Raise your Glass: Wine Investment and the Financial Crisis
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This paper uses auction hammer prices over the period 1996-2009, with a special emphasis on periods of economic downturns, to examine risk, return and diversification benefits of fine wine. We show evidence that the wine market is heterogeneous with wine regions and price categories evolving differently. We construct wine indices for various wine regions and prices and find that wine yields higher returns and has a lower volatility compared to stocks especially in times of economic crises. Results from the CAPM show that alpha is significantly positive while showing a low beta coefficient. The use of a conditional CAPM model allows us to clarify the time variance of alphas and betas depending on the economic environment. The time-varying dynamics of alphas and betas are best explained by the spread between BAA- and AAA-rated bonds and the USD/EUR exchange rate. Our findings confirm that wine returns are primarily related to economic conditions and not to the market risk. Forming portfolios for typical investors with different financial assets and various wine indices we confirm that the addition of wine to a portfolio is beneficial for private investors. Not only are returns favourably impacted and risk being minimised but skewness and kurtosis are also positively affected. Particularly, during the recent financial crisis these effects are most pronounced and improve portfolio diversification when it is most needed. Most importantly, balancing a portfolio with fine wine has resulted in added return while reducing volatility with the most prestigious and expensive vintages and estates outperforming the General Wine Index (GWI).

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