Portfolio *Confidential*

Barbara Stewart

I read an interesting article in the New York Times recently about the possibility of a "market melt-up". The article quotes Edward Yardeni, the independent Wall Street economist and strategist: "At the moment, he said, the market is "sort of, kind of, in a melt-up." Referring to the sharp stock downturn earlier this year, he added, "Just look at the way this correction has been reversed, it's been a melt-up." Stock valuations are "pretty rich," he said, and people in the markets are "back to believing" that artificial intelligence is "a miracle technology."

Yardeni estimated a range of "subjective probabilities" for the stock market. There is a 60% chance that the bull market will continue, he said, a 25% chance of a bear market caused by a recession, and a third possibility: a 15% chance of a melt-up. In a melt-up, stocks would spiral much higher, generating big gains on an unstable base. The gains would be wonderful. But any provocation or disruption could set off a severe downturn.

What's your opinion on this? Are stocks fairly valued? As an average investor, should I be buying or selling?

I'll start by saying I'm flattered that you would think I had any idea whatsoever as to whether an average investor should be buying or selling…either now or at anytime! During the time I was studying to become a Chartered Financial Analyst I certainly read enough research to scare me off the concept of trying to time the market. I particularly loved that famous book by Charles Ellis "How to win the loser's game." While it is way more exciting to talk about cool companies and making big gains on our stock picks, long-term investment success really depends on not losing — not taking major losses. The best way to avoid that? Stop guessing as to which way the market might go and make a commitment to be an investor for the long term. Trust me, I've learned this the hard way. Better to stick to your boring plan.

Having said this, if you still feel the need to make a bet, Yardeni (the president of Yardeni Research and the former chief economist for Deutsche Morgan Grenfell) is pretty credible in the industry so look at his projections. A 60% chance that the bull market will continue plus a 15% chance of a melt-up equals a 75% chance of the market continuing to move up!

It was interesting to read in one of your recent columns about how to invest in fine wines in various regions around the world. I am intrigued but a bit skeptical as you mentioned that the wine industry is unregulated. How can an investor discern which platforms are legitimate, and minimize the risk of counterfeit fine wines?

What are the red flags I should look out for?

I seem to be becoming rather well-connected in the world of wine (and yes, I am a consumer!) – this time I reached out to another industry professional for his take on this great question. Johan Malan is the Head of Bordeaux, Investments and Brokerage at Wine Cellar and also the Co-Founder of Bond Wine in Cape Town, South Africa:

“Investing in wine shares similarities with traditional asset management but requires specific considerations and guard rails. Track record and industry references are crucial for assessing legitimacy. A key nuance is understanding the retail side of fine wine. Partnering with a platform or manager experienced in wine trading provides assurance, as they understand market dynamics and liquidity.

Wine’s investment value hinges on supply and demand—its worth depends on firm market prices and the ability to sell. Many wines are labelled “collectable,” but without an active secondary market willing to pay a premium for age or rarity, there’s no real investment case. Age alone doesn’t guarantee value.

Liv-ex, with over 875 million data points, has increased pricing transparency in fine wine markets. At Bond Wine, a partnership between Wine Cellar and Shire Capital, we leverage Liv-ex data to manage a portfolio of fine wines securitized through an Actively Managed Certificate (AMC). This allows secure, anonymous investment with Swiss regulation and access to major wine exchanges for optimal liquidity.

Our retail expertise ensures value for investors. Greater pricing alignment across retailers exists today compared to decades ago, making it easier for consumers to spot suspiciously cheap or overpriced wines. If an offer seems too good to be true—especially claims of guaranteed high returns in today’s depressed fine wine market—it likely is. If someone is offering you “guaranteed growth of 25% per annum”, tread carefully.

Trust is central to the wine industry. Consumers rely on merchant recommendations or critic reviews, and this extends to investment. The fine wine world is smaller than mainstream finance, allowing personal connections with those managing your funds. This relational aspect, combined with wine’s emotive nature, sets it apart. Sharing a bottle while discussing investments is unique—unlike gold or equities, wine engages investors on multiple levels. I’ve never had emotive discussions over a glass of gold, copper, derivatives or equities!

Wine investment takes two forms: for personal consumption or asset growth. Investing for consumption means buying wines on release, storing them properly, and enjoying them later when prices rise due to scarcity. You benefit by owning them at the original price. Investing for asset growth treats wine as a diversification tool, uncorrelated with traditional markets and resilient in downturns. These wines are typically stored offsite with a manager, focusing solely on capital appreciation.

In summary, wine investment requires understanding market dynamics, verifying liquidity, and building trust with experienced partners. With proper management, it offers a compelling alternative asset class.

Do you have questions about your own investment portfolio?

Consider calling The Rich Thinking® Financial Advice Hotline. This will be a win-win: you get a free 30-minute confidential Zoom chat offering an independent, unbiased perspective on your financial situation with no sales pitch! In exchange. I get to use the anonymized data that will come from these conversations to make my Rich Thinking research even better.

Email me to book your Zoom discussion: ***barbara@barbarastewart.ca***