How investing in wine could boost your portfolio

There are solid returns to be had from investing in many liquid assets, writes Holly Thomas

Celebrity winemakers include Snoop Dogg, Angelina Jolie and Kylie Minogue

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Stocking up on fine wine and spirits is not only something you should do at Christmas — it could prove a tasty investment all-year round.

The Knight Frank Luxury Investment Index, which tracks the value of luxury assets, suggests that fine wine prices have soared 146 per cent over the past ten years, while the value of rare whiskies has shot up 582 per cent.

This kind of investing is firmly in the camp of what is known as the "alternative" asset class, along with property, art and classic cars. It can be attractive for investors who are looking for a new opportunity that isn't linked to the performance of the stock market, thus providing that all-important diversification we all seek for our portfolios. In other words, buying booze can help you to spread your investment risk across different assets.

But how do you do it, and what are the risks? Here's what you need to know.

The wine selection

Wine can be a fruitful endeavour. The rapper Snoop Dogg and the actors Angelina Jolie and Brad Pitt are among the many A-listers who have successfully produced wines. Chateau Miraval, the estate set to be the subject of a court battle between Pitt and Jolie, is said to be worth an eye-watering £127 million. Kylie Minogue and Gary Barlow have also joined the market, the former producing the Kylie Minogue Vin De Provence Rosé and the latter a range of organic wines named after himself.

Those who don't quite have the budget to start their own vineyard could try their hand at investing. Get it right and there is the potential to make some serious profits — although it's not as simple as finding a tipple you like and buying a load of cases: you need investment-quality wines, which you are unlikely to find at your usual retailers.

Tom Gearing, the founder of the wine investment firm Cult Wines, said: "The French regions of Burgundy, Bordeaux and Champagne dominate the investment-grade wine list, and they're known for producing wines that appreciate. However, regions like Tuscany in Italy and the Napa Valley in the US are gaining traction among investors, with their best wines rising in value. Investors like buying where there's a long, rich history of wines."

A bottle of Petrus, one of the world's most valuable wines
ALAMY

Some of the most valuable wines include Petrus, from the Pomerol region of Bordeaux, and burgundies by Domaine Leroy, whose Musigny Grand Cru is one of the most expensive wines in the world, commanding more than £50,000 a bottle. A name to know from outside France is Sassicaia, from Tuscany, Italy.

As you may expect, rare wines fetch the highest prices. Two bottles of 1945 Romanée-Conti were sold at auction in New York in 2018 for $558,000 and $496,000.

However, it is estimated that less than 1 per cent of the wine produced around the world is considered investment-grade, and UK wines are failing to produce much in terms of exciting value for investors, Gearing said. “It’s not a core market for collectors or investors yet. While the quality is there in many English wines, they are not yet in demand globally. Once that happens, things will change.”

How to choose from the wine list

The value of fine wines can increase simply because of supply and demand. A limited amount is produced every year and as each bottle is consumed, the supply shrinks and so the remaining bottles become more valuable.

But while the Knight Frank index shows impressive figures over ten years, fine wine prices rose 1 per cent in 2023 — partly down to a correction following the price boom during the pandemic.

During such a downturn you want to know that the investment wines you hold will retain their value as best they can. The most searched-for wines typically will do that — but a wine can take anywhere from two to ten years to reach its peak in value, so it’s a long-term game.

Wine typically performs well against inflation, however, as do other tangible assets, such as property and gold.

You can buy investment wine from a merchant such as Lay & Wheeler or Berry Bros & Rudd. Experts there will be able to provide invaluable insights into wine selection, acquisition and storage strategies.

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If you choose this route, the merchant will be able to arrange for any wine you buy to be held "in bond", which means it is stored in an HM Revenue & Customs-approved bonded warehouse that is closed and tracked. You will need to pay for your wine to be stored in this way, which usually covers insurance costs too.

The bond provides a tax shelter; if you want to take out any of the wine to drink, there will be additional costs to consider, such as alcohol duties and VAT.

Alternatively you can use a wine investment company, which will buy the bottles on your behalf, in your name. Companies such as Cult Wines and Vin X have portfolio managers on hand to discuss where they see potential, and they will match you with a portfolio of wines that suits your risk profile and goals. Cult Wines also has a self-directed app, Cult X, where you can pick and choose your wine investments.

There are fees to factor in if you are using a firm to manage your portfolio. You can expect to pay an annual fee that will probably be a percentage of your investment, often between 2-3 per cent, to cover storage, insurance, portfolio creation and an annual review. You may also pay a fee, perhaps a percentage of the profit, when you come to sell. You should take care to understand the charges at the outset.

