

CITY FOCUS: Investors bottle out of shares and turn to drink

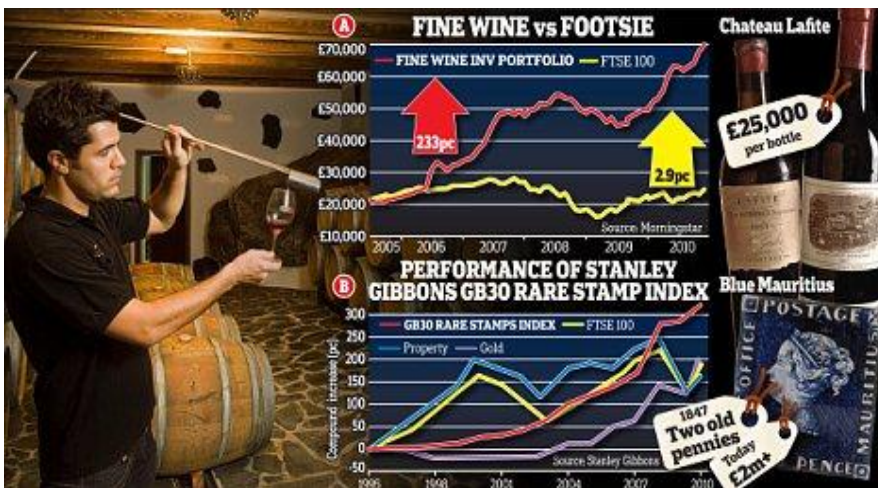
By Ian Lyall

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Investors are turning to drink. No, not to calm their nerves. Though they could be forgiven for doing so in this period of unprecedented volatility.

The turbulence has prompted them to seek out new opportunities. And they are cashing in their stock market chips to acquire alternative investments such as fine wine.

Art, cars, stamps, first editions and even military medals are also in hot demand, according to experts tracking this exodus out of shares.



All provide a tangible store of wealth, which isn't going to be wiped out if the Footsie lurches another 1,000 points lower.

Of course gold is the ultimate safe-haven asset, but it's now becoming prohibitively expensive. So savers are casting the net wider.

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The art world has been a beneficiary of this trend.

When LS Lowry's *The Football Match* sold at auction house Christie's in London for £5.6m earlier this year, it was a record for a 20th century piece of art.

It also revealed the market to be in rude health.

Of course modern masterpieces are the preserve of the super-rich - the oligarchs and billionaires.

Art funds are probably the closest the average investor will come to owning a Lowry.

But even these aren't cheap. The minimum investment required for the best funds can sometimes run into the tens of thousands of pounds.

However the returns can be stunning. The Art Group, which manages a \$100m portfolio, says it has made a 25.5pc 'internal rate of return' on the pieces it has sold.

But then the payback on a bottle or a crate of wine can be fairly phenomenal too.

Just ask Paula Golding, managing director of the investment group.

Back in 2001 the company took delivery of the 2000 vintage Chateau Lafite on behalf of clients for a now bargain basement £1,600 per case. It sold the wine in the middle of last year for £16,500.

And this is not a flash in the pan. An investment monitoring group provides some fairly compelling numbers for the fine wine market as a whole.

Its data shows that had you invested around £21,000 in fine wine at the start of 2005 it would be worth almost £70,000 today. The growth rate of the FTSE 100 in the period was a piddling 2.9pc (see Graph A above).

Companies make their money by what's called turning over their cellar.

That means selling and booking a profit on the wines that have appreciated most, while bringing in younger vintages.

Where traditionally most investors have bought and sold wines on the basis of their Parker Points – the award given to each vintage or chateau by wine critic Robert Parker - Golding takes a different tack.

She doesn't ignore the rating system completely, but she is more interested in the potential re-sale value of the wine than its taste.

So she will often opt for lesser chateaus in search of that hidden gem. Lynch-Bages and Pontet-Canet are her favoured chateaus this year.

Driving that phenomenal rise in the wine prices, meanwhile, is the insatiable demand from Asia and its newly-minted millionaires.

“Once you have the jewellery, the car and the clothes, wine is the next big thing. It is great to show off because it is consumable,” says Golding. “The more the Chinese consume, the higher the price goes.”

The Chinese are also into stamps, another emerging alternative investment.

However the market for rarities such as the Blue Mauritius, one of the world's most valuable stamps, is still dominated by the West. “You have a number of passionate high net worth investors – in fact more than there has ever been – all trying to build exceptional collections,” says philately expert Michael Hall. “This is what's driving the rare stamps market.”

Hall is the chief executive of Stanley Gibbons, which owns the grand old stamp emporium at 399 The Strand, in London, a Mecca for collectors from around the world.

The company also produces an index that tracks the value of Britain's 30 rarest stamps – and it shows something quite remarkable.

Data stretching back to 1970 reveals there has never been a year in which the GB 30 Rarities Index has fallen.

Since 1995 the index has risen by more than 300pc, not only outperforming the FTSE 100, but property and gold as well (see Graph B above).

Without the monthly payments the entry level investment is £10,000, which is also the minimum required to set up your own cellar with Premier Cru.

Stanley Gibbons also specialises in collectables, which means Hall is in the ideal position to see the other odd and wonderful items being bought as long-term investments.

Historical documents are in demand, as are antique watches, coins and military medals, he says.

Former Tory Party Treasurer Lord Ashcroft is attempting to compile one of the world's largest collection of Victoria Crosses, which can fetch as much as £1m for the best specimens, Hall reveals.

Even Harry Potter is getting in on the act. 'First edition books are really popular and JK Rowling is highly sought-after, alongside Charles Dickens' a Christmas Carol and a Study in Scarlet by Arthur Conan Doyle, which first introduces the character of Sherlock Holmes,' the Stanley Gibbons boss adds.

'The whole market is benefiting greatly from these volatile times on the stock market.'