Price variation

Purchasing investment-worthy wines has become both easier and more difficult in the age of the internet. MARK LANE says that consumers need to consider the many different variables behind the price they pay – and remember that quality always comes at a premium

Five years ago I bought an allocation of wine from a merchant – it cost me £750. The very next week I saw the same wine being offered at another merchant, but this time for nearer £900. I was overjoyed. But it could have been so very different. Both were reputable merchants and I would not have hesitated to buy from either. It was a lesson I was happy to learn, and more than happy that it had not been at my expense.

The increased use of the internet for comparative pricing research has made things both easier and more difficult at the same time. Firstly, it has made it easier for consumers to compare two identical wines from different merchants. This has led to increased price sensitivity on the part of the consumer, thereby making it more difficult for merchants to achieve larger margins for similar wines. It has also led to good merchants increasing the quality of their information and functionality of services to differentiate their offering: to create a relationship with the customer and decrease this price sensitivity (to a degree). It has also made for a transparency in pricing that means that agents selling wines at inflated, unrealistic prices can be identified.

However, we all are aware of the danger in comparing on price alone. Quality is an issue, too, and not just of the wine itself but of its provenance, storage, and right down to the quality of the staff that oversee the selection and sale processes. Here we have an investment in quality, and this always comes at a price. There can also be a flip side to this pricing pressure. Instead of merchants delivering comparable offerings (ie, wines that are common to more than one merchant) they start to provide unique offerings or exclusive bottlings that make it difficult for the consumer to compare on price. Add a rich level of quality information to the mix and margins can start to increase once again. This can, in turn, have the positive effect of a more varied and interesting choice for the customer. But this will, understandably, come at a price.

For the moment, the choice of traded fine wine such as classed-growth claret is fairly spread across merchants and brokers. However, the future direction remains unclear.

PHOTOGRAPHY: courtesy of Christopher Woods

Differentiation: price transparency for widely traded wines will drive some merchants to exclusive allocations

Some merchants and brokers may move to providing exclusive allocations (especially of newly released wines) to maintain margin and differentiation. However, this does have an upstream impact on the producers' own pricing and sales levels. This is because it restricts distribution potential or market penetration – not a problem if you produce Pétrus, but for larger-volume wines it can have a greater demand-led effect. But, for the time being, one can compare many investment-worthy wines across merchants.

The same wine can vary in price for several reasons: provenance, condition, storage, right through to the time, price, and place the merchant bought the wine from the primary or secondary (auction) market. Price can also be directly – and sometimes very significatly – affected by stock levels and volume purchased. Merchants fight hard to maintain a realistic margin while setting this off against a healthy realisation (turnover) of stock. Some merchants have even tried to react to the end of fixed ticket pricing for wines – such as many brokers – and have moved to a more to dynamic pricing model to buy and sell wines in order to reflect current market conditions. Price on application (POA) does now mean it has no fixed price rather than it has a 'price-beyond-price'.

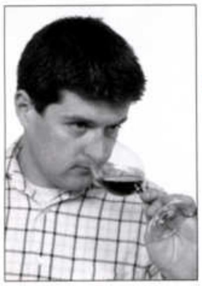
Variations in wine prices can play to the buyer's advantage as well as disadvantage. Differences in advertised rates may or may not hide sales or import taxes, movements in exchange rates or even contradictions in state laws. So take care – shop around to take advantage of market vagaries, but give a degree of loyalty your favourite, trusted merchant or broker. For when that prized allocation of rare wine comes in, you may be the first they call and not the last.

Price comparisons

WINE	LOW PRICE	HIGH PRICE	%HIGH on LOW
Lynch Bages 2000	£620	£700	13%
Opus One 2001	£935	£1,300	39%
Mouton1986	£2,600	£3,100	19%
Montrose 1990	£2,000	£2,550	28%
Climens 2001	£1,300	£1,600	23%
Penfolds Grange 1998	£1,700	£2,400	41%
Pichon Lalande 1982	£2,800	£3,100	11%
Lafleur Pétrus 2000	£620	£860	38%

• Prices (per dozen, in bond) taken from lists, internet sites, telephone enquiries, and in-shop information in October 2005 across a selection of reputable UK merchants

MARK LANE is an IWC superjuror and *Wine International*'s auction and investment columnist



Recorking clinics

Andrew Caillard of Langton's, the largest auctioneer of Grange in the world and a great help in establishing the Penfolds Clinics in Australia, gives MARK LANE his views on recorking the blue-chip Aussie phenomenon

Where did Penfolds get the idea of the recorking clinics from?

The Penfolds Red Wine Clinics were inspired by the practice of recorking old bottles by UK wine merchants such as Whitwhams and Bordeaux châteaux. Before the 1980s, when the dynamics of the fine wine market changed, it was common for collectors to have their wines recorked by their local merchant or winery. The advent of château bottling, food and drink standards/laws, as well as the changing face of the wine trade have meant a decline in this practice. The Penfolds Red Wine Clinics – which has adopted strict guidelines – is now the largest recorking programme anywhere in the world.

Is there widespread acceptance of the services provided by the Wine Clinics?

The Penfolds Red Wine Clinics – introduced in 1991 – have become an important part of the fine wine landscape in Australia. While the clinic may attract some philosophical differences, it is overwhelmingly supported by the Australian secondary market. Recently, clinics have taken place in New Zealand, the United States, Switzerland and the UK – all important export markets for Penfolds. It is difficult to gauge acceptance in these markets because the volume of recorked bottles is relatively small and little. The secondary market for Australian wine in both Europe and the US is fairly undeveloped. This results in speculative swings rather than meaningful market data. This may change.

There is no doubt that recorking and topping up wine is a highly emotive subject. What is the contention?

Christopher Burr MW is on record for saying: 'Many years of experience and the good fortune of having tasted both the original bottles – untouched, with good, well-preserved but original corks, against the reconditioned variety – lead me to conclude that reconditioning and clinicing should be stopped. After all, the very words "reconditioning" and "clinicing" imply that the bottle is in some way at best "tired" or at worst chronically sick!' He suggests that recorking is a 'sleight of hand' on the less knowledgeable consumer.

My view is that the Clinic is a legitimate practice offering wine collectors a chance to have their bottles checked by experienced winemakers. After many years in the cellar, corks can deteriorate and the level of the wine in bottle may ullage. If not checked, it is possible that the wine may overdevelop or oxidise, rendering it undrinkable.

The Wine Clinics have had a major impact on the secondary wine market and Penfolds' reputation for wine quality and ageing potential make it a cornerstone of Australian wine collecting. The overall auction markets have embraced the clinics; firstly, by offering no obvious difference in market valuations between bottles in original condition and certified bottles; secondly, by discounting older bottles of Penfolds that are 'not in mint condition'; and lastly, through rejecting uncertified bottles. The result is that few bottles of poorly cellared wine ever reach the consumer through the secondary market, further enhancing the collector's wine experience. Certainly, auction data irrevocably confirm this sentiment.

PHOTOGRAPHY: © Richard Ross

'In Australia, some buyers will only purchase "cliniced" wine because these bottles pose less risk, having been tasted and certified recently'
Andrew Caillard, Langton's

There is an alternative but opposing view that is completely valid: recorking old wine is not an option for some purists. To them, the topping up with a newer vintage of the same wine somehow compromises the original product's overall integrity. However, if all recorked bottles are appropriately labelled/certified, they have the benefit of choice. Nevertheless, the topping up of an older vintage with a relatively new wine (only 1% to 2% of volume) does immediately 'freshen' the aromas (particularly) or palate, but in theory it takes on the character of the original over a relatively short timeframe. In Australia, there are buyers who will only purchase 'cliniced' wine because these bottles pose less risk, having been tasted and certified recently.

Can clinicing be used as a tool to affect the wine's valuation?

Yes and no. Jean Michel Cazes (Cos d'Estournel) has observed that greed rather than love of wine is why some people wish to have their wines recorked. He said: 'In the past, like most people in our area, we used to recork when asked. But during the 1980s, we had more and more requests. People would pretend they wished to keep old bottles in good condition longer, but the truth was that they wanted to obtain some kind of quality guarantee by the château, so they could send the wine to auction as checked by the producer at the château and get a better price. Of course, these people would always say: "You try the wine, if it is not perfect, you can throw it away." You can imagine the delicate discussions that may occur when you tell someone that you poured down the sink that bottle of 1929 he had submitted for recorking.'

In fact, at the Penfolds Red Wine Clinic this particular scenario is not uncommon, and sometimes rare and expensive old vintages are not topped up. Two years ago, a special Collectors' Label was introduced for wines over 50 years of age. Our expectations are that the market will accept these bottles, albeit at slightly lower price levels. In truth, these old bottles are generally curios or heritage artifacts.

There is no question that the Penfolds Clinics do prime the secondary market. Some speculators may take advantage of this programme, but overwhelmingly it is supported by a very decent community of wine enthusiasts.

Soft **sell**

Are Bordeaux's 2001s and 2002s worthwhile wine investments, or do you need to dig deep to find real value? MARK LANE seeks advice from experts in both the UK and US on the quality, price and potential of these often underrated vintages

A number of market commentators see the 2001 and 2002 vintages from Bordeaux as 'hidden value wines'. But why? They have been eclipsed by the stellar vintages of 2000 and 2003, and they also fall short of Robert Parker's magic 90-point mark. To find out more about the potential of these wines, I enlisted the help of investment advisers from both sides of the pond.

UK EXPERTS: **Christopher Burr (CB)**, the chairman of online wine trader Uvine; **Oliver Hartley (OH)**, sales director at Bordeaux specialists Corney & Barrow; and **Paul Milroy (PM)**, the Bordeaux buyer for venerable merchants Berry Bros. & Rudd.
USA EXPERTS: **Jeff Zacharia (JZ)**, president of New York auction house Zachys; and **Adam Zuckert (AZ)**, buyer for Wally's wine and spirit merchants in Los Angeles.

On quality:

Where do 2001 and 2002 sit in the hierarchy of recent vintages?

AZ: 2001 and 2002 are not particularly glamourous vintages – especially compared to vintages such as 1982, 1990, 2000 and 2003. But they are vintages that collectors and drinkers will have in their cellars.
PM: How could Bordeaux pull off another good vintage after the 2000? For me, tasting the 2001s was an absolute joy. It is not a year to imitate the opulence of the 2000s, but a more classic style with wines that strive to express their *terroir*. I believe 2001 will rival 1985 and 1986. The 2001s certainly have direction. But 2002 was a different story: variation in quality was dramatic. After tasting more than 600 wines, we settled on 30 that exceeded expectations. I would compare 2001 to 1985 and 1986. 2002 is difficult, but top wines will perform as well as some great 1961s.
OH: They are B/C on an A-E scale. Fabulous for Sauternes and Barsac in 2001 and 2001 was better on the Left Bank than in 2002.
JZ: The 2002s are like 1988s, and 2001s like 1995s in style and quality.
CB: I suppose 2001 is more like 1999, and 2002 [like] 1997, but this is a massive generalisation.

PHOTOGRAPHY: Stephen Lenthall

Has your opinion of the vintages changed since first release?

PM: We are very pleased with the performance of both these vintages and our original selection. The 2001s satisfy every time. The 2002s are more difficult as we have concentrated on 30 or so properties. Top 2002s are great, but unfortunately I can not say the same for the majority of wines from this vintage.
OH: Yes. I think on re-tasting some of the 2002s, they are far more attractive and fleshy than originally thought.
JZ: I am more and more impressed with these two vintages; they are really showing quite well.

On price and value:

Do you think their release pricing was in keeping with expectations?

PM: With some chateaux prices being 40% down on the previous vintage, those that were fairly priced sold well – Lynch-Bages and Palmer 2002 for instance. Unfortunately, the price increased dramatically when the 2003 was released. The price can make or break the sales of a wine *en primeur*, and the timing is very important.
JZ: I thought they did a good job in keeping prices reasonable. Bordeaux has a lot of competition out there – much more than it did 10 to 20 years ago. Except for the top estates, I think it will get harder and harder for the Bordelais to continue to raise their prices.

Which wines have proven to be bargains?

