THE WALL STREET JOURNAL.

MARKETS

The Best Investments of 2018? Art, Wine and Cars

Luxury assets have outperformed stocks and bonds this year

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Updated Dec. 31, 2018 11:29 a.m. ET

Who beat the market this year? Investors who like the finer things in life.

Luxury assets, including wine, art, classic cars and fancy colored diamonds, have outperformed stocks and bonds this year.

"People are looking for a place for their cash, and the security of holding something physical is appealing," said Anthony Maxwell, director at Liv-ex, the London-based wine exchange. "They are looking outside securities, and gold is not what it used to be."

Investors who put money into art at the beginning of the year saw an average gain of 10.6% by the end of November, according to Art Market Research's Art 100 Index, the closest thing the industry has to a benchmark.

In November, David Hockney's painting of a man in a pink jacket by a swimming pool set a record for a living artist at auction, selling for $90.3 million at Christie's New York.

Those investing in wine have seen a 10.2% gain this year, according to the Liv-ex 1000 index, a broad measure that covers wines across regions.

Meanwhile, global stocks have tanked in the past quarter, reversing gains earlier in the year, as analysts fret over slowing global growth and trade tensions between the U.S. and China.

Investors who put money in the S&P 500 at the beginning of the year have lost 5.1%, based on estimates of total return. Those seeking refuge in cash equivalents have gained 1.9% this year, while those holding gold have lost 2.2%.

Yet, the fall in stocks is a recent trend. Analysts say equity markets may well strengthen in the coming months, while the trend for luxury investments could reverse.

"Wine is something to drink and enjoy, and art is something to appreciate," said Robin Creswell, managing principal at Payden & Rygel, a Los Angeles-based asset manager. "You might enjoy the updraft of higher prices in beneficial markets but you shouldn't be surprised if there is a downdraft."

Meanwhile, those who own luxury investments can revel in their relative staying power.

"They will always have some sort of market because somebody loves them," said Andrew Shirley, a partner at global real-estate consulting firm Knight Frank and editor of the group's

Wealth Report. “With a share, there is no sense in owning it for the sake of owning it.”

The market for high-end diamonds has been steady, gaining 0.4% in value in the first three quarters of 2018, according to the Fancy Color Research Foundation in Tel Aviv.

Eden Rachminov, chairman of the FCRF, a diamond-industry body, says the gemstones can help diversify an investment portfolio and there is almost no volatility in prices.

There are risks involved in holding alternative assets, from regulatory reform to changing tastes, such as a recent shift in demand beyond traditional Bordeaux wines to top-end Burgundy and other varieties.

And the wealth effect that people feel from higher stock markets can reverse itself quickly.

“If people make money on the stock market, they have more money to spend on their hobby,” said Dietrich Hatlapa, director of Historic Automobile Group International.

Luxury-car prices were down slightly this year, according to HAGI’s Top Index, which covers rare collectors’ automobiles—a correction, Mr. Hatlapa says, that was expected given the rate at which investors poured money into the vintage-car market following the 2008 financial crisis.

“They decided to allocate more to classic cars as part of their portfolio because they couldn’t find returns elsewhere, but there are more alternatives as interest rates normalize,” he added.

Cars have been the best-performing luxury investment over the past 10 years, gaining 289%, according to a report published by Knight Frank earlier this year. Coins gained around 182%, wine 147% and jewelry 125% over the same period, while antique furniture and Chinese ceramics lost value.

Emerging markets represent a large part of demand growth for luxury assets, leaving prices vulnerable to moves in currency markets too, analysts say.

Wine analysts point to the boom that followed the United Kingdom’s decision in 2016 to leave the European Union. Political uncertainty over Brexit dragged on sterling, the main currency for trade in wine, creating a buying opportunity for international investors.

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