



PRACTITIONER'S POINT



Illi Adato, CEO, World WineXchange

UK based World Wine Exchange Ltd. introduced the world's first on-line wine trading floor. The World WineXchange is comparable to an international stock exchange and links wine merchants and stockists with wine buyers. Individual wines prices can be tracked real time by using the World Wine Index ticker. The service is offered free, and a 5% commission of the total transaction is charged from the buyer and seller.

What drives wine prices?

Wine prices too, are governed by the forces of supply and demand. For instance, the number of wine cases produced by the famed Châteaux is known (i.e. since the supply is limited, the ability to procure such cases of wine would have an influence on the price of the wine). A sought after wine, that is rare, can command a befitting price.

What role does speculation play in determining wine prices?

In order to speculate, a wine dealer would need to acquire a lot of stock of a given wine. Wineries and the wine trade discourage this behaviour by following an allocation system. For e.g. the famous French wines allocate their yield based on "tranches" – "negociance", wherein the first tranche wine dealers are given the first rights. This tends to make it difficult for a dealer or a company to try and acquire the entire yield. Although someone might attempt to acquire large quantities of a particular wine, from an investment perspective, it could be an expensive exercise and then, the returns may not be worth it.

What role do wine critiques play in influencing prices?

Not so long ago, a wine critique played a pivotal role and influenced whether a certain wine flourished or fell-out-of-favour. Robert Parker and his system of allocating points to wines had such an influence.

However, the trend seems to be shifting from basing a decision purely on the referral of a critique, to that of broadening the repertoire to include a panel of critiques. In the case of En primeur, (a French wine trade term for wine which is sold before it is bottled) individual company's tend to hire consultants, rely on panel tasters and may even have their own in-house judges to align their purchases with the overall wine selling strategy they pursue.

Just because a wine has pedigree, does it automatically acquire a certain price – even though an unknown wine would perhaps score better in a blind test?

In the context of wine that is being purchased as an investment; recognised estates - especially the renowned French Chateaux - still have the ability to command a premium. In the case of blind tasting wines that score well, they may appreciate in value over time - but the upside has tended to be contained. These wines tend to be acquired more for the purpose of pleasure and by those that are passionate about uncovering and enjoying a great wine. A case in point was the "Garage Wines" of Saint Emilion. Owing to their complexity, these wines scored well in a wine tasting, but did not really "pay off" from an investor's perspective.

Would you say there is a constant "inefficiency" in that the taste of the wine does not do justice to its price?

It is subjective and is governed by whether one is buying the wine portfolio for "profit" or for "pleasure".

How do you recognise wine trends?

I believe it is difficult to identify trends because there is a lot of twisting, turning and shifting in the wine market. From a taste perspective, I think wines from the Mediterranean (the origin of wine) are poised for a Renaissance. I am intrigued by the new flavours offered by wines from the Eastern Mediterranean - Greece, Lebanon, Israel. The entire basin holds promise. Some of my favourites are "Gaia" from Greece, "Castel" from Israel and "Musar" from Lebanon to name but a few.

If one were to design a portfolio for passion and for it to pay, which wines would you include and why?

Wines comprising the investment part of the portfolio tend to centre on the famous French names, the well established Italian and American wines that have a track record. Factors such as a wine's pedigree, scarcity, vintage year and at what price it was bought play a crucial role in its ability to reap rewards. The more interesting component lies in buying wines for pleasure. The motive here should be enjoyment and discovering ones own style. These wines tend to be affordable and allow one to experiment and better educate one's taste buds. From a pure investment perspective, the risk can be lowered by acquiring expertise. Work with someone that has been in the business and really understands and knows what they are doing. Inability to pick the "right" bottle could in the worst case – still mean you could drink it!