JZ: In the 2001s, I would say that Cantemerle, Marjosse, Roc de Cambes and Gigault Cuvée Viva. For the 2002s, Du Tertre, Phélan Ségur, Lagrange and Faugères.
PM: You will probably never see first growths at these prices again, sadly. Lafite 2002 and Latour 2002 offered great value for money to our customers. Their purchase has certainly been rewarded.

Expert opinion (clockwise from top left): Paul Milroy of Berry Bros. & Rudd, Oliver Hartley of Corney & Barrow, Jeff Zacharia of Zachys auction house in New York, Adam Zuckert of Wally's wine merchant in California, and Christopher Burr of Uvine

Which wines have proven to be star performers and future stars?

AZ: Some of the most accelerated price/value increases that come to mind are in the great 2001 Sauternes and Barsacs. Château Rieussec is a good example. 2001 Rieussec is at about $180/£94 per bottle now, and was released at about $40/£21.

PM: Pichon Baron and Lynch-Bages will always be wines to have in the cellar, and both the 2001 and 2002s are looking good. Certainly worth putting a case of Château Palmer 2002 in the cellar, as I am sure this will be a superstar in years to come. But time will tell.

CB: My star would be Latour in both vintages, as so often its *terroir* provides stability in difficult years. My other stars are 2001 Sauternes, though there is always a shortage of half-bottles. But you have to ask, why buy these (if not for the long-term) when there are good deals on older vintages, such as 1995, 1996, 1998 and 1999?

JZ: Stars for 2001 are Cos d'Estournel, La Mission Haut-Brion, Pape Clément and Pichon-Longueville Comtesse de Lalande. For 2002: Canon La Gaffelière, Palmer, Péby Faugères and Cos d'Estournel.

How do 2001s and 2002s prices look compared to other years?

AZ: There's very good pricing on both. Consider that the first growths in 2000 and 2003 are up to $300-$400 (£155-£210) or more each and the 2001s and 2002s are about half that. Bordeaux is typically good about flexible pricing according to quality in recent vintages.

PM: 2001 prices were too expensive on release, and I am sure we would have had a much better campaign if prices had been at least 10% less. The market would be a healthier place if we see release prices for the next campaign similar to 2002s.

OH: Both vintages appear to be better value for the drinker, and there have been instances where winemakers have expressed the view that their 2001s will turn out better than 2000s. Value seems to be with the 2001s and 2002s, though don't forget some of the lesser but well-made wines from the other two vintages.

JZ: The 2002s are the best values out there right now, and the 2001s are also quite reasonably priced.

On investment potential:

CB: The top 2001 Sauternes – D'Yquem, Climens, Rieussec – are sound investments in a small way, but the reds are not really investment grade. 2002 was a 'competently' made vintage due to lower yields and technology. The fall in prices represented good value initially, and we saw an immediate demand for the best wines – increasing 25% to 30%. For me, Latour made a very good wine for medium-term drinking. This is not an investment vintage, but is a good drinking vintage – over the next five to seven years. Overall, neither vintage is investment grade, although the low-release price of the 2002s created a 'quick turn' opportunity for some top wines: first growths and super seconds.

> 'For 2002… there are some good investments to be had, especially since the release prices were much better than the 2000s and 2001s. But they will always be overshadowed by 2000 when it comes to investment demand, and I would prefer to drink the 2001s'
> **Paul Milroy, Berry Bros. & Rudd**

PM: The best of the 2001s are delicious to drink now until 2015. Concentrate on the top wines for investment, but you may have to wait to see a good return. For 2002, again the top wines will drink from 2010 and keep for at least 25 years. There are some good investments to be had, especially since release prices were much better than the 2000s and 2001s. But they will always be overshadowed by the millennium vintage when it comes to investment demand, and I would prefer to drink the 2001s. Latour 2002 was released at £678; now it is £1,250.

JZ: I think for monetary investment, overall, the 2001s are more interesting than the 2002s. However, for quality of life investments, there are some great values for some wonderful wines with the 2002s. Increases have included [per bottle] Cos d'Estournel 2002 from $55 to $75 (£29 to

£39); La Mission Haut-Brion 2002, $65 to $90 (£34 to £47); Mouton-Rothschild 2002, $99 to $150 (£51 to £78) ; and Pape Clément 2001, $46 to $100 (£24 to £52).

OH: Good – most of the better wines will age well. Investment potential is limited to slow, even if you buy the very best of each vintage. Lafite 2002 was released at £670; it is now £900.

On the market:

With the US dollar so low on the international exchange markets are wine enthusiasts more likely to buy the 2001s and 2002s than they might have done?

AZ: Yes, definitely. Savvy buyers have been revisiting both vintages based not only on price but on their good quality also. The strength of the dollar during the 2001 futures campaign makes them an exceptional value.

PM: I do not think this will make a lot of difference to the UK Bordeaux buyer, but I am sure some horse-trading will no doubt be made.

JZ: The weakness in the dollar has made the stocks of Bordeaux that I bought with a stronger dollar, specifically the 2001s and the 2002s, much more interesting, as anything I buy now would be much more expensive.

Are there other recent vintages that offer better value at the moment?

AZ: Not necessarily. But 1995, 1996 and 1998 – especially the Right Bank in 1998 – are very good, attractive and should begin gaining heftier price tags as they and the wines of older good vintages (1985, 1986, 1988, 1989 and 1990) become scarcer.

PM: The 1996s are starting to look great value as you can still buy Haut-Brion, Mouton and Cheval for less than £1,250 per dozen. That is good value compared to 2003s and 2000s.

JZ: No, I certainly see the 2001s and the 2002s as the best value for money at the moment.

On tips for the future:

What is the buzz about the 2004 vintage?

PM: Look out for Château Ausone, Montrose, Calon-Ségur and Pichon Baron. Château Le Pin did not produce Le Pin in 2003 because it was so hot in Pomerol, so I hope we will see a few cases of 2004 Le Pin this year as I've heard a rumour it will be good. It could be really great in the Left Bank. This vintage seems uneven, and we will therefore see some great wines, but mediocre wines, too. Volumes are high and for sure the quality is high. I hope the combination of quality and volume will encourage the château owners to release these wines at drinkers' prices.

CB: As far as 2004 is concerned, this is a huge vintage, and I suspect there will be some good wines. The Merlots and Cabernet Francs were thought to be best, and the Médoc had less rain than other areas, so the classic Médoc wines should be good. I suspect most wines may be elegant, but lack a bit of intensity. People are saying that it is a bit like 2001 – possibly a bit more complete – or 1999 if not quite so wet.

OH: Big and well-priced, we hope.

JZ: The early talk in Bordeaux is that there are some wines that are going to be very exciting, but if the campaign is going to be successful, the prices, overall, must be reasonable.

MARK LANE is an IWC superjuror and *Wine International*'s auction and investment columnist

• See p54 for our comparative tasting in Bordeaux of the 2001 and 2002 vintages, comprising an expert panel of judges including consultants, château owners, winemakers and critics

The value of wine funds

Following last month's look at investing in wine companies, this month MARK LANE investigates the phenomenon of investing in wine funds, focusing on those from Switzerland, the Netherlands, Australia and the UK

Last month, this column discussed investing directly in the shares of wine companies as an alternative to wine ownership. This month, we take another detour away from the wines themselves and look at investing in wine funds around the world.

Wine funds are a relatively recent phenomenon in the world of alternative investments. However, there has been an increasing trend for high net-worth investors to diversify portfolios away from mainstream investment products into unconnected 'risks'.

Over the past decade, we have seen many of the fine Bordeaux growths experience a manifold increase in value. Some commentators theorise that this is actually because of the appearance of this new breed of investors and the consequent increased demand for blue-chip wine from these related wine funds.

Money in a bottle: an increasing number of investors are opting for wine funds rather than wine ownership

These past few years have seen a few such funds come and go – some by design (fund maturity), some not having reached their fund income targets – and some may be here to stay. Both the minnows and the financial leviathans have dipped their toes into this corner of the wine-investment lake, much as they did years ago in art investment (remember the furore when it was discovered that the British Rail Pension Fund was found to have millions of pounds worth of art assets? A sage choice as it turned out). The AWM Fine Wine Fund (Geneva) has run its wine funds since 1998; UBS, the Swiss bank, started a €30 million wine fund in 2000; the French Société Générale launched the SGAM Premier Cru fund several years ago (the fund matured in 2003). The Dutch Kempen's Orange Wine Fund is listed on the Euronext Amsterdam Exchange. In Australia, there are two wine funds: The Wine Investment Fund and the International Wine Investment Fund, which invest directly in wine companies as well as in the wine. In the UK there is The Vintage Wine Fund. Its investment company, OWC Asset Management (based in the Cayman Islands), is one of the first to be registered by the UK's Financial Services Authority. Although this does not mean the fund has the FSA's approval, the firm and its managers are authorised as suitable to give investment advice. However, the track record of the personnel involved (Gary Boom was co-founder of the Bordeaux Index) can only add to its credibility.

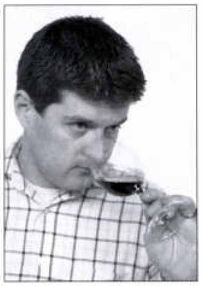
THERE HAS BEEN A TREND FOR HIGH NET-WORTH INVESTORS TO DIVERSIFY PORTFOLIOS AWAY FROM MAINSTREAM INVESTMENT PRODUCTS INTO UNCONNECTED 'RISKS'

The fund invests in a portfolio of premium wines, comprising 70% Bordeaux, 10% Rhône, 6% Burgundy, 4.4% Italy and some Port. The rest of the portfolio has some Californian Cult wines and cash reserves. Much of its wine is stored at the Octavian bonded warehouse in Corsham, Wiltshire.

The fund stands at about £13.7 million in value and, since its launch in February 2003, has grown by 14.5%. The current NAV (net asset value) share price is about £78 and minimum investment is about £68,000. There are, of course, management and performance charges like most other types of investment fund, but you can sell your holding for cash or presumably buy into the fund with wine and also liquidate (quite literally) your assets by purchasing the wine (at the fund's sell rates) with the value of your redeemed shares. Now there's a novel way of looking at your wine 'estate'.

MARK LANE is an IWC superjuror and *Wine International*'s auction and investment columnist

For details visit: www.vintagewinefund.com



A risk worth taking?

Working towards identifying the magic ingredients that make for a solid investment, Mark Lane investigates how to spot wines – and people – of a less scrupulous provenance. In the first of a two-part interview, Andrew Caillard MW, director of Langton's

With any type of investment, you always take a risk, and investing in wine is no different. With many wine brokers promising unrealistically high returns, how can you identify a wine broker you can really trust?

Andrew Caillard MW, director of Langton's auction house in Australia, has had many years' experience of the wine trade and is now operating one of the world's most successful and enduring internet wine auctions. He identifies the warning signs and advises on what to look out for and how to spot a dodgy broker.

What is your opinion of wine investment brokers?

It's important to distinguish between reputable wine brokers and the self-fulfiling prophets who call themselves wine investment brokers. In the UK there are many wine brokers who act as good wine merchants competing against wine auction houses for a cut in the secondary market and dealing in the very meaningful *en primeur* markets. There are, however, increasing instances of improper wine and spirit investment schemes promoted by unscrupulous wine brokers. These operators seem to work on the fringe of the wine trade.

Unfortunately, it appears that a few of these people have also come to Australia using similar tactics to separate customers from their cash.

Why is it so easy to misguide clients with unrealistic market valuations and expectations?

Unfortunately, it is human nature to be greedy. Fear of missing out, fear of not being able to live comfortably in retirement and fear of failure can lead to bad decision-making. The clients who are being duped are promised high returns by enthusiastic sales people using data and anecdotal evidence largely published by the media. Only the other day an Australian national newspaper, in their Wealth section, published an article on wine investment quoting wine as 'the second-largest appreciating asset'. It is true that wine is increasingly recognised as an asset class. More and more self-managed superannuation funds are buying into wine. The message, however, that these wine self-managed super-funds are 'just as good as those for listed property trusts' is misleading. The brokers use this to sell the idea of wine investment to Joe Public.

Are instances of this isolated?

One wine investor purchased 323 bottles comprising of three collections/portfolios for AUD$32,400 in June and July 2002. This price included a 5% brokerage fee and storage. The investor received 'portfolio evaluations' in April 2003 and September 2003 stating that market value was $33,083 and $34,493 respectively. Regardless of the accompanying disclaimer, these evaluations were exaggerated. This investor will currently expect a return of approximately $16,000 net.

