Investment scams follow wine east

9 Aug 2010 by Cher Lim

In the good old days, the word 'bubble' was associated with champagne, celebration, happiness, playfulness - never anything to do with trouble. Ever since the dotcom bubble which climaxed in March 2000, however, the word has had more sinister connotations. In the last decade we have had real-estate bubbles, banking crises (lots of them lately) and now trouble is brewing from investing in wine instead of drinking it.

In February 2009, I was interviewed by the Singapore TV station Mediacorp about wine investment. This was at the time when the global financial crisis began to unravel and the world was trying to make sense of Madoff's Ponzi scam. I was therefore cautious in commenting that wine investment is not a get-rich-quick scheme, and it is definitely not a risk-free investment as so many wine companies suggest.

Since the fine-wine market lacks regulation, the only protection investors get here to resolve any disputes with the merchants is through the Consumer Association Singapore or the Small Claims Tribunal (for goods valued at less than $10,000). I smelt trouble back in 2009 when the audience dialling in to the TV programme hotline asking for wine investment tips were homemakers and people who do not know anything about wine.

More than a year has passed since then and a record number of banks have been crippled with money lost through the collapse of large banking institutions. Fine-wine investment, on the contrary, seemed to be on the rise. This is especially so in Hong Kong, which is the leading participant in such activities, followed closely by other Asian countries, including Singapore. There are at least seven Singapore companies registered as wine-investment entities. Common slogans to entice investors are:

1. Wine investment is an effective hedge to other forms of investments.
2. The value of fine wines increases as they age, therefore there is no sell-by date.
3. Even if you can't sell the wines, you can drink them.
4. Wine is a good investment especially in hard times.

In investment language, hedging is taking an offsetting position in a related security. In this case, given the discrepancy between supply and demand for fine wines (certain Bordeaux first growths, for example), an investment in a case of Ch Lafite in 2004 would have seen a sixfold increase in value by Jul 2010 (see Live-ex data http://liv-ex.typepad.com/livex_fine_wine_market_bl/2010/08/carruades-outpaces-lafite.html). It is roughly true that the value of these first growths tends to increase over time.

Is there a sell-by date? Technically speaking, there is an optimum period for enjoying the wine, but market sentiment does not necessarily obey such logic as there are buyers willing to pay for the prestige of ownership regardless of drinkability. In the event that investors cannot sell the wines, they can of course drink them - which is after all what wine was originally made for.

So, can the claims above be substantiated over time? As with all forms of investment, there is always risk involved. The glaring difference between investing in wine and in other asset classes is its liquidity (pun unintended!). For an investor to take a profit from their purchases, someone must buy their wines. This is unlike the high-volume stocks and Forex markets such as Dow Jones, NASDAQ and FTSE, where investors can execute their trades almost instantaneously. To some extent, fine-wine investment is similar to real-estate investment where one must find a deliberate buyer for the seller. Over time, buyers would be looking for proof of authenticity and quality of storage. The other risk is with highly volatile foreign-exchange rates and the increasingly weak US dollar. If the investors have been buying their stocks in US dollars, the fall in the dollar against other currencies can easily offset any gains in value.

In the past 18 months, some of Singapore's wine-investment companies have made headlines in our local media for the wrong reasons. According to *Today* newspaper on 30 June, a company called Asset Wine Management (AWM) has left investors in the lurch after closing its door without notice. Its company executives and staff were missing and investors were fretting over the fate of their investment. In May 2009, another wine investment company, Universal Asset Group, was in trouble. Investors who participated in a one-year 'buy back' scheme did not receive their payment. The company promised to buy back their wine after a year at a guaranteed return of between 10-12%. In neither of these cases did the promised returns materialise.

Clearly, the unwritten rule for wine investment is caveat emptor - let the investors beware. This is especially true in emerging markets, where the investors are the uninitiated and the investment portfolios may not even be fine bordeaux, let alone first growths, and may simply be speculative New World wines.