Chapter 52
The Impact of Unconventional Monetary Policies on Unique Alternative Investments:
The Case of Fine Wine and Rare Coins

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ABSTRACT

This chapter investigates the impact of central banks' unconventional monetary policies on sectors of unique and traditional alternative investments beyond the stock market. More specifically, authors examine how quantitative easing (QE) programs, imposed by the FED and the ECB during the financial crisis, affected the fine wine market and rare coins in comparison with real estate, commodities, and crude oil. The methodology used in this chapter includes multiple regression analysis. As dependent variables, the LVX 50 Index, the Rare Coin Values Index, the REIT Index, the CRB Commodity Index and the Crude Oil Futures Index, are used for each sector respectively. Our empirical analysis shows that the QE programs applied had different outcomes between our sample markets. Thus, investors should evaluate the signals associated with the announcements of prospective monetary policies in their attempt to achieve a sufficient portfolio diversification and to harvest superior returns at the same time.

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INTRODUCTION

Since the outbreak of the global economic crisis in 2008, many economies have been forced at different times to adopt new policy measures in order to maintain currency and financial market stability. A low interest rate environment encourages households and companies to borrow, consume and invest, which boosts domestic demand and should therefore have a positive effect on Gross Domestic Product growth. Central banks aim to strengthen business sentiment, which is a necessary condition for future investments. The Federal Reserve (FED) and the European Central Bank (ECB) have been key players in trying to provide added value to their citizens-monetary policy actions to support growth in employment, investment and consumption. Moreover, they have undoubtedly protected their currency from further exogenous shocks and the financial system from disturbances.

Central banks' policy measures include enhanced credit support, credit easing, quantitive easing, interventions in foreign exchange and securities markets, and the provision of liquidity in foreign currency. These tools have been used to support the functioning of the financial sector and to protect the real economy from the fallout of the financial crisis. Announcements related to the FED's three rounds of the Large-Scale Asset Purchase Program (LSAP), Securities Market Program (SMP), Outright Monetary Transactions (OMT), Covered Bond Purchase Program (CBPP), Public Sector Purchase Program (PSPP), also known as quantitative easing (QE) programs, consisted of suggestions of possible future purchases, firm statements of planned purchases, including time-frames and quantities, and announcements of purchase slowdowns (Neely, 2011). These announcements changed market expectations of future asset purchases by the FED or the ECB and, in consistency with the efficient market hypothesis, immediately affected asset prices, as well as real estate, purchases of goods, crude oil, wine market and rare currency values.

The purpose of this chapter is to evaluate the effect of central banks' unconventional monetary policies on sectors of unique and traditional alternative investments beyond the stock market. In particular, we investigate the impact of QE, implemented by the FED and ECB during the financial crisis, on wine market, rare coins, real estate, commodities and crude oil. The aim of our study is to compare the effect of QE programs on unique alternative investments with the effect on traditional ones. Given the remarkable growth of alternative investing over the last decades, this comparison is essential in order to verify how unique alternative markets react in relation to traditional ones, especially in turbulent time periods when financial stability is at stake.

The methodology used in our analysis encompasses multiple regression analysis. As dependent variables, the LVX 50 Index (Fine Wine), the Rare Coin Values Index, the REIT Index (Real Estate), the CRB Commodity Index and the Crude Oil Futures Index, are taken into account for each sector respectively. As independent ones, dummy variables, representing the impact of several QE programs are formed. In the case of programs imposed in the Euro zone, two periods are taken into consideration. The first period entails the Securities Market Program (05/10/2010-09/06/2012) and the Outright Monetary Transactions (07/26/2012-09/06/2012). The second period consists of the Covered Bond Purchase Program (10/20/2014-Dec.2018) and the Public Sector Purchase Program (03/09/2015-Dec.2018). Regarding the programs initiated in the U.S., four phases (2008-2010, 2010-2012, 2012-end of 2012, 2013-2014) associated with the LSAP, undertaken by the FED, are constructed.

Our analysis shows that the QE programs implemented by the EBC had mainly a negative but statistically insignificant impact on the various sectors, irrespective of the period covered. On the other hand, the programs executed by the FED had a mixed effect on the returns of the indexes and several