Unfortunately, this is not an isolated case. Despite electronic and published retail and secondary wine market data, ill-informed buyers are seduced by overstated media reports and over optimistic sales pitches.

How do you recognise a dodgy broker? What are the warning signs that should set alarm bells ringing?

I think anyone who cold calls you with a wine investment proposition, and without a reference, is approaching you with little respect. Good wine merchants are rarely that aggressive. While cold calling has been a traditional way of selling wine investment, in more recent years email has also emerged as a powerful selling tool.

My advice is to watch for:

- Brokers who offer wines at a significant premium on release. Over-priced wine regardless of provenance, quality or supply is rarely a good investment.
- Brokers who offer a storage component and brokerage fee on top of normal, sometimes aggressive, margins. This may result in significant premiums factored into the sale price.
- Brokers that are offering returns through networks or auction houses in the US (if you live outside the US). The complicated rules regarding importing wine, the possible crackdown on parallel importing, the enactment of the Anti-Terrorism Bill, transport, customs and taxes all make it difficult to bring the wine back to the UK.
- Brokers who provide unsubstantiated valuations or estimates to maintain positive relationships with their clients.
- Emerging wine investment markets. Australian wine, for example, is a valid category, but few wines are able to make solid returns.
- Australian cult wine. This is a relatively new phenomena, and propelled by the US wine critic Robert Parker. It can perform well, but results are based on ludicrously small offerings. Also, the volume of demand for most ultra-fine Australian wine in the US and UK is still relatively weak.
- Brokers who use 'sensational' data, largely formulated out of context to push unknown wines with little or no track record.
- Second rate investment wine in storage. There are many bottles with no hope of ever achieving promised returns.

How do you identify a good broker?

If we are talking about wine investment, I don't think there is such a thing in Australia. I have yet to meet a wine investor who has realised the returns promised by their broker. In more recent times, however, some brokers have changed their tactics. They have dumped the 'wine investment opportunities' or 'portfolio' offerings in favour of developing their own brands or promoting their own exclusive wines. There is no problem with this, as long as the buyer is not sold the wine with the idea that it will bring a return.

Sought after: Romanée-Conti (right) and Penfolds (left) are two of the most collectable wines in the world

PHOTOGRAPHY: Stephen Lenthall; *Wine International*, November 2004

In the UK and Europe, the wine broking business is well established with some very reliable and reputable operators. Some are both customers and healthy competition to auction houses. If you are serious about getting involved in the *en primeur* or wine investment markets, it's best to deal with those that can guarantee supply and have some form of track record. A few enquiries around the wine trade would help identify the best brokers. Keep well away from investment opportunities in Champagne, vintage Port or pseudo-cult wines.

Is it always worth shopping around?

Of course, it's always worth keeping an eye out. Prices do vary. For instance the Bordeaux *en primeur* markets are quite complex. Wine is offered in tranches and allocations. Fulfiling orders can create pressure on supply chains causing prices to oscillate. In the end, you want to deal with a broker you can trust. Certainly the idea of buying earliest, cheapest and lowest applies to all good investment, but a good relationship with a reputable broker can be very important, especially if something goes wrong or allocations are really tight.

Even with a good broker, is there a risk?

There is always a risk associated with wine investment as much as there is with stocks and shares. The 2003 Bordeaux vintage, for instance, is regarded by many as a great year. Others are more reserved in their judgement. After the initial flurry of fulfiling orders, it is quite possible that the market could flatten out. Alternatively, an enhanced reputation of the vintage may see prices take off. The 1998 Penfolds Grange – a great vintage – saw prices double in a few months. Some brokers then repatriated stock from Europe creating an imbalance in the market and driving down prices. This was not predicted.

Buying wine *en primeur* does have its drawbacks. Most of the wine is delivered to the client a few years after purchase. Complications can – and have – occurred where brokers have over-extended themselves and are unable to finalise payment. You reduce your level of risk with a good reputable broker.

Which wines should you aim to avoid from these wine brokers?

The Champagne, vintage Port and pseudo-cult wine market have all been championed by dodgy brokers over recent years. Champagne and vintage Port are well loved on the secondary market but they have never really performed as wine investments. In Australia, there was a huge trade in collectable tawny Ports, such as the Race Horse Series, Australian Capital Cities, and America's Cup winners. They were sold as investments but no one ever got a return. Pseudo-cult wines are secondary wines which bathe in the reflected glory of a huge Parker score. These wines have been offered as wine investments but usually have no track record and are unlikely to perform – regardless of the broker's spin. There are huge inventories of this stock in storage around Australia.

Most wine investors will buy half- or full-dozen cases of wine for wine investment purposes. Domaine de La Romanée-Conti is offered in mixed dozens, so single bottles are not necessarily a bad thing. Certainly, the secondary wine market does not always penalise single-bottle offerings. It depends on the producer, vintage and rarity value.

The secondary wine market, and the reputation of producers, is driven by the idea of light and shade – the fact that wine is not homogeneous – but reflects the vagaries of vintage, the times and place. Over the course of many years, a profile builds up where each vintage is a foil against each other. Reputation is a derivative of this collective experience. Even a wine such as Grange has both its great and ordinary years.

When it comes to wine investment, performance is usually related to the reputation of a vintage. If it is a good vintage, buyers may be prepared to pay a premium. No one really cares about the 1995 or 1997 South Australian vintage. The same applies to 1993 and 1997 Bordeaux. Why would you sell such wines as an investment? Regrettably, though, some reputable brokers and wine merchants have done so in the past.

The idea of provenance has always been important. Since the Asian markets have become involved in buying fine wine, there is heightened concern about previous cellaring conditions and repatriation of stock. Many Asian collectors will store their wine in Europe or Australia. In Australia – through the Penfolds Red Wine Clinics – we have seen the stark contrasts of cellaring conditions between Melbourne/Hobart and Adelaide/Brisbane/Perth. The advent of professional storage facilities and better private cellars is changing this profile. However, once out of a producer's cellar, it is very difficult to track the cellaring provenance of a wine, unless it belongs to a special collection. We get few of these in Australia. How does anyone know whether a bottle of Château Latour 1961, removed from a temperature controlled cellar, has been lying there since its original shipment?

While it is important to be very vigilant about provenance, this issue is used as a weapon of doubt to put clients off buying wine from a competitor or at auction. In truth, anyone involved in fine wine is concerned about where the wine has been stored. The overall condition of the bottle will give clues: lead capsules corrode; aluminium capsules lose their sheen; labels fade through light, water damage or humidity; label damage can be caused by silverfish, or acidity in paper etc; ullage levels can vary according to cellaring conditions or quality of cork. (The Grange 1976 – a very great year – is renowned for its bad-quality cork); the overall sheen and condition of a bottle, ingrained soil, marks etc; and clarity/turbidity/deposit of wine, as seen through the neck or bottle.

• For more information on unscrupulous wine offerings visit: www.investdrinks.com

Alternative investment

In preparation for next month's Alternative Investment Show at London Docklands, MARK LANE speaks with representatives from two of the exhibitors, Berry Brothers & Rudd and Premier Cru, and discovers how to get the most out of investing in wine

Prospective investors of every persuasion – whether it be art, antiques, classic cars, overseas property or fine wine – should head down to the Alternative Investment Show in London, from 17 to 19 September.

Wine International will host seminars at the event, alongside specialised companies showing wines both for investment and indulgence, with expert advice on hand. I followed up two companies who will be at the show, to find out their views on investing in wine. I spoke with Eunice Murrison, public relations and marketing assistant for the long-established merchant Berry Brothers & Rudd (BBR); and Stacey-Lea Golding, the owner of Premier Cru Ltd (PC) – one of the new breed of wine investment firms.

Do you have a specific area of specialism in advising clients in investing in wine?

PC: We chose to specialise in Bordeaux, as the market has a 300-year demonstrable track record showing both stability and constant growth. Because we do not hold stock, we can advise and buy wines that are chosen for the investor's needs, and not offered as the best of the stock being held.

BBR: Berry Brothers has been buying *en primeur* since the early 1970s and has a wealth of experience observing trends and market fluctuations. We are now the largest buyer of Bordeaux in the UK, if not the world. Having recently acquired Morris & Verdin, we are now also a world specialist in Burgundy.

What is your unique selling proposition?

PC: We are one of the few companies with a background in financial services, so we have experience in and an understanding of financial planning, so can therefore see how fine wine can complement and enhance a standard investment portfolio. We have been established for more than a decade, successfully buying and managing the private investment cellars of our clients. Our unique position means we understand the trends of wine buyers, and hold a strong position with the UK wine merchants, which includes being able to supply *en primeur.*

BBR: We have several: our considerable heritage (we were established in 1698); absolute and proven honesty and integrity as a

PHOTOGRAPHY: © *Wine International*, September 2004

'WINE IS A GREAT ALTERNATIVE TO STOCK MARKET INVESTMENT. THE DIFFERENCE IS THAT YOU ARE BUYING A PHYSICAL COMMODITY' **STACEY-LEA GOLDING, PREMIER CRU**

company; our strong financial standing; and our bonded warehouse, which allows us to store wines (which we buy direct from source and can therefore guarantee provenance) in perfect, temperature-controlled conditions.

When did you set up as a wine investment business?

PC: We started researching in 1992 and started investing clients' funds in 1994.

BBR: We consider ourselves wine merchants rather than a wine investment business.

What are the top five pieces of advice you would give to a client investing in wine?

PC: The wine must:

- Have a good reputation
- Be from a great vintage – or a great wine of a good vintage
- Have the ability to age
- Is in a good condition with good provenance
- Be stored in optimum conditions

BBR: Potential investors should:

- Buy in bond
- Buy as close to the opening price as possible
- Expect to invest over a five-year period, but be ready to sell if advised
- Buy more than five cases whenever possible
- Don't blindly buy just the big names – they may have less profit potential

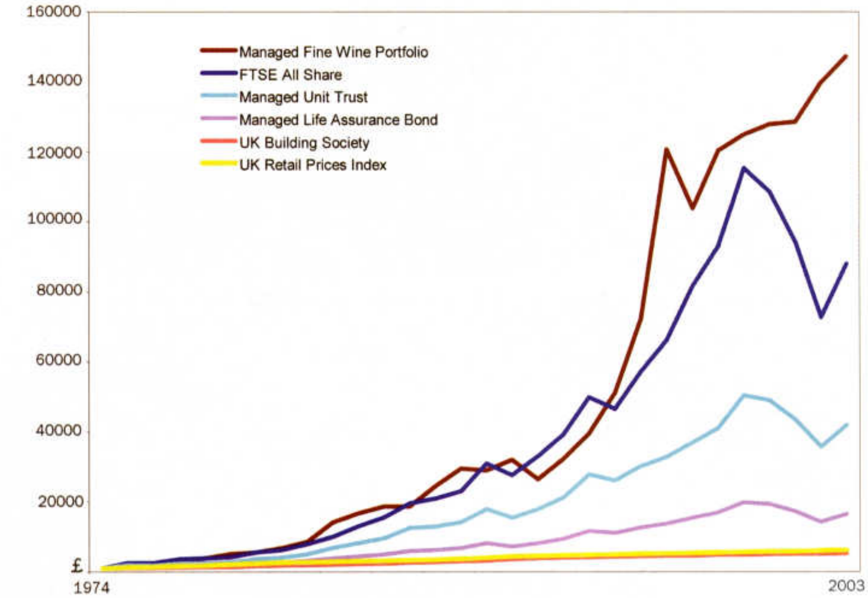
What is the minimum level of investment you would advise a client on when starting a cellar? How often would you suggest they turnover (trade) their stocks in order to generate a worthwhile level of growth?

PC: We accept a minimum of £1,500 and if a monthly investment is required, a minimum of £100 per month. When to turn a cellar? This cannot be defined that easily. It depends on the

market conditions, the age of the wine and if there is anything better to replace it with.
BBR: In very general terms, invest at least £5,000 and look to turnover in about five years.

