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Jefford on Monday: Margaux and the Wincanton Donkey

When, back in August, the UK's Financial Services Authority (FSA) published proposals to ban the promotion of Unregulated Collective Investment Schemes (UCIS), the Financial Times' Lex columnist interpreted it as "a ruling that the masses are too stupid to invest in assets such as wine or classic cars".



Good copy, but liable to misinterpretation: note that the masses, stupid or otherwise, will be allowed to continue to invest in wine down to their last penny if they wish. All that seems likely to change, should be proposals be adopted, is that independent financial advisors will no longer be able to advise 'ordinary retail investors' to put their money into a UCIS. Some existing wine funds are indeed UCISs, but all of those I have spoken to claim that they are only targeting what the FSA calls 'sophisticated investors and high net worth individuals' in any case, and that few of their customers reach them via independent financial advisors. "The 'unsophisticated investor'," says Peter Lunzer of Lunzer Wine Investments, "can always indulge in unregulated activities such as horse racing. The FSA evidently feels that no warning is necessary about their investments being at risk should number 4 in the 2:30 at Wincanton prove to be a donkey."

The two main issues surrounding wine investment right now, in other

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words, remain unaffected by this ruling. The first of those issues is that wine continues to prove a perfect vehicle for scamsters to fleece the unwary. The second is that wine investments have rarely, over the past two decades, looked quite as dismal a prospect as they do at present.

If you are interested in scams, I recommend a look at the FSA's [website](#), where a few clicks will quickly reveal the full horror of this multi-billion-pound business. Wine is just one of the many lucrative fields for thieves to Hoover money from the credulous; share fraud, land banking, carbon credits and 'affinity fraud' (where fraudsters join groups to win trust first) are all booming. The internet has been a priceless gift to fraudsters, and the names on the vast list of 'unauthorised firms and individuals' published by the FSA is testament to the ingenuity of the criminal mind.

The sanction of the law in these cases comes, almost by definition, too late -- once victims exist. No ruling made by the FSA will ever inhibit those who have no intention of playing by the rules in the first place. Wine investment scams will continue, therefore, as long as legitimate wine investment continues to provide attractive returns, thereby furnishing scamsters with their chat-up lines and the gullible with their illusions.

At present, of course, there are no attractive returns: all of the Liv-ex one-year indices are down by between 16% and 28%. This is good news for those idealists who view wine investment as fundamentally parasitical and inflationary, and bad news for recent investors. (Long-term investors could still take attractive profits.) Will the market continue to tank?

Those managing wine funds remain professionally optimistic, pointing out that the Chinese government may reduce mainland duty rates to combat smuggling (a leading broker told me last week that he was certain that 95% of the wine his company sold to Hong Kong was smuggled into mainland China), and alluding to last year's Indian government proposals to reduce its own dissuasively high import tariffs as part of the India-EU Free Trade Agreement. "Either of those," claims Peter Lunzer, "would increase prices back to their 2011 peak in a wonderfully short period of time."

Those selling 'investment grade' wine, though, confirm that the real reason for the price falls is the flattening of what was formerly a 'crazy' Chinese market. "It had to happen, really," said Tom Hudson of Farr Vintners. "It couldn't continue like that. A year ago, people were desperate just to buy a case; now they haggle, and want the cheapest price on the market. But we're still selling wine; people are still buying -- to drink." This, Lunzer suggests, "takes us back to the age-old principle that as stocks are depleted, so prices rise - if demand exists. Stock depletion will be considerably affected by price and since prices has softened recently, a whole raft of people will feel they are able to afford to have a sip of wine which they may have previously felt were beyond their reach - and the cycle starts again."

One could also, of course, point to slowing Chinese growth, rising US and European unemployment, the end of the resources boom, coming global food shortages and the seemingly endless euro crisis swelling the number of wine lovers who are not able to afford a sip of 'great wine' under any circumstances any more. On balance, I feel, the glass is probably half-empty just now.

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