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Individual investors can join in by investing in bottles or casks. The most popular and prestigious distilleries to know in Scotland include Dalmore, Benriach, Ben Nevis and Glenglassaugh.

The prospect of buying rare whisky can seem intimidating, but there are investment companies, such as Whisky 1901, that can guide you to the right casks. Aaron Damiano Sparkes, the firm's founder, said: "Whisky is no longer just a luxury but an accessible and versatile product to be considered as a successful asset to invest into.

"The market for rare bottles, vintage releases and casks has been primarily driven by global demand, scarcity and the increasing interest in whisky as an alternative investment asset."

When selecting a whisky broker, make sure it has a WOWGR (Warehouse-keepers and Owners of Warehoused Goods Regulations) licence. This confirms that they have been approved and audited by HMRC to own, buy and sell goods in duty suspension in a bonded warehouse. As with wine investing, it is important to understand the fees of buying, selling and storing whisky.

What about the tax?

One attraction of this kind of investing is that — in most cases — there's nocapital gains tax (CGT) to pay. That's because assets that have expected lifespans of fewer than 50 years when they are bought are classed as wasting assets.

Ian Dyall, a tax specialist at the wealth management firm Evelyn Partners, said: "However, some fine wines and whiskies have been known to last beyond 50 years. Where HMRC believes that a wine or whisky will have a life of more than 50 years, the sale of wine held as an investment at a profit will be subject to CGT. If you are unsure, it is worth speaking to a professional adviser to avoid any nasty surprises."

If someone dies owning a cellar or an investment portfolio containing wine or whisky, it will be considered as part of the estate's value and so will potentially be liable for inheritance tax.

Wealth warning

Investing in wine or whisky is a rather narrow market compared with investing in, say, a fund, and there is potential for investors to become enticed by the glamour and ignore the risks. These are not regulated investments, therefore they do not come with consumer protection for your money. It is considered a high-risk investment and so should form a small part of a portfolio, for only seasoned investors — and it may be worth seeking professional advice before taking the plunge.

Pippa Vick from the advisory firm The Private Office said there could be issues when you come to sell. “Whisky and wine are tangible assets in the same way as property provides a tangible asset, but also like property they may be hard to sell quickly. There can also be external factors that affect the price when you come to sell — recessions or regional economic crises could make luxury items such as whisky and wine less attractive.”

Be wary of scams and rogue traders in the fine wine and whisky arena too. Make sure any investment is through a reputable broker.

Safer ways to get a taste for the sector

Buying stocks in wine or whisky companies is another way to tap into the profits without the logistical challenges of physically owning these assets.

Unlike buying the goods directly, this route to investing is regulated by the Financial Conduct Authority, which offers some consumer protection for your money if the investment firm you use to buy your shares goes bust.

The luxury goods company LVMH owns the champagne makers Dom Pérignon and Veuve Clicquot as well as Ardbeg and Glenmorangie whiskies and a range of wine brands.

Diageo owns Johnnie Walker, Baileys, Smirnoff and Guinness (although it may be in some drinkers' bad books this Christmas after it announced that itwill be rationing supplies of Guinness over the next few weeks because of production issues). Many funds in your portfolio could already include Diageo, LVMH and the like, so don't double up.

Exchange traded funds (ETFs) invest in consumer staples and typically hold drinks companies. For example, the iShares MSCI Europe Consumer Staples Sector ETF holds Diageo in its top ten holdings.

Martin Malloy has made a profit investing in whisky

'I invested £23k in Scotch and I don't even drink whisky'

When Martin Molloy from Nottingham retired from the fire service three years ago and took a lump sum of money from his pension, he wanted to invest in something a bit different.

Molloy, 54, who lives with his wife, Michelle, 53, and their children, Mackenzie, 20, and Jack, 15, has always held a diverse set of investments, including stocks and shares and buy-to-let property.

"I researched investing in whisky after the idea was mentioned by a friend on a walk one day. It piqued my interest from the beginning — and I'm not a whisky drinker myself," he said.

Molloy came across the Scotch whisky investment company Whisky 1901 and invested £23,000 in three casks over six months from the distilleries Ben Nevis, Benriach and Aultmore, with the intention of keeping them for up to ten years.

"However, my circumstances changed after about two years and I needed to access some cash," he said. "I requested valuations for my casks and was thrilled to learn they had soared in value. Still, I was aware that the valuation might not be the same as the sale price, and was initially a little concerned about how liquid this kind of investment might be — no pun intended."

The casks were bought about five weeks after Molloy decided to sell his holdings, and he made a 30 per cent gain across all three, with one cask's value rising 45 per cent.

Molloy is keen to invest again when the time is right. "I'm not sure if I'll be fortunate enough to make that level of profit again, but I'm willing to give it a go."