How much can one expect as a Return On Investment (ROI) on an actively managed investment cellar? Can investing in wine – luck aside – generate returns that compare to other traditional investments?
PC: Over the past 30 years, the finest wines of Bordeaux have returned an average of more than 19% per annum. However, we quote 10% to 12% per annum with a minimum investment term of three years (although we prefer five years). We do not charge exit fees. We have researched how wine compares to other traditional investments and it has consistently beaten them hands down (see graph, right). In addition to the consistently high performance of claret, it also offers a tax-free environment, both in-bond and capital gains tax (CGT).
BBR: Over five years you would hope for a 15% increase per year compound, minus storage and insurance (about £8.40 per case, per year). The investment should double its worth in five years.

There is no doubt that Bordeaux offers volumes at quality levels that can be internationally traded. Do you think that Burgundy, California, Italy and Australia (and Port) are the only other investment-grade wine regions? Can you invest in these regions sensibly and with good returns without investing in Bordeaux? Would all (or some) of these regions benefit from adopting an *en primeur* approach as with Bordeaux?
PC: There are obviously existing markets that trade in certain wines from all the regions mentioned. However, the prices of Burgundy wines are far more volatile. The Australian market is still in its fledgling stages compared with Bordeaux and, although we have looked at both of these markets in some depth, we decided to specialise in Bordeaux because it is a lower-risk market and has a much larger, far more established, buying market. The key to any investment is knowing you have a buyer when you chose to sell. Unless a domaine produces wine that is in such demand that people want to buy it even before it is in the bottle (to secure their purchase), I do not see the benefit of releasing *en primeur*.
BBR: Bordeaux is a recognised area, making it easier to trade in. But if you want to invest elsewhere, you should focus on reds and whites from Burgundy. Burgundy is a complex region, with complicated *premier* and *grand cru* sites – often from the same village – making it less globally attractive. However, production levels in Burgundy are tiny in comparison to



GRAPH: data courtesy of Micropal of Standard & Poors

£10,000 Invested in December 1974

	Dec '00	Dec '01	Dec '02	Dec '03
Managed fine wine portfolio	£1,279,516	£1,285,617	£1,397,210	£1,472,627
FTSE All Share Index	£879,652	£727,905	£941,199	£1,085,270
Managed Unit Trust	£489,626	£433,828	£356,844	£419,624
Managed Life Assurance Bond	£193,217	£173,486	£142,674	£165,131
UK Building Society	£49,970	£50,842	£51,434	£51,940
UK Retail Prices Index	£58,113	£58,518	£60,239	£61,926

The author/*Wine International* accepts no responsibility for the accuracy/reliability of information contained herein. Data was drawn from restricted and not necessarily representative sources. FTSE data has been estimated and is 'illustrative' only. Wine prices can vary greatly between auctions and within an auction. Price analysis is only looking at annual variation and average hammer prices. These prices do not include Buyers Premium or VAT. Wine as an investment can go down as well as up. Information in this article should not be an indication as to future performance of wine investment.

Bordeaux (the average *grand cru* site in Burgundy may produce 100 cases, whereas Lafite produces 25,000 cases), making the wine more exclusive and driving prices up. Cult wines from California, Australia and Italy fetch such high initial prices that we consider their investment potential to be negligible

Is there such a thing as making a quick buck in wine investment? Or is it really for the long-term investor? If so, how long?
PC: If you are in a position to keep your eye on the daily prices, and can buy and sell the right wines at the right price – and quickly – profits can be made, but it is unusual. For example, we have just purchased Calon Segur 2003 for our clients at £365. It is already trading at £420, returning a profit of 12.33% in less than three weeks. However, we believe that there is more to be made on this wine before the price starts levelling out and, therefore, would recommend keeping it for a little longer. It is not always the first-growth wines that make money.
BBR: Yes, there is such a thing as a quick buck. The 2003 Château Montrose, which was only released last month at £600, is now selling for £1,050. We would advise our customers to sell it now. However, more generally, we would advise investing for the longer term (five years is a ballpark figure). There are three recognised peak price times in the short-term lifespan of a wine: firstly, the initial price when *en primeurs* are tasted and demand is high; secondly, there is a surge in price about 18 months to two years later; and, thirdly, when the wine is bottled, shipped, tasted again and drunk (making the wine rarer), prices will inevitably rise once more.

Do you think investment Bordeaux and cult Californian wines will eventually price themselves out of the investment market, ensuring that prices on release are too near to what they would achieve as a mature wine and, therefore, negating their investment potential? Will other wine regions become beneficiaries of this development (ie, investors will look elsewhere for the next big thing)?

PC: The opening prices of Bordeaux wines have risen considerably over the past ten years, and there may not be as much profit to be made as there was during the early to mid 1990s when claret was increasing by as much as 50% a year. Before the 1990s, however, Bordeaux wines had always benefited from a stable growing market and people forget that. The cost of wine will increase with the cost of all other luxury goods that denote wealth. As people have more and more money, there are more millionaires produced each year than ever before. I cannot see why the value of the world's best wines should not keep up with the growing cost of other goods that are the finest and rarest in their field.

BBR: Historically, wine prices have tended to realign themselves. However, as witnessed in the top 2003 Bordeaux wines, exorbitant release prices have removed profit for the merchant, which is an unsustainable situation.

Which region do you consider to be the next big thing in investment terms?

PC: People will always look out for the next big thing. Premier Cru Ltd is about stability, and not speculation.

BBR: 1996 red Bordeaux from the Médoc.

What would be your top tips for people who want to invest?

PC: We have been buying 2003 *en primeur* for our investment clients. The first growths are almost always worth buying at the first prices available – subject to you not being beholden to buying one-star wines to the same value as a five-star wine. Other great wines of this vintage include Calon Segur and Léoville Barton. One to watch is Bahans Haut-Brion. And although there has been some conflict between wine critics regarding its quality, we have bought it for many of our clients. We also recommend well-priced 2002s, although this is a selective vintage.

BBR: 1996 red Médoc and 2002 red Burgundy.

Who do you feel are the best performers from the past year?

PC: The best performer for the past 12 months is Château Latour 2002: purchased at £756, it is now selling at £1,230, a profit of 62.70% (tax free). Good for both budget investors and big spenders.

BBR: Over a six-week period, from when they were purchased in May this year, Calon Segur rose from £360 to £500, Pichon Baron from £380 to £480, and Latour from £2,200 to £3,000. Robert Parker recently re-evaluated 2001 Ausone, which saw prices rise from £1,350 to £2,500 within two weeks.

Does investing in wine have advantages over investing in traditional investments or other alternative investments?

PC: The profits are free from CGT because wine is a wasting asset. Growth has historically shown greater returns than traditional investments. Ideally you need stability in the market and the ability to employ recognised investment specialists who buy, store, manage and sell your commodity, as well as the flexibility to increase or sell all or part of a cellar whenever your lifestyle demands it.

BBR: A big attraction with investing in wine is that it is a tangible, tasty asset that becomes rarer. The worst-case scenario is that you lose your initial stake but drink the asset.

How important is provenance to your business and how do you ensure it?

PC: Provenance is one of the most important factors to consider when buying claret. The condition of the capsule, label and the level of the wine in the bottle are all indications of the storage conditions the wine has had.

BBR: Provenance is essential to us. We prefer to buy directly from the source whenever possible. Once purchased, the wine is stored in perfect conditions in our own temperature-controlled bonded warehouse ensuring the health of our wine.

How much do you think the wine investment market is linked to the performance of the major stock markets? Also, is it only the super-rich that invest in wine and is trading volumes in wine inextricably linked to economic confidence and availability of wealth (ie, is it an investment activity that is undertaken as an afterthought after other traditional investments)?

PC: Wine is a great alternative to stock market investment. The biggest difference is that you are buying a physical commodity and, as long as the wine is stored properly, it is no longer relying on human performance to get better and will continue to increase in value due to basic supply and demand. Short-term changes in the stock market do not tend to affect general wine prices, and large long-term stock market losses will eventually affect every market. The super-rich are the least likely to invest in wine purely for profit – they can just buy the wine as and when they want it. If they are serious wine drinkers their 'investment' is to buy and sell to enable them to drink for free. In fact, people have been drinking for free this way for as long as the market has been established; all we did was to take this principle and instead of drinking the profits we are cashing in on them.

BBR: We think there is little connection between the wine investment market and the performance of the major stock markets, but generally when the market is healthy, people invest more. It is definitely not only the super-rich that invest in wine.

MARK LANE is an International Wine Challenge superjuror and has worked for The Auction Channel, News International and Sotheby's Institute for Fine and Decorative Art

The Alternative Investment Show

The Alternative Investment Show is being held at the ExCel Exhibition Centre, London Docklands, from 17 to 19 September.

For more information visit www.alternativeinvestmentshow.com or call +44 (0)20 8971 8286

Fine wine exhibitors:

- **Premier Cru Ltd:** www.premiercru.com; +44 (0)20 8905 4495
- **Berry Brothers & Rudd:** www.bbr.com; +44 (0)870 900 4300
- **La Reserve:** www.la-reserve.co.uk; + 44 (0)20 7978 5601
- **I Love Wine:** www.i-love-wine.co.uk; +44 (0)1280 822500
- **Mayfair Cellars:** www.mayfaircellars.co.uk; +44 (0)20 7386 7999
- **Morgan Aston Ford:** www.morganastonford.com; +44 (0)20 8293 1616
- **International Fine Wines:** www.finewineint.com; +44 (0)8702242606
- **Bordeaux Wine Investments:** www.bordeaux-wine-investments.com; + 44 (0)1732 779343
- **Vineyards of Bordeaux:** www.vineyardsofbordeaux.com; + 44 (0)870 111 8990

Betting on Burgundy

Buying Burgundy for everyday drinking or special occasions is tricky enough anyway, so how do you choose what to invest in? MARK LANE consults the experts to find out and ROBERT JOSEPH assesses the prospects for the tantalising 2002 vintage

Burgundy can provide an exciting alternative to Bordeaux if you are looking to invest but, as with buying Burgundy for drinking, it pays to understand the importance of producer and the vintage. As many of us ponder through the Burgundy 2002 offers that have thundered through the postbox, Serena Sutcliffe MW, head of Sotheby's International wine department and Robert Sleigh, vice-president of Sotheby's New York wine department share their thoughts with *Wine International* on the intricacies of buying Burgundy.

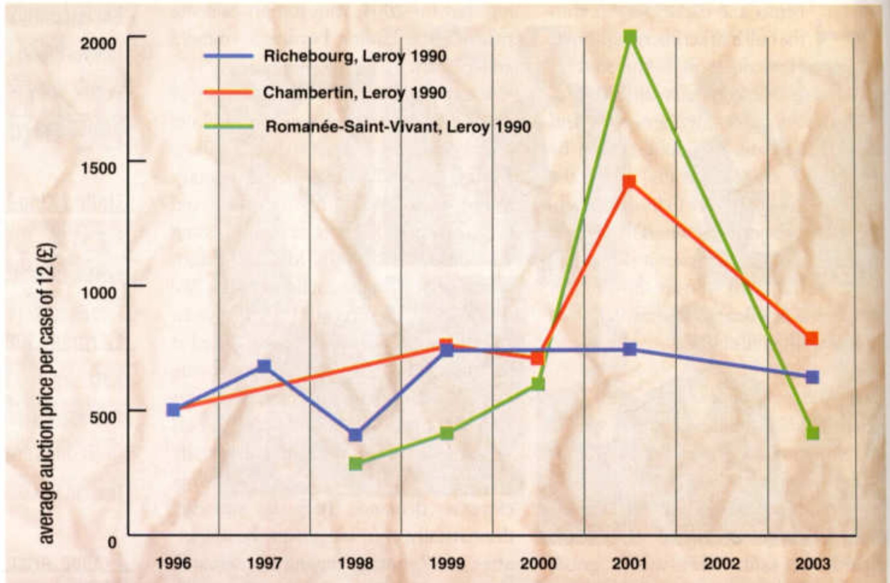
What are your top five domaines for investment-grade Burgundy?
'For reds the top tier is Domaine Romanée-Conti, some distance behind lies Henri Jayer and Claude Dugat. Hot on the heels (and in no particular order) are Dujac, Méo-Camuzet, Roumier, Rousseau and de Vogüé. For whites it is clearly Coche-Dury, Domaine Leflaive, Lafon, Ramonet and Niéllon. These domaines consistently perform at the highest level, making top quality, age-worthy wines which demonstrate typicity of both vintage and appellation.'

