for ever. The 2000s are another beacon and are starting to be ready to drink, a long life ahead of them, still available at reasonable prices and in some cases 35 to 40 per cent below where they were three years ago.'

£16,000
Peak case price of Lafite 2008

£5,200
Case price of Lafite 2008 at Farrs last month

Boom predicts across-the-board growth in Bordeaux prices of 6 to 8 per cent this year. Among 'super seconds' (the best second-growth Bordeaux wines) Boom recommends Léoville Poyferré and Montrose, and has recently been selling Montrose '05 at less than £1,000 a case.

Beyond Bordeaux, Boom advises investors to steer clear of Burgundies, which he believes are overpriced, whereas he believes the 2010 Tuscan vintage was one of the greatest ever and Barolos are underpriced. From Spain, he finds only Vega-Sicilia and Dominio de Pingus investible, because Spanish wines are not much traded, making it difficult to get growth in value from them.

Wine investment is for the patient investor. It is tax-efficient for the simple reason that, as a wasting asset, wine is not subject to capital gains tax unless you deal in it as a business. Wine is best kept in a bonded warehouse (free of VAT) if you ultimately intend to sell for profit. With too many cowboys offering wine investment services, it's best to do your own research and choose an established merchant or broker. Berry Brothers & Rudd, Corney & Barrow, Farr Vintners, Bordeaux Index and Cult Wines are all names that have earned the trust of investors.