BOTTLE BANK

Serena Sutcliffe of Sotheby's and London International Vintners Exchange co-founder James Miles tell Phin Foster why, even at the bottom of the financial glass, wine is one asset class that hasn't lost its sparkle.

It felt like a period drama set in 2007: a packed London saleroom, a host of new bidders, and an overall sales figure that far exceeded its estimate. Surely the credit crunch is not meant to look like this.

More people attended Sotheby's first wine auction of 2009 in late-February than at any point since Andrew Lloyd Webber put his cellar up for sale in 1997, generating a then record £3.69 million for his collection of 18,000 bottles.

'Rather surprising and extremely pleasing,' Serena Sutcliffe, head of Sotheby's international wine department, tells me a few weeks later. 'It was a response to prices that have come down from the absolute heights of 2007 and people feeling they can engage with the market again. But we're not going to be complacent. Look at the state of the global economy, the likelihood of more unemployment and potential for further Ponzi schemes being uncovered; nothing is immune from all that.'

The effects of global economic downturn are there for all to see on the London International Vintners Exchange (Liv-Ex), a trading and settlement platform for vintage wine. 'We saw a 20% drop between June and December of last year,' says Liv-Ex founding director James Miles. 'The last time there was such a dramatic drop was during the Asian financial crisis of the late 90s, when a lot of collectors, particularly in Hong Kong and Singapore, needed to liquidate their assets in a hurry.'

If one still has money to spend, however, this is actually a great time to enter the market. Many 2005 bottles, for example – 'without question a stunning vintage' according to Sutcliffe – have fallen by up to 40% over the last six months and are beginning to rise again.

'We are definitely starting to see an up curve,' Miles believes. 'A case of Château La Mission Haut-Brion 2005 was trading at £6,000 a case in April of last year. That figure had fallen to £2,950 by December. By early March it was back up to £3,350. The opportunities are still there to purchase wines at a remarkably lower rate than a year ago.'

Since Miles and his group started tracking prices in 2001, he has noted some remarkable parallels. 'The only thing we've found that correlates with fine wine prices is the Forbes annual Billionaires List,' he chuckles. 'Wine prices are an excellent indicator of how the super-rich are feeling and, right now, I'd say they're feeling poorer.'

Trading on Live-Ex was up 80% in January on the same period in 2008, although turnover only increased by 20%. 'The reason for that anomaly is twofold,' Miles explains. 'Prices have fallen and that's reflected in the results, but our customers, predominantly merchants and professional traders, are also a little more risk averse than they were.'

Recent events have certainly driven home one important lesson for private investors: be prepared to play the long game. 'If you're investing money you might suddenly need to claw back it's too big a risk to take,' Sutcliffe explains. 'Only spend money that can be forgotten about in the short-term and you'll never make a mistake buying a great vintage.

'Even those that became involved in 2007 when prices were at their peak, if they were investing in first growth, and perhaps some super seconds from great vintages, their investment will come good in the end. There are only a finite number of bottles out there and one simply needs to be able to ride out the storm. Prices rise markedly as a vintage starts to be drunk in a serious fashion; you just need to be patient.'

Her advice for those entering the market from an investment perspective is to 'be conservative and stick to blue chips'. The tradable market is dominated by some 100 wines – 'far less than that' in Sutcliffe's opinion – and is predominantly drawn from Bordeaux vintages. Over half of the activity on Liv-Ex in 2008 involved just five labels: Château Lafite-Rothschild, Margaux, Latour, Haut-Brion and Mouton Rothschild.

'It is very concentrated within the top labels,' Miles acknowledges, 'but, as each one creates a different wine each year, the market is also quite fragmented. We're not seeing much of a move away from the traditional châteaux and it's still predominantly a French game. Some American collectors may also follow wines like Screaming Eagle and there are top Australian vintages such as Penfolds Grange, but the thing about Bordeaux is that their vineyards produce high value products in extremely large volumes. If you're talking about £4,000-a-case vintages, the first growers there are producing between 15,000 and 20,000. Growers outside the region would typically not produce more than 300 to 400 cases at that price point.'

The concentration of top labels is further compounded by an expansion in demand. While the wine trade was once dominated by the traditional markets of Europe and the US, significant players have emerged within South America, Russia and other former Soviet states, Singapore, India and China. 'It's a global game now,' says Sutcliffe.

'It's changed things markedly,' Miles agrees. 'Fine wine has remained a part of a rich man's portfolio. A lot of these countries are not traditionally wine consumers, but people still want to flaunt their success through having an impressive cellar.'

It was as 'an obnoxious 25-year-old analyst' in Asia that Miles first got his taste for the fine wine game through the purchase of 'three or four' cases of Lafite Rothschild. 'I slightly forgot about them,' he tells me, chuckling at the memory. 'When I sold them two years later I almost trebled my money and bought 20 cases of bottles I thought I might drink. I'm still working my way through them. I don't claim to be a connoisseur, but I thoroughly enjoy it and am fascinated by the people, the history and the artistic side of production. Once you get involved it's impossible not to become enthusiastic.'