What are your top six vintages when you are thinking of Burgundy as an investment?
'For a combination of quality, longevity and reputation in red wines, I would opt for 1985, 1990, 1993, 1996, 1999 and 2001. For whites I would recommend focusing on 1990, 1992, 1996, 1999, 2000 and 2002.'

What is the rarest Burgundy you sold in 2003?
'A jeroboam (three-litre bottle) of Romanée-Conti 1959. It sold for a staggering $32,000 (£17,000) in March 2003. The highest-priced Burgundy we sold in 2003 was in November when we sold six bottles of Richebourg 1985 from Henri Jayer for $35,250 (£18,700), double the mid-estimate figure.'

Which domaine performed the best in 2003?
'Domaine Romanée-Conti (DRC). Although it has a high initial price, these wines belong to the top tier of desirability. In a recovering market the rebound in prices of such wines should be among the strongest.'

PHOTOGRAPHY: Data courtesy of Sotheby's



Variable results: this trio of 1990 Burgundies from the Leroy stable illustrate the difficulties investing in Burgundy, with the 2001 and 2003 prices showing just how much prices can fluctuate, even in the short term

Which investment-grade Burgundy has really underperformed in recent years?
'Leroy and Laurent. Investment-grade suggests something that will rise in value. If wines are released at a very high price already, there is no perceived investment gain in anything but the very long term. Top-level wines also need to be highly reviewed by the likes of critic Robert Parker when mature in order to maintain strong market activity when maturing.'

Do you see any future stars that will share the limelight of in years to come?
'Bruno Clair, Drouhin-Laroze (the new generation), René Engel, Bertagna and Fourrier. They are all producing high quality and still improving wines somewhat under the radar.'

Which Burgundy has confounded you?
'The excellent quality of the wines of Joseph Drouhin in general – larger volume does not always mean lower quality. Also the improvement in the whites at Bouchard Père & Fils.'

Is Burgundy as blue-chip as Bordeaux? Do you think that Burgundy will ever go down the *en primeur* 'investment/speculative' route that Bordeaux has traditionally developed?
'No. Bordeaux is the only real blue chip in the wine auction business. It is the only wine that is produced in enough quantity at the highest quality that can be traded, tracked and invested in. Burgundy's small production and fragmentation creates a more volatile market. Market analysts refer to the Bordeaux Index, but they don't talk about a Burgundy Index.'

Which market, US, European or Asian, has most favoured Burgundy in 2003?
'The US, Europe, Asia and South America have all played a major (and relatively equal) role in the Burgundy market this year. The foreign players were helped by the weak US dollar in the second half.'

What would be your top 'do's' and 'don'ts' for investing in Burgundy?
'First and foremost, at Sotheby's, we do not advise on investing in wine but we do advise on the wine itself and assembling a cellar.

• Be prepared to look past the vintage and appellation if searching for value, but if investing the vintage cannot be ignored.
• Grower overrides all – including vintage and vineyard.
• Prices generally peak on release and the immediate period following, and then at the first glimpses of maturity.
• Seek a wide spectrum of opinions on a vintage.
• Always be prepared to drink what you buy!'

> Bordeaux is the only real 'blue chip' in the wine auction business. Burgundy's small production and fragmentation creates a more volatile market

Do you think that now, with the advent of a more advanced understanding of vineyard and winery practice, previously lesser understood or under-performing *climats* in Burgundy (such as *premier cru* sites) could match, even rival the greatest *grand crus* of today? Or do you think that Burgundy has evolved so far that there will be no more surprises?

'The fact that there are superbly run and poorly managed vineyards at regional, village, *premier cru* and *grand cru* level will always be the case. This is well known and the market sets the price accordingly. The market also sets the price for wines from a single producer, even when market perception overrides the heirarchy suggested by the appellation. Examples to look at could be Henri Jayer's Vosne-Romanée Cros Parentoux versus his Echézeaux, or Rousseau's Grand Cru Clos Saint-Jacques versus his Mazis or Ruchottes. There will always be new and enthusiastic growers who will take a previously underperforming vineyard and do great things.

'There are certainly some *premier cru* sites that perform at a *grand cru* level, but that depends on who is running them. For example Pommard Rugiens from Courcel is one, but not necessarily if it was being managed by someone else.'

MARK LANE is an International Wine Challenge superjuror and has worked for The Auction Channel, News International and Sotheby's Institute for Fine and Decorative Art.

One to consider: the prospects for the 2002 vintage in Burgundy




Some unreservedly describe 2002 as a great vintage for both red and white Burgundy, a highly unusual double-whammy in this region where Chardonnay usually performs better than Pinot Noir or vice versa. Others are more hesitant about the vintage, reserving the flag of greatness for the whites. A few are more modest in their claims, terming this a 'very good', vintage, in which some truly great wines have been made, *writes publishing editor, Robert Joseph*.

One of the more striking qualities of 2002 was a return to more 'classic', winemaking styles. Overt new oak was less apparent in both reds and whites and, controversially, there seemed to be less tropical character to the whites. This may be a feature of the vintage, but it does look as though producers who may have been playing with New World-style cultured yeasts are no longer doing so. Also of possible relevance is the advancing age of some of Burgundy's more recently-planted vineyards. The hallmark of most wines is without doubt ripe flavours, ranging from pineapple and occasionally tropical fruit in the whites to mulberry and cherry in the reds. The latter are also marked by unusually ripe tannins, offset by less obvious new oak than in recent years, naturally high, zingy acidity and a lovely stony or 'mineral' flavour. The best 2002 reds in particular have another wonderful quality: perfume, especially in the wines of the Côte de Beaune.

While wine writers and enthusiasts naturally look for comparable years when first encountering a vintage, most old handers believe that the chances of two growing seasons and harvests producing wines that are truly alike are actually small; there are simply too many variables. The years of which growers have thought when tasting 2002s were 1996 (for the minerality and the acidity in the whites, though the more recent vintage has greater richness and intensity), 1992 (for the alcohol in the whites), 1999 (though the 2002 whites are brighter and the reds more obviously tannic), 1985 (though the 2002s are more intense and benefit from 17 years of winemaking progress), and 1978 (a truly great year when wines were made quite differently).

What is certain is that the 2002s will bear no resemblance to the 2003s (which are far, far richer and more prone to over-ripeness), nor – in the case of the reds – to the 2000s (which are far lighter). Comparisons with the 2001s are slightly trickier, because the latter was an uneven vintage in which hail and rot contributed to huge variations in quality and style.

When the 2002s were first shown, there were suggestions that they might be cheaper than the 2001s. Prices for the 2002s dropped by 9% at the Hospices de Beaune auction the November after the harvest, following a 24% post 9/11 fall the previous year. However, a glance at the offers put out by UK merchants reveals that the cost of buying the 2002s will not be low. One reason for this, as Iain Muggoch of Bibendum points out, is that the pound has lost around 14% in value against the euro over the last year. American Burgundy lovers will be even harder hit, following the drop in the value of the dollar. Even setting these currency-driven factors aside, the increasing popularity of Pinot Noir and both red and white Burgundy is forcing the price of both reds and whites upwards, and the prospects of a truly small 2003 vintage is unlikely to encourage producers or merchants to favour moderation. Burgundy lovers do not seem to be deterred by the price of the 2002s. Hew Blair of Justerini & Brooks happily reported sales of over £500,000 to his customers before anyone had even tasted a drop.

The following domaines and merchants particularly impressed us with their efforts in 2002: Robert Arnoux, Ghislaine Barthod, Bertagna, Blain-Gagnard, Bouchard Père & Fils, Yves Boyer-Martenot, Sylvain Cathiard, Bruno Clair, Vincent Dancer, Drouhin-Laroze, René Engel, Frédéric Esmonin, William Fèvre , Follin Arbelet, des Lambrays, Lucien le Moine, Hubert de Montille, Paul Pernot, Nicolas Potel, Georges Roumier, Armand Rousseau

This is an edited extract of ROBERT JOSEPH's analysis of the 2002 Burgundy *en primeur* tastings held in January and February. For full tasting notes, see the March issue of *Wine International* or visit www.wineint.com

Building for the future

When looking for high-potential estates to invest in to maximise your vinous profit over time, Bordeaux is often the best place to turn. MARK LANE provides some handy tips

The idea of investing in wine can conjure up images of international types with expensive tastes, appetites for risk and fat-cat wallets. If so, then the average wine lover may do well to shy away from trying to cramp their style. But in reality, investing in wine is less about pure commodity speculation and more about those who do not wish to see their children's inheritance squandered on fripperies (or drink), but want to squirrel away a few cases of wine each year with a a long-term view to build a collection that allows for a steady (if limited) stream of mature, world-class wines for drinking – heavily subsidised by the on-selling, in part, of this 'appreciating' stock.

Bordeaux is often cited as the best vinous value to undertake such an endeavour. It is important to maximise your chances of profit – and this means buying, where possible, *en primeur* or as near as possible to actual release. Away from the blue-chip and cult wine club it can be easier than one might first suppose; the open lists of many merchants (see below) make investing in wine temptingly accessible.

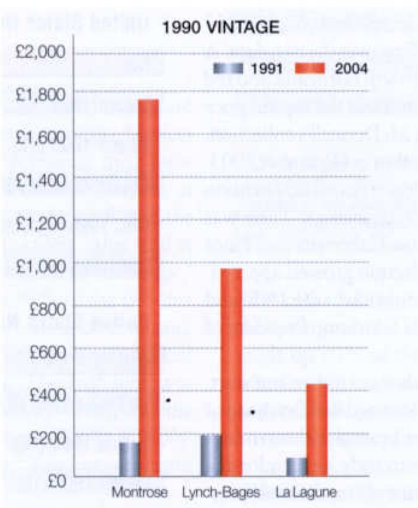
Young guns: influential Bordeaux winemakers Stéphane Derononcourt and Olivier Dauga

Stephen Browett of Farr Vintners not only points towards the huge increases surrounding most 1990 Bordeaux but also wines outside the premiership. A quick glance at the graph will show that Château Montrose has increased 15-fold over its 1991 release price – this means you could have bought 10 cases and, after tax and storage, drunk nine of them, sold one and still had money spare to snap up a Lynch-Bages from the millennium vintage. In the same vein, Lynch-Bages 1990 has increased 6.5 times and Château La Lagune 5.5 times over their release prices.

There is a substantial list of great wines from the 1990 vintage, many released in the £20 to £40 per bottle category, that have doubled or almost doubled in value, thus achieving the magic formula: buy two cases, drink one free, sell the other. Examples of this include Vieux Château Certan, Grand Puy Lacoste, Lagrange, Lascombes, Leoville-Poyferre, Pichon-Lalande, Cos d'Estournel, Rausan-Segla and Calon-Segur. There are others, but look carefully.

The less stellar 1995s (though still a fine vintage) have appreciated more slowly. So far. However there is still time for a generous increase before their maturity and peak values. Lynch-Bages 1995 was £225 per case in 1996; today it's £400. With such wines you would do well to look for immature but excellent vintages away from the 1982, 1988, 1999, 1990 and 2000 brigade and toward the 1995s, 1996s, 1998s and 2001s.

So, what are the tips for picking such 'future' wines? This is a complex, nearly unpredictable assemblage of factors: historic properties, excellent vintages and lesser wines with high potential *terroir* that are undergoing a vineyard-winery renaissance. Importantly, this often coincides with high-profile wine dynasties buying up lesser properties to weave their magic. Names such as Moueix, Barton, Cazes, Rothschild, Sichel, Lurton, Eschenauer, Dillon, Vallette, Prats and Thienpont have all been associated with changes in fortune of lesser châteaux.



For those running properties at the very top of their game, one of the best ways to invest for growth is to snap up high potential bargains, pulling them up by their bootstraps and, over time, making these properties the hot gossip of the Gironde. Other ways have been to invest in wine consultancy from established names (Peynaud, Rolland) or up-and-coming ones, such as Stéphane Derenoncourt, Emile Dauga or Pascal Lucin (see 'Bordeaux's Young Guns' in the February 2004 issue of *Wine International*).

