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Fine wine has in recent years emerged as an asset class that continues to deliver consistent returns even in the most difficult of investment environments, although we suggest that one adds this to a balanced portfolio rather than drown one's sorrows when the bad times hit.

According to a study published recently by the American Association of Wine Economists, fine wine yields higher returns and has a lower volatility compared to stocks, especially in times of economic crises.

"Forming portfolios for typical investors and taking risk aversion, different financial assets and various wine indices into consideration we confirm that the addition of wine to a portfolio as a separate asset-class is beneficial for private investors," Philippe Masset and Jean-Philippe Weisskopf, two Swiss-based economists, concluded in the report. "Most importantly, balancing a portfolio with fine wine has resulted in added return while reducing volatility."

The study notes an increase in worldwide turnover at major auction houses from some USD90m in 2003 to more than USD276m in 2008, illustrating the growing popularity of this market. At the same time wine-funds and -indices, such as the Liv-Ex in the UK or Idealwine in France, have emerged to cater for this new demand from investors. "The resulting improvement in transparency and liquidity has rendered this market even more attractive for investors," the authors observe.

Using data from more than 400,000 prices on regularly traded wines in the period from January 1996 to January 2009 the researches found that their general wine index continued to rise even when stocks declined heavily, for example during the bursting of the tech bubble and the aftermath of 9/11. During the 13-year period under review, the general wine index doubled, while the Russell 3000 stock index produced a return of 50%. And while the wine index has succumbed to the most recent financial and economic crisis, declining by 17% between mid-2008 and the end of the study period, this was still far less than equities, with the Russell 3000 Index falling 47% over the same period.

First growth wines of top vintages have been the star performers in recent years, however. While the study suggests that these wines tracked a similar growth path as the general wine index, they hugely outperformed it from 2005 onwards and returned 500% during the period under study.

"Our findings confirm that wine returns are primarily related to economic conditions and not to the market risk," the researchers concluded. However, they noted that only the 1982 vintage outperforms the Dow Jones Industrial Average during the study period.

"In times of economic uncertainty investors are increasingly looking for alternatives to diversify their portfolio and often turn to less conventional assets," the report states. "Fine wines, in line with other collectibles such as art works, coins or stamps, are widely promoted as being interesting choices due to their interesting risk-return profile and low correlation with other asset classes."

However, the researchers caution that correlation among assets tends to rise during economic downturns, and while it is frequently claimed that wines have remained unaffected by this correlation breakdown they said that there is "not yet any solid empirical evidence to reach a consensus on this claim."