Long-run Relationships between Prices of Fine Wines and Stock Market Indices
Jan BENTZEN, Valdemar SMITH
Aarhus University, DK
jb@asb.dk, VSmith@asb.dk

Abstract

The purpose of the paper is to analyze the long-run relationship(s) between price indices of fine wines, i.e. the most expensive wines, and the stock market indices. Fine wines, like e.g. Premier Cru wines, are often considered a substitute for financial investments via the stock markets and therefore of some interest to compare price developments for wines and equities.

The wine price data used are the so-called ‘Live-ex Fine Wine Index’ which are available in two versions: one index for the First Growth wines (Premier Cru) and another index representing one hundred fine wines, the latter defined as having obtained at least 95 points on a leading wine critics scale – and the wine available at the UK market.

The financial data are tree indices: the SP500, the FTSE and MSCI, i.e. stock market indices representing the USA, the UK and a global index like the MSCI (a ‘world market’ index).

The data are monthly data and span the period from January 1988 to the present. At a first glance the price index of fine wines do seem to outperform the stock markets – even by a major margin – and this is fully consistent with the view of fine wines as a reasonable long-term investment. Looking at the business cycle fluctuations in wine prices they do not seem to coincide with the stock market swings which is a further advantage in relation to risk management. The analysis will deal with these issues and also include formal tests for the statistical properties of the wine prices as well as any causality between wine prices and equity prices.