When looking for estates that are high potential you could do worse than name-spotting through a good news service. But remember: trying to second-guess Robert Parker is not always an easy game!

RELIABLE BORDEAUX MERCHANTS

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- Bordeaux Index: +44 (0) 207 253 2110
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- Justerini & Brooks: +44 (0)20 7484 6400

GRAPH: Data courtesy of Stephen Browett, Farr Vintners; PHOTOGRAPH: Christophe Goussard

Forward **thinking**

Understanding the dynamics behind the creation of Burgundy *en primeur* is crucial to identifying where the opportunity for investment lies. MARK LANE seeks the advice of top Burgundy and Bordeaux broker Oliver Hartley, sales director at Corney & Barrow

The Bordeaux *en primeur* phenomena is known to most wine investors and collectors; the act of pre-selling a vintage before it has made its way from cask to bottle has been the subject of much discussion. But less is known about this increasingly prevalent practice in Burgundy. During the past five or six years, some of the best wine has been available – to select customers – in advance. Yet, as demand for ultra-fine Burgundy has sky-rocketed over the same period, it means that hopes of lower entry costs and higher exit values are no longer pipe-dreams – they are real possibilities.

Corney & Barrow is one of the oldest, most reputable brokers of fine wine. Agent to some of the most blue-chip Burgundy (Domaine de la Romanée-Conti and de Vogüé) and Bordeaux (Château Pétrus) as well as importers of myriad other top estates – of which a significant number are sold *en primeur* – it seemed Oliver Hartley, sales director at C&B (pictured, right) was ideally placed to explain developments.

What are the origins of Burgundy *en primeur* and isn't it just copying Bordeaux?

Oliver Hartley: 'Offering top Burgundy *en primeur* has become an increasingly common practice over the past five or six years. Copying Bordeaux? In a sense, yes. However, demand for Burgundy has risen sharply over the past few years but quantity has remained the same or, in some vintages, even fallen. Also, Burgundy has been broadly characterised by earlier drinking than Bordeaux and the absence of older stocks can increase this pressure on the first release.'

Do you think that Burgundy *en primeur* shares the same characteristics as Bordeaux *en primeur* in that the impetus for its creation was partly driven by the producers to aid annual cash flow?

Oliver Hartley: 'I am sure that there is an element of this. Today, businesses require consistent cash flow for day-to-day operations. In wine, as in other single-harvest businesses, the cash flow can swing widely. However, I think that Burgundy *en primeur* is much more consumer driven than Bordeaux *en primeur*. The minuscule supply and huge demand has meant that customers (including the merchants) have pressed the producers to supply allocations at the very earliest opportunity.

It is the case that the merchants have looked at Bordeaux and have said that a 'big play' – more public expectation or publicity to help consumer awareness of ultra-fine Burgundy – would benefit the market. The increase in demand for Burgundy over the past few years is partly testament to this.

Overall, though, I think the characteristics of this region's wines are less contrived, having been largely a result of a consumer-led, natural market progression over a number of years and not the overnight concoction of a group of merchants or producers. Really, Burgundy *en primeur* is more of a customer-generated waiting list.'

Can you give examples of *en primeur* practice that have resulted from this demand?

Oliver Hartley: 'We can see this from the huge demand for our allocation of Domaine de la Romanée-Conti (C&B are British agents for DRC) – it outstrips supply every year, by a factor of three or four. This scenario certainly creates the ingredients for worthwhile investment. While DRC does not release it wines *en primeur* (ie: 12 to 18 months before bottling) in the strictest sense of the term, it does allow early ordering of wines some three to six months before shipping. So, in a sense, it is *en primeur*.'

How do DRC early-release prices compare to current prices in top, benchmark and difficult Burgundy vintages?

Oliver Hartley: '1999 was a great year for many, and for DRC it was exceptional. The 1999 was released in 2002 at £7,962 (all prices excluding vat, in bond and per dozen). It currently stands in the region of £24,000 – tripling in value over two years. The 2002 is expected to be a similarly stellar vintage but prices won't be released until mid-February 2005.

'2001 was a benchmark year for Burgundy, both as a whole and for DRC (released in 2004). Its initial offering was £8,200 and currently stands at £16,900. Prices, as you can see, have doubled in one year.

'1992 and 1994 were more difficult years for Burgundy – some have described the general 1994 style, quite aptly, as monastic, while 1992 produced wines of a lighter, earlier-drinking style. However, the strength of DRC lies in its ability to create near-perfect wines in the years in which many struggle, such is their dedication to excellence in the vineyard. This, allied to the consistently high reputation of, and demand for, its wines means that, even in these more difficult years, prices show little, if any, elasticity. As a result, these two vintages are currently trading at £18,000 to £19,000 and £17,000 respectively.'

PHOTOGRAPHY: courtesy Christie's; courtesy CIVB

Corney & Barrow has a significant number of top domaines on its lists, giving an excellent view of the types of wine offered *en primeur*. Can you give further examples of wines that are indicative of the dynamics of this market?

Oliver Hartley: 'Domaine Leflaive Batard-Montrachet 2002 was released in December 2003 at £1,090 and now stands at £1,500. This has shown a 50% increase in value in one year. However, this is not always the case. Domaine Bonneau du Martray, which produces arguably the finest Corton-Charlemagne, released the 2002 vintage at £495 in October 2003. It can be found on the open market today at only a slightly higher price. This is a wine of outstanding quality and is, in my opinion, greatly undervalued. Even a great year for this wine, such as 1999, has not seen it shift in price and it will probably not do so until it starts reaching maturity. For instance the 1990 is about £800 and the 1992 is £750.

These examples illustrate an important dynamic. Outside the ultra-rare wines, the advantage of buying *en primeur* dissipates quite rapidly from an investment perspective. However, in Burgundy, it is still important to buy *en primeur* in order to secure the stock – the secondary market in top Burgundy domaines is quite small. Even the village wines from the top domaines sell out very quickly and here the rationale for buying *en primeur* is less about a pricing advantage and more about securing stock: these are top-quality wines that have little investment value but great desirability as a fabulous and unique glass of wine.

Where does Burgundy *en primeur* go to from here?

Oliver Hartley: '*En primeur* Burgundy is more consumer driven than Bordeaux: there is more demand for even less supply. This in itself gives more reason (with some notable exceptions) to buying it *en primeur* than Bordeaux. This might sound controversial but, in reality, there are a whole raft of lesser Bordeaux châteaux offering *en primeur* at producer-pegged rather than market-indicative prices. Three to five years later, you can still easily obtain these wines at the same price. If you factor in the storage charges over that time period, if you had bought *en primeur* you would have seen a decline in the asset value.

'Therefore, it seems that buying Burgundy *en primeur* is more rational and relevant. The demand for these wines is testament to the significant increase in their value following release (and certainly prior to maturity or drinkability). Looking at the release prices – even in fantastic vintages – and comparing them to the demand-driven values a year or two later, it seems that buying *en primeur* secures you good prices, which is not the case with the speculatively priced releases of some of the Bordeaux châteaux.

However it must be stated that Burgundy *en primeur,* like Bordeaux *en primeur,* is only really rational for a tiny number of wines among a tiny number of domaines. It is less relevant to a village wine produced in large quantity.'

Finally, what are your predictions for the 2003 vintage?

Oliver Hartley: 'Many of the merchants offering Burgundy *en primeur* will release their offers from the 2003 vintage this January or February. Quality looks to be very good indeed but yields were dramatically reduced due to the heat of the vintage. White wines should have great ripeness and will drink relatively young – crowd-pleasers. It is unlikely that prices will be dramatically higher than 2002.'

Oliver Hartley, sales director of Corney & Barrow, was interviewed in December 2004

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Do your bidding online

The internet auction was once looked upon as a dot-com craze, but this method of buying and selling has survived the boom and bust to become a solid part of the portfolio of trading options. MARK LANE looks at three business models around the world

Apart from the technology – auto-bidding, multiple bidding, bid alerts, dynamic searching for wines and the ability to enter and leave an auction any time of the day or night – online auction sites and wine exchanges offer the same end result as their more conservative, bricks-and-mortar cousins. The stark difference lies in their accessibility. Not only have the internet versions opened up more trades, but they have also demystified a rather arcane trading method while attracting a whole new breed of collector-investor. And it seems to be big business – Uvine (www.uvine.com) reports to have millions of pounds' worth of wine in active trading at any one time; WineBid (www.winebid.com) has recorded an annual growth of 20% for 2005, with around £11.3m in sales and 35,000 registered users; while in Australia, Langton's (www.langtons.com.au) will turn over AU$14.5m (£6.05m) in 2005 and have more than 6,000 registered users. Though the combined figures suggest a sizeable business, it's still small when compared to overall global auction sales. But internet wine auctions have been slowly but surely gaining momentum. Uvine is nearly five years old, WineBid has been running for a decade and Langton's, a traditional auction house, morphed into its online-only format several years ago.

Condition and provenance of wine are fundamental requirements of the trade and all of these online auction businesses employ wine experts, many from traditional auction houses, to assess every consignment. And the fact that stock is assessed and held by these companies circumvents some of the risks associated with other online marketplaces such a eBay. Many online businesses also often use the same state-of-the-art storage facilities that other auction houses, merchants or collectors use – such as Octavian in the UK.

Wines are either auctioned by bottle or case format on a more contiguous basis than normal auctions. For instance, Langton's runs two per month, each lasting approximately two weeks (they are sometimes staggered so they overlap). Similarly, WineBid runs auctions throughout the year, from Sunday to Sunday. Uvine is a more continuous trading environment – like one long auction in which a unit of wine is sold when its 'offer' value is eventually matched by a 'bid' value.

PHOTOGRAPHY: courtesy of Elena Buetler

On site: more and more people are logging on to internet auction websites to do their bidding

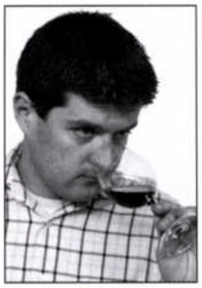
The expert's view

'The internet is an incredibly powerful medium. As I write this, I have about 1,000 potential buyers logged in, participating or looking at our auction. That's astonishing. The overall market for fine wine is changing with increasing demand for lower commissions, greater efficiencies and more immediate results – including improved cash flows. It is true that relationships and shared wine experiences play an important part of the fine-wine scene. But increasing numbers of people are buying and selling on the internet. The increased use of broadband and portable internet means more and more time-deficient people will turn to their computer or handheld Blackberry to buy wine. Unless traditional auction houses or broking houses – and fine-wine merchants – address this very real and immediate channel of trading, they may well disappear.'
Andrew Caillard, Langton's, Australia

All three companies are exploring ways of improving their service. 'We are totally focused on the improvement in our technology and listening to customer feedback,' says Jerry Zech, CEO of WineBid. 'The challenge is to continue to improve our technology – the marketplace for high-end wine is the fastest-growing segment in the wine industry and the internet provides real-time information to wine enthusiasts worldwide.' Andrew Caillard, director at Langton's, echoes this sentiment. 'Our software took more than two years to develop before implementation in 2002, and we are constantly improving the level of efficiency, data, information and services,' he says. 'The immediate challenge is to improve the physical fulfilment side of our business. The online environment has created an extraordinary immediacy where everything has to be done "now". Now sellers can watch exactly what is happening to their wine. Buyers have an extraordinary amount of information at their fingertips: previous price realisations, tasting notes, vintage and producer information. Bidding is interactive, and all the mechanics of the auction room have been duplicated. Within two seconds of close, invoices are sent out to the clientele. Everything is instant.'

For many, the distinction between traditional auction houses and internet auction houses seems to be blurring: both do charity or event-based auctions, themed sales or special 'lot' auctions; both use technology to improve customer communication. However, other commentators discern a general trend from both types of business to offer what the other cannot. The physicality of traditional auction houses means they can deliver big, event-based 'occasions' and single-owner spectacles. They are seeking to add a social, glitzy, lifestyle link to the event, whereas internet auction houses are providing an immediacy, accessibility and level of remote information that has a great attraction for the keen investor and collector.

