CREATIVITY AND ASSET MANAGEMENT: ALTERNATIVE INVESTMENT IN WINE

Cristiane Benetti, ICN Busines School – CEREFIGE, France
Sondes Mbarek, LITEM, Univ Evry, IMT-BS Université Paris-Saclay, France
Rossella Sorio, ICN Busines School – CEREFIGE, France

dx.doi.org/10.18374/EJM-24-1.4

ABSTRACT

The high volatility of equities, bonds, and derivatives in the wake of recent crises has prompted investors to be creative and diversify their portfolios by turning to new forms of investment. These include the so-called emotional investments represented by art and wine. These investments are no longer just of interest to collectors, but also to private individuals looking to combine passion and profitability, asset management and creativity. This article aims to demonstrate the extent to which investing in wine can be an alternative to investing in more conventional vehicles. We begin by outlining the particularities of the wine market, its tax system, and regulations. We look at the factors to consider before investing in wine, analyzing the advantages and risks inherent in this type of investment. We also look at the different ways of investing in wine: investment in vines (Groupement Foncier Viticole) versus investment in bottles of wine. As a result, we could observe that wine does not yield greater returns than financial assets, especially when the volatility of returns and transaction costs are taken into account, but when the taxation aspect has been taken into consideration, wine is a good investment.

Keywords: *Alternative Investments; Taxation; Wealth Management; Grand Cru; ethical investment; Responsible Investment; Collectibles, Wine**.***

1. INTRODUCTION

Today we can buy a Porsche Panamera or 4 Audi A50s for €200,000, but cars, normally, depreciate over time. We can also invest in 365 shares of Google or 5 bottles of Domaine de la Romanee-Conti Grand Cru, Cote de Nuits in France. We can also get around 5350g of gold and between 6.67 and 100 carats of diamonds, but we won't be able to drink or smell them.

When analysts and economists - in short, specialists - talk about financial assets and portfolio management, we systematically think of stocks, bonds, futures, and so on. We also often think of notions of rationality. On the other hand, we associate wealth management with wine and emotional investing much less often, if at all, when we're new to the subject. Indeed, at first glance, wine is not an obvious investment vehicle because it does not have the usual characteristics of a financial asset. First and foremost, wine is a tangible, consumable commodity that needs to be stored and cared for after purchase. It cannot be delivered electronically, only in the case of NFTs, but in this case it is not the wine physically, it is a contract. Nor does it pay dividends, interest, or other cash flows (Devine and Lucey 2011, Masset et al., 2015). The only income that can be earned from wine is capital gains (Burton and Jacobsen 2001). If we consider the NFTs, it exists the smart contract associated with NFT, in which the producer receives a percentage on each transaction (Morat, 2021). Wine investment seems to meet the concerns of individual investors, such as capital preservation and diversification, especially in times of economic instability. Investing in wine would therefore be more profitable than traditional financial assets (equities, bonds, and derivatives), but without the volatility of the usual alternative assets, while remaining within the reach of individual investors. The profitability of investing in wine stems from its limited supply: limited production from a restricted area to ensure the quality of the vineyards and a supply that diminishes over time as bottles are consumed. However, while wine is a financial asset in its own right, we must not lose sight of its specific characteristics and complexity. First and foremost, it is a passionate investment, a tangible consumer good that must be stored under very strict conditions to maintain its value. It is also subject to weather conditions, microbes, and wine-making accidents.