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SWAG: the industry's latest acronym

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Following BRICs and CIVETs, Joe Roseman identifies the next acronym to hit the investment world as silver, wine, art and gold (SWAG) punch well above their weight.

A few years ago, Jim O'Neill of Goldman Sachs almost revolutionised the way many people thought about emerging markets. He coined the term 'BRICs'. It is successful because it works on so many levels.

Investing in the BRICs has become an asset class of its own.

This got me thinking about asset classes generally and just what it is that differentiates one asset class from another. And, once I got started thinking about that, I started to think about how specific asset classes had performed. Some assets, in particular, stood out to me as ones that had performed especially well over the last decade or so, despite two very deep recessions. Silver, Wine, Art and Gold. These assets have punched way above their weight. The SWAGs.

A lawyer friend of mine called me up a few months ago to tell me about an article he had read. Apparently, the best performing wine over the last 20 years when held for a five-year period was a 2004 Carruades de Lafite. This wine had appreciated by 3000-4000% over the defined five-year holding period. Starting at £140 a case, it now trades at over £4,500. It does not even taste that nice.

Notwithstanding the peculiarities of Carruades de Lafite, fine wine has exhibited a very strong asset performance over the last decade. The Liv-Ex fine wine index is up almost 300% over the decade.

The story for gold is well-known. But whenever one can get in a dig against Gordon Brown, one should not pass up the opportunity. From the low point of $250-300 a decade ago, where Gordon Brown decided to sell the UK's holding of gold, gold has appreciated some 600%-700%. Silver has put in a similar performance.

Art is a tougher asset to nail. All-time records are being set at Christies and Sotheby's for Picassos, Moores, Hepworths, Rodins and other such classic artists. The more well-known and prestigious the piece of art, the greater the price appreciation appears to have been. The Artprice Global Index takes an average, and shows that fine art as a whole has appreciated by 120% over the last decade.

Obviously, the nature of each asset has its own fabric and character, but they all share a similar characteristic. Namely, notwithstanding two global recessions, a severe global banking crisis, a credit crunch and (generally speaking) highly volatile and mostly negative equity market performance, they have all appreciated quite sharply with a relatively limited volatility given the size of their appreciation.

The FTSE All-Share index, by comparison, stands almost at the same level as a decade ago.

If held within a portfolio, the SWAG assets have provided a tremendous boost to an otherwise lacklustre portfolio mix of equities and bonds. And that is what got me thinking about a new type of asset class. OK, it is not as intellectually rigorous as Jim O'Neill's BRICs, but I believe there is some merit in thinking about allocating a portion of any portfolio to the SWAG grouping. Everyone needs some SWAG.

But what is it about the SWAGs that has allowed its investment performance to be so strong? One way of looking at this question is to identify the common traits of each of these assets. What do they all have in common?

1) They are all physical assets.
2) They all have longevity – Lafite will last for 50 to 100 years.
3) There is no incumbent debt associated with the asset.
4) They are transportable and relatively easy to store/hold.
5) There is scarcity – a finite supply.
6) There is no income stream – so no income tax liability.
7) Asset performance seems relatively uncorrelated to equity markets.
8) A sovereign default would not alter any of the above traits.

SWAGs, it seems, all carry a similar DNA. I am a big believer in the idea that no asset class is too risky. Risk is virtually all in the size of the allocation to an asset.

Given the scale of the price increases in SWAGs, it seems sensible to me to have them in a portfolio in one guise or another. Gold and silver already have active ETFs. There are several art funds that can be purchased and similarly one can invest in fine wine through specialist funds. Each of these assets can be used in a financial or portfolio capacity and is open to the small investor.

I have read the views of many economists who tend to class SWAG-style assets as not 'proper' assets because they have no income stream. Such thinking is, actually, tremendously naïve. To define an asset as needing an income stream fails to appreciate the very essence of an asset.

Similarly, many economists argue that assets such as SWAGs cannot be valued objectively because they have no income stream. Well, again, I see that as naïve. Analysts have no problem in valuing an equity that pays no dividend based on its P/E ratio. Why can the SWAGs not be valued on a similar basis? What is the P and what is the E, I hear the sceptical economists saying. Well, the P is the price of the asset, and the E? Well, that is the global money supply.

As the global money supply rises and with real interest rates across the industrialised world negative, then the SWAGs get driven up in price. The more money printing there is, then the more investors will look to protect and insulate their investments by allocating to assets that have SWAG qualities.