MARK LANE is an IWC superjuror and *Wine International*'s auction and investment columnist



Fighting forgery

In part two of MARK LANE's investigation into the less scrupulous areas of the wine market, Andrew Caillard MW, the director of Langton's auction house in Australia, is asked to shed light on counterfeit wine. So, before you rush out to buy your Christmas gifts, take some expert advice

Last month, Mark Lane talked to Andrew Caillard MW, the director of Langton's in Australia, about unscrupulous wine brokers. This month, the interview continues with the focus turning to fake wine. Caillard offers advice on how to spot such forgeries and also highlights the preventative measures that the industry is now taking.

How prevalent is the counterfeit market? Is it possible to estimate the quantity of fake wine around at any particular time?

Counterfeit/forged wine accounts for a minute proportion of the fine and rare wine market but occasionally celebrated incidents crop up. In Italy, there have been discoveries of counterfeit 1994 and 1995 Sassicaia – worth apparently more than £1million. The Asian markets, where fine wine is increasingly seen as a status symbol, are particularly vulnerable. In 2002, Chinese racketeers were found with a cache of counterfeit 1982 Mouton Rothschild. I believe the Bordelais, who are quite worried about this scenario, have invested quite heavily in anti-fraud strategies in Asia. Langton's made a famous discovery of counterfeit 1990 Grange some years back.

There are apocryphal stories that may have a grain of truth. Can it be true, for instance, that three-quarters of Italian wine in the US is fake? The rarity market is particularly vulnerable to forgery. However, it's almost impossible to put a figure on fake wine. It's an ill-defined term. I don't believe counterfeiting of fine wine is as prevalent as some media reports suggest, but it is an irritation. Frankly, the high incidence of cork taint in fine wine is more of a scandal.

Is the production of fake wine increasing?

Probably. The growing number of fine-wine labels found provides a compelling argument that there is more fake wine around. The emerging Asian markets are not particularly well regulated. Food safety – above brand protection – must be the primary concern here.

How do you tell a fake wine?

It is some time since we last saw a counterfeit bottle. Langton's discovery of fake bottles of Penfolds Grange a few years ago attracted widespread media interest. Spelling errors on the label ('poor' instead of 'pour', for example) shows that counterfeiters should learn how to spell! Sometimes, it's impossible to work out whether bottles are fakes. The rarity market made up of old vintages is particularly problematic. Standardisation and château bottling, for example, are relatively new phenomena. Indeed, château bottling is a means of guaranteeing authenticity. In Australia, old bottles of Grange come in all sorts of bottles, capsules, bin numbers and labels. The Penfolds Red Wine Clinics have played a role in discouraging fakes. They've been particularly successful in Australia and now take place in the US, UK and New Zealand, too. Interestingly, the practice of topping up an old vintage with a new vintage (of the same wine) is not universally accepted and may breach local laws.

As someone who was involved with the original scoping of the Penfolds project, I feel this is a bona fide way of looking after old bottles – especially if there is a authenticating back label affixed. Some people, however, believe that reconditioned bottles are easy to counterfeit. I think this depends completely on how and where re-corking takes place. The Grange market in Australia has been greatly aided by the project, with buyers paying only top prices for vintages with decent fill levels. Identification of fake wine is often about a gut feel and it requires experience. This is where provenance and trust comes into play.

Buyer beware: Andrew Caillard MW of Langton's Australia says all wine could be subject to fraud

What else is being done to counter forgery?

The genuine concerns of brand protection, food safety and theft have lead to various moves. Laser etching on bottles was introduced by Penfolds after the discovery of the fake Grange. Other companies are now using DNA technology – Hardys has used DNA from 100-year-old vines to generate 'DNA Matrix' bottle labels. The new Zork bottle closure uses a microchip to prevent theft and fraud. Louis Roederer has looked at microchipping its products. Other companies, such as Rockford, Château Cos d'Estournel and Sassicaia, are using embossed bottles. Radiocarbon dating has been used successfully to challenge the authenticity of Champagne/sparkling wine by an auction house.

New tests are being invented all the time. *New Scientist* reported that the University of Seville had developed an atomic spectrometry test to authenticate Champagne, which uses an 'analysis of trace metals that are passed into the grape from the soil'.

Continuing vigilance is vital to counter the problem of fake wine. Some companies have used brand protection as a means of adding value to their product – rather than genuinely addressing the issue.

Which wines are most subject to forgery?

All wine is potentially subject to fakery, forgery or counterfeiting. While high-value fakes – including 1945 Mouton Rothshild, 1947 Cheval Blanc, 1982 Pétrus and 1990 Penfolds Grange – capture the limelight, commercial wines are also subject to fraud. This starts becoming a minefield, because it can include unscrupulous producers passing off their own wine as something better than it really is. There is an example of Château Giscours allegedly stretching its wine with other Haut Medoc material and countless other instances of mislabelling. In essence these wines are fakes – just as much as the utterly unremarkable, but expensive wines that neither deliver on quality or fulfil the marketers' promise of nirvana.

Going for broke

This month MARK LANE seeks expert opinion regarding fine wine investment from broker Stephen Browett of leading broker-merchant Farr Vintners

Are there any advantages to trading investment-grade wine via a wine brokerage service rather than buying directly through auction? If so, what are they?
'Speed of sale can be an issue. We can sell a parcel of wine in five minutes and pay immediately a deal is concluded. If you spoke to an auction house today the sale might be in two months, with payment one month later... and that's if the wine sells.

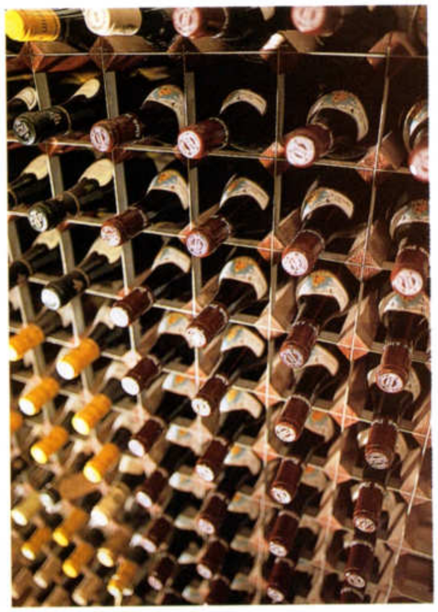
For many investors margin is also a critical factor. We work on a fixed 10% (that is, sell a £1000 case of wine and you get exactly £900). Major auction houses might charge a buyer 15% + VAT, the seller 10% + VAT and 1% insurance. This means that for a case of wine worth £1,000 the vendor receives approximately £700. This can seriously effect return on investment (ROI) if buying and selling on a regular basis.

In addition, we can guarantee price. Investment-grade wine has a pretty clear market price. With a reputable broker you know how much you're going to get, while with auctions there is always an elevated element of uncertainty or risk.

Another perceived advantage is the breadth of audience. For instance, wines sold through Farr Vintners are visible 24 hours a day on our website to anyone who wants to have a look. You can only buy in auction on the day in question and have to bid "blind". Consequently, many customers prefer to buy through us because they know what they're paying and can choose what to buy rather than waiting for a sale.'

What is the average size in pounds of your clients' cellars? What is the minimum value you would recommend in a portfolio of investment?
'This varies enormously. From £500 to £5 million. A minimum value could be £500 but to get a balanced portfolio (not putting all your eggs in one basket), I would recommend at least £2,000.'

What proportion of your clients are collectors and what are investors?



Spreading the wealth: one of the secrets to a good investment cellar is a variety of wines from traditionally renowned regions, such as Bordeaux

'That's impossible to say. Relatively few are "pure" investors with no interest in wine except for financial return. But I'd say that most private customers buy young wine with a view to part investment and part future consumption.'

What wine region has outperformed the market this year? And looking to the future, how do you feel the market will move in the next 12 months?
'Bordeaux continues to be *the* wine to buy. We thought that the 2000 Bordeaux prices might have peaked, but they continue to be in high demand. Without a crystal ball I would say that the market will be fairly steady in the future. However, the weakness of the US dollar and strength of the Euro have more to do with wine prices than anything and it's impossible to predict these.'

What are your top tips for a successful wine investment?
'Buy a broad range of wines from classic regions – mainly Bordeaux. Buy good young vintages and check that they are half the price or less of mature similar-quality vintages of the same wine. Buy in bond. Buy from a respected and experienced wine merchant. Always shop around for best prices since you can see huge variations for the same wine. Don't buy from an "investment company" as they will be buying the wine from a wine merchant.'

Can you suggest any advice for making a 'quick buck'?
'We would not give clients investment advice as such, we merely give them expert advice about wines, vintages and their prices. I'd suggest nothing for short-term high-risk, since, historically, the best wine investments are in buying immature wine and selling it when it has matured.'

What's your top tip for the coming year?
2003 Bordeaux, depending on price. It should be a great vintage and if the dollar is still weak it should be reasonably priced. In the doldrums is vintage Port.'

What is the rarest wine you have in your cellars?
'One case of Château Lafite-Rothschild 1959, arguably the greatest mature Lafite. It will set you back a cool £12,000.'

What is the most spectacular request you have had in your career?
'A Far East billionaire once asked for 50 cases of Pétrus 1982. We could only find him 20 cases...'

Do you think that investing in wine will become more mainstream or do you think it will it remain very marginal?
'I don't think it will ever be mainstream and my advice would be for wine-lovers to use investment as a means to financing wine enjoyment rather than purely as a financial investment.'

MARK LANE is an International Wine Challenge superjuror and has worked for The Auction Channel, News International and Sotheby's Institute for Fine and Decorative Art.

Up for auction?

Auctions offer a potentially rewarding way of buying and selling wine, if you avoid the pitfalls; plus they are a fascinating way of charting the value of your cellar. MARK LANE outlines exactly how to go about acquiring wine at an auction without getting stung

PHOTOGRAPHY: Stephen Lenthall; gavel: courtesy of Christie's

Pre-sale inspection of wines for auction is uncommon. The reputation of the auction house is therefore important – you may have to rely on the experts and assessments in the catalogue

Why auction?

Auctions date back millennia and have been used to sell almost everything. One of the most astonishing auctions took place in 193 AD, when the entire Roman Empire was tossed on the auction block by the Praetorian Guard.

Auctioning is a method of transaction based on supply, demand and competition, where – like any other financial market – sellers wish to obtain as much money as possible, and buyers want to pay as little as necessary. The price of an item sold at auction is representative of the value it holds in that place at that time.

However, the thought of participating in an auction brings many people out in a cold sweat, whether it's the unusual terminology, the lack of familiarity with the buying process or the perceived finality of 'scratching your nose'. Yet, after some research and practice, an auction promises to be a fascinating experience. It is also one of the few ways of sourcing investment-grade wines.

Main types of auction

There are many different types of auction – English, Dutch, sealed-bid, simultaneous, vickrey, double and whisper to name but a few. Some of the more unusual formats have been practised for centuries, including one in which whole estates were sold during the time it took for a single one-inch candle stub to flicker out.

Wine is mainly sold via the English (ascending) auction. Well-known auction houses such as Sotheby's and Christie's use this method – prices start low and rise until there is a winner. The big houses in London, New York, Paris and Sydney (plus some well-respected Internet auctioneers) attract some of the best specialists, the most sought-after consignments and, as a result, some of the highest-profile sales. However, there are many excellent fine-wine auctions around the world, and geographical location is less of a barrier these days with the Internet and absentee bids possible.

Although the auctioneer is an agent for the seller, the price is set by the bidders. It is, therefore, in the auction house's interest to maintain a virtuous circle where sellers gain an audience of active buyers.

And auctions are not just for blue-chip collectors. Some sell lesser wines, lower-ullage bottles (that is, bottles that are not completely full) and bin-end stock that can make an interesting, good-value tipple.

Before an auction

Familiarisation and practice

Go to an auction – they are free to attend. Auction calendars are readily available from the houses, email or the Internet. Most major auctioneers have a beginner's guide and client services are available to answer any questions you may have.

Be aware that registering does not mean you are not obliged to bid. Wine auctions are incredibly fast (200 lots per hour), though the auctioneer will ensure it is a pace that everyone can follow.

Catalogue and terminology

The auction catalogue is your bible. It details each lot, provides an estimated price range, outlines provenance, bottle condition, explains terminology, notes the tax status and sometimes reviews the wine. It will also give registration details, terms and conditions and the time and place of the auction. Catalogues are either free (downloaded from the Internet) or have to be purchased. In some exclusive auctions, the catalogue, like a ticket, gives you access to the exhibition or the auction itself.