Sutcliffe is also adamant that the pleasure principle cannot be overstated and sees it as an important component in any budding collector's armoury. 'I've only known one person – he bought very astutely, I should add – who hardly ever touched the stuff,' she tells me. 'We don't get many teetotallers in the auction room and even those looking to sell a proportion of their collection at some stage still pop plenty of corks.'

Knowing exactly what one wants from one's cellar is absolutely crucial and Sotheby's is prepared to advise newcomers to market on how best to proceed. 'Is this just for pleasure and immediate drinking?' Sutcliffe asks. 'Do you want to lay down bottles for your children? Will you keep it in professional storage or have you a huge cellar that needs filling? What

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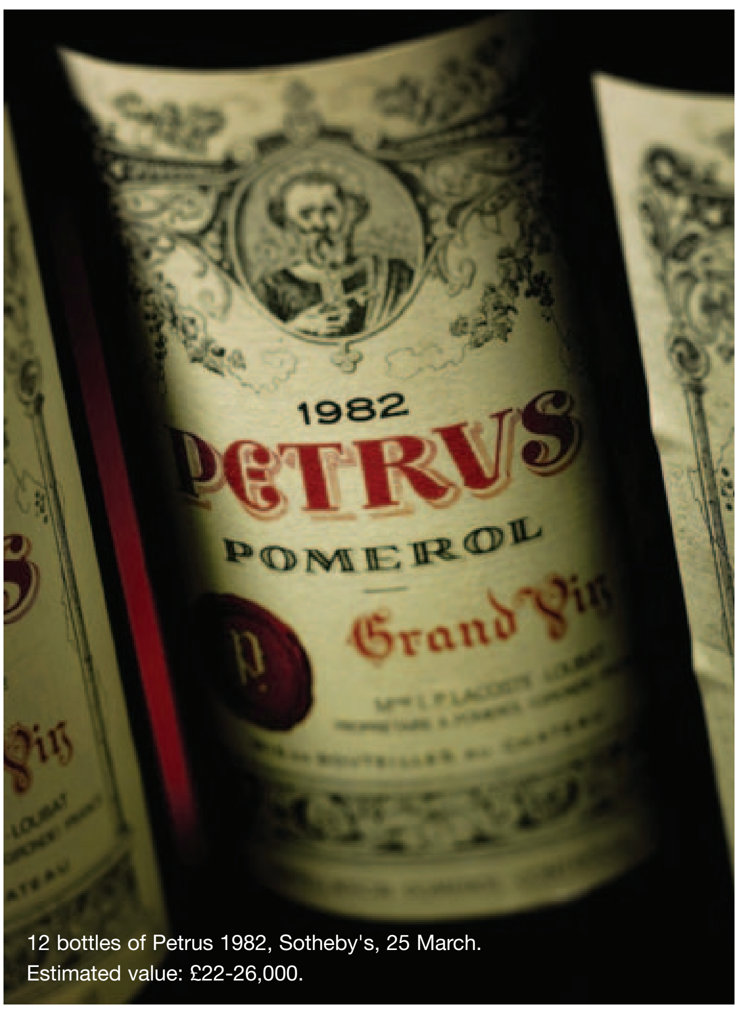
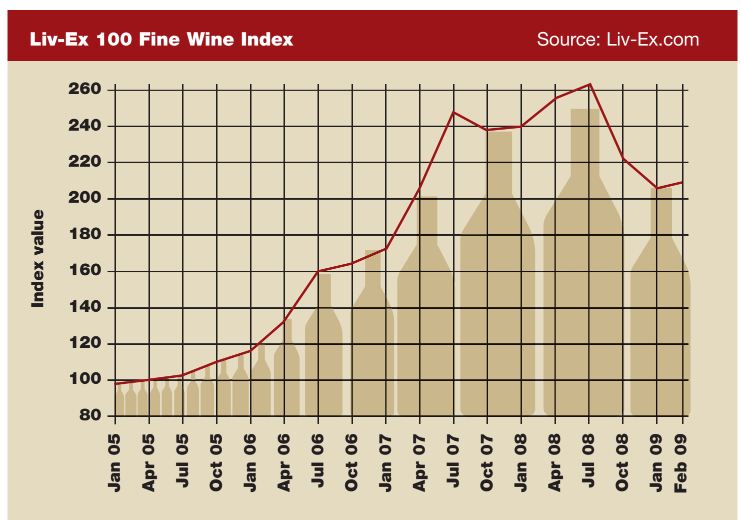


12 bottles of Petrus 1982, Sotheby's, 25 March.
Estimated value: £22-26,000.



proportion do you eventually plan to resell? All these questions need answering and will have a direct impact upon the direction you take.'

Wine's evolution into a genuine alternative asset class has made finding those answers far simpler than ever before. 'One of the major changes of the last ten years is how transparent the market has become,' Miles believes. 'One can compare merchant prices at the click of a mouse and make extremely informed judgments as to what price one should be both buying and selling at. The whole system is so much less opaque now and these resources, along with the advice of independent arbiters like Robert Parker, Jancis Robinson and Alan Meadows, provide a roadmap for people to navigate the market successfully.'

The credit crunch might have led to some investors hitting the bottle, but, from the perspective of wine connoisseurs at least, the glass continues to look half full. ■