

Natural coloured diamonds - investing your fun money

These rare stones are a feast for the senses, says jeweller Alan Bronstein of Aurora Gems. But are they also a good investment?

Q: I don't want to put my money in equities, bonds or property, so I'm tempted to invest in diamonds, but I'm concerned that coloured ones are too niche. Can they be seen as an investment?

A: Like many collectables, diamonds have taken on a mythic aura as a speculative investment over the last 32 years, since I started in the trade. In my opinion, diamonds should not be called an investment at all. A small percentage of them can be considered a "store of value," and coloured diamonds are a small and very niche market from an investor's point of view. To say coloured diamonds are an investment is like saying paintings are an investment. It is too generic. What paintings, what diamonds have this potential? Every one must be analysed by its individual merits, desirability and appeal.

Q: I have read that the diamond price has increased, but will it stay high?

A: Supply and demand in the diamond market are largely controlled by the big mining companies, who carefully control the release of their products. Coloured diamonds of two carats and larger have become such valuable commodities to the miners that they have taken to selling them through "tenders," an invitation-only auction of sealed bid offers. This has increased speculation from gem cutters, and end customers have come to expect higher prices. Between 2007 and 2012 prices increased as investors looked for safe havens. However, right now they have plateaued, or are even falling.

From an investment point of view, where someone enters the market is as important as where they exit or get liquidity. Past performance is no predictor of future results, but it may offer a glimpse of the potential. In 1980, no one could have predicted that a 20 carat deep blue diamond would be offered for \$100,000 per carat, or that \$2 million invested then would be worth between \$20 and \$40 million in 2012, based on public auction sales information.

Q: With new mines opening up all over the world – Africa and Mongolia, for example – isn't it certain that the price of diamonds will fall as supply rises?

A: The mega mining conglomerates that control a majority of the resources will not allow a glut to form on the market. Look at what happened in 2008, when demand increased. The mining companies drastically reduced their output