Provenance, bottle condition and *caveat emptor*

With an item such as wine, value will be affected by the pedigree of storage, its provenance and its specific conditions (carton, label, wine level in bottle/ullage, cork and capsule). While auctioneers do not necessarily guarantee the condition or provenance, they will be rigorous about consignments offered for auction.

At a recent auction, two cases of La Fleur Pétrus 1945 were offered. In the first, where the wine had a bottle level of 'top shoulder or better', fetched £3,300, whereas the subsequent case with ullage levels of 'mid-shoulder' went for £300. Similarly, bin-soiled or damp-affected bottles can halve the value.

Previews and exhibitions

Pre-sale inspection of wines for auction is uncommon. Due to the perishable nature (and tax status) of the product, wines are kept in secure, bonded, temperature-controlled cellars, often located off site. The reputation of the auction house is, therefore, important – you may have to rely on the experts and assessments in the catalogue. If necessary, you can obtain a detailed condition report or inspect particular wines by prior appointment. Some auction houses might run ticket-only pre-sale tastings, where they have wines similar (or identical) to those that will be offered at auction.

Registering

Auctions require registration to enable you to bid. This involves some form-filling, release of payment details and acceptance of terms and conditions of sale. Registering will also enable you to obtain a 'paddle' – a number printed either on a piece of card or on something that resembles a big, flat, wooden spoon.

Charges

When buying at auction it is important to factor in additional charges. Auction 'hammer prices' are raw prices. A 'buyer's premium' (this is the auction house's service charge, ranging from 0–17.5%) must be added. The wine may also be subject to excise duty (look for the words 'in bond') and a local sales tax (ie VAT). A £500 hammer-price might attract charges in the region of £200 (30–40%) before delivery. Depending on your location or tax status you might be exempt from some of these charges. The auction house can help with calculations, shipment and storage.

During an auction

Absentee and telephone bidding

If you wish to bid at auction without attending, you can register an absentee or telephone bid. For absentee bidding, an auction clerk will bid for you up to a maximum pre-determined value. Telephone bidding involves a clerk communicating directly between you and the auctioneer via a telephone. Absentee bids are all time-stamped, with the first taking precedence when top bids are matching. There is also a hierarchy when accepting bids: the floor, the telephone, then the absentee.

Bidding

The room may be full, but the auctioneer will focus on the competing bidders. Bidding usually starts below the lot's estimate, but there will be a hidden reserve price below which the wine will not be sold. The auctioneer can legally bid on the consignor's behalf up to one bid-step below the reserve price – this is called 'bidding off the chandelier'. If the reserve is not met, then the lot will remain unsold (called 'bought in' or 'passed'). Some auction houses allow a private sale of unsold lots after the auction.

If you wish to bid for an announced lot at the price the auctioneer is asking, then raise your paddle. If the auctioneer is looking for a first bidder or a counter-bidder, then he will acknowledge you. After that, it is not necessary to keep raising your paddle; the auctioneer will move between you and the other bidder ('ping pong'), offering you both, in turn, a chance to accept a higher bid level (usually about 10% higher than the current bid price). A nod or shake of the head or hand will indicate whether you wish accept the next level or drop out of the cycle. If either bidder drops out, then the auctioneer will search for another to enter the competing cycle. This continues on an upward price cycle until no-one wishes to compete against the winning bid. If you win the auctioneer may request to see your paddle number.

The winner's curse

This is a dangerous affliction for the buyer, and its symptoms are over-enthusiasm. Great, you win the lot, but you also pay much more than it is actually worth. In order to prevent this, set yourself a limit and stick to it. Do some prior research about previous auctions and corresponding retail prices. Unlike unique pieces of art, identical wines may appear in the same or subsequent auctions.

After an auction

Payment, collection and delivery

Payment is similar to a retail or banking procedure. At the cashier's desk you will pay the hammer price and additional charges prior to release of goods. It is common to arrange delivery of the wine from one storage facility to another, rather than collection immediately from the auction. Sometimes the wine will be stored in another city or even country and will have to be shipped. This may be stated in the catalogue or clarified prior to the auction. Shipment, insurance and subsequent storage can all be arranged by the staff.

MARK LANE is editor of e-newsletter *on the grapevine* and an International Wine Challenge superjuror. He has worked for the Auction Channel and News International

Auction calendar

US

- **The Chicago Wine Company** (Illinois) 26–27 June
- **Bonhams & Butterfields** Fine & Rare Wines (San Francisco/LA): 19 July
- **Winebid** General Wine Auction (Internet): 3–13 July
- **Winebid** General Wine Auction (Internet): 17–27 July
- **The Chicago Wine Company** (Illinois) 30–31 July

UK

- **Sotheby's** Fine and Rare Wines & Vintage Port (London): 18 June
- **Christie's** Claret, Fine Wines & Vintage Port (King St, London): 19 June
- **Christie's** Fine Wines (South Kensington, London): 23 June & 14 July
- **Christie's** Wines (King St, London): 17 July

Switzerland

- **Steinfels** (Zurich): 28 June

France

- **Christie's** Vins Fins et Rares (Paris): 18 June

Germany

- **Koppe & Partner** (Hamburg): 21 June
- **Hampels** (Munich): 28 June
- **Koppe & Partner** (Internet): 2–6 July & 30 July–3 August

Australia

- **Langtons** Penfolds Grange Shiraz II Auction (Internet): 16 June–7 July

Caveat emptor

Or 'buyer beware' is the coda of all auctions. All pieces are sold 'as is' (meaning that the piece is sold with no guarantees against defects or faults).

Keeping up appearances

It is not just the quality of the wine which affects the value at auction. MARK LANE explains how bottle condition, ullage and the owner's reputation can all be contributing factors

With little access – save for pulling the cork and drinking it – to check whether the wine you are buying is worth the price you are willing to pay for it, then bottle condition and reputation may be the only things you are able to rely on. Provenance, condition and owner reputation all can have a huge influence on the value of wine. When these three things come together, or do not, you can expect bottles to trade at huge premiums, or big discounts.

Stephen Mould, head of Sotheby's European wine department, explains: 'Provenance is all; it is obviously linked to both issues of authenticity and condition.' David Elswood, head of the international wine department at Christie's, expands on this: 'When selling older and rarer wines, provenance and condition is vitally important. Prices can be massively influenced by the physical appearance of the wine (label and capsule) and the level (ullage – the most important element). Wines having both a perfect appearance and a perfect level, which can be proven to have come from good long-term storage, always attract a premium – maybe 10% to 30% more than wines in less perfect condition.'

Kim Kendall, of Wine Trends, demonstrates the impact of poor storage on values by a comparing the same wines at one auction house (Sotheby's) in a particular month (October 2001):

Wine	Highest Value	Lowest Value
Mouton Rothschild 1982	£4,000	£2,200
Auction catalogue comment associated with lowest value		
'Labels torn and soiled; three vintages illegible'		

Wine	Highest Value	Lowest Value
Cheval Blanc 1982	£4,500	£2,800
Auction catalogue comment associated with lowest value		
'Labels very damp soiled and torn; all vintages legible'		

Kendall goes on to give further examples as to the importance of condition, citing the sale of two cases of Mouton 1989 as subsequent lots (Christie's, June 2001). The first was described as 'bin-soiled and damp affected' – this went for £650. The second case had no description and it can only be implied, therefore, that this lot was at or near perfection; it sold for £1,250. Such significant effects on value can also represent an opportunity to snap up bargain wine you may never normally drink. For example, three cases of La Fleur-Petrus 1945 sold in a single sale (Christie's, March 2001) demonstrate the effect of ullage and perceived condition on a wine's value:

La Fleur-Pétrus 1945		
12 bottles	Level: top-shoulder or better	£3,300
12 bottles	Level: four top-shoulder, two upper/top shoulder, six upper shoulder	£2,500
12 bottles	Level: mid-shoulder	£300

Photography: © Wine International, August 2004

Looking good: understanding how to store a wine carefully, particularly maintaining the condition of the label, is one of the vital factors when selling wine at auction

David Elswood cautions: 'It is a pity some buyers don't realise that storage conditions which are perfect for the wine (cool and fairly damp) will often result in the labels being affected in some way, so this should be taken into account. Often, buyers want a 30-year-old wine to look like a new release, which is a shame. Also, a slavish directive from some traders for all levels of 30- to 40-year-old wines to be into the neck is unrealistic, and demonstrates a lack of understanding of the natural variations that can be found in perfectly cellared bottles.'

There can also be an over-reliance on ullage. Although this can be an indication on past storage (wine seepage, cork shrinkage, ingress of oxygen, variation in storage temperature), Stephen Mould comments: 'Years of experience have taught us that the quality of the actual wine does not necessarily follow the ullage. In a mature wine, you can have one bottle with a lower ullage tasting better than another with a higher ullage – that is the mysterious nature of wine. Low ullage in mature Burgundies rarely seems to affect the taste, for instance.'

Although label condition and ullage are imperfect methods of ascertaining wine quality, it is often one of the few non-invasive ways of giving the prospective purchaser peace of mind. As Stephen Mould states: 'We always check condition and provenance, going back in research and opening original wooden cases. We exert pressure on corks on mature wines to see that there is no give, and label condition is accurately subscribed. Wines coming from professional storage – quite common in the UK – are obviously straightforward, especially if the wines were bought *en* *primeur* and went straight to professional storage. Wines from private cellars are checked, which involves a lot of travelling by wine department experts.'

If label, capsule condition and ullage are important factors alongside authenticity of the wine, then the reputation of the current or previous owner can elevate a bottle's price well past its normal market value. There are numerous examples to support this. Sotheby's Albert Frère Sale in June 2003 (he is co-owner of Cheval Blanc) achieved high or above-estimate prices. Andrew Lloyd-Webber, an internationally renowned collector of wines, has a reputation both for purchasing wines of great provenance and storing them expertly. When the record-breaking sale of his wines took place in 1997, many sold at 50% to 100% above prevailing market rates. Auction houses compete hard to host the sales of prominent collectors, and for good reason. Zachy's sold the collection of John McDonnell with his reputation 'for almost maniacal attention to the provenance and condition of each bottle'.

Another unusual consignment was the 19th and early 20th century Lafite-Rothschilds of collector Daniel Ginsburg, president of Champagne de Meric. The top lot of this group was four bottles of the 1945 Lafite which sold for \$9,360 (£5,183) with premium – the estimate was \$3,500 to \$6,000 (£1,938 to £3,322). Part one of Christie's Great Latour Sale in May 2003 saw wines direct from the château achieving 'new world records for virtually every one of the 64 estate-sourced vintages'. With such incredible provenance, private buyers were at the forefront of the bidding. At a time of year when the world economy (and auction market) was facing uncertainty, unsold lots were averaging 15% and the majority of wines were selling in the low range of estimates.

In October 2003, Sotheby's private cellar sale from the Robert Paul collection brought a remarkable total of \$2.2 million (£1,218,445) which was well above the high estimate of \$1.7 million (£941,516). Serena Sutcliffe MW, head of Sotheby's wine department, commented: 'This was an amazingly successful sale, with every category of wine fetching exciting prices – undoubtedly a reflection of the provenance and condition of the wines.' This was closely followed up by the Sotheby's Harter Family sale in November 2003, with 'one of the most impressive private collections ever amassed and world records set for the 1945 Mouton, sold at \$70,500 (£39,045) for six bottles, and 1961 Lafleur, sold at \$73,437 (£40,672) for 12 bottles. The sale grossed \$1m (£553,846) above its mid-estimate of \$2m (£1,107,692).

Although all this evidence points towards the owner's reputation playing its part in price, the auction houses are also keen to share this reputation. By close association, high-provenance, high-profile, single-owner sales help the reputation of the auction houses for selling similarly high-reputation, high-provenance wine. Stephen Mould says: 'We do not take wines with bad provenance and condition.' However, he also goes on to say that there is no hard and fast rule on prices. 'If you check, taking examples such as top 1982s, the price does vary throughout the year, from similar provenance, but it can be due to anything such as exchange rates or whether key buyers got involved. Even having a starry part of the sale with something unusual can attract extra buyers who then bid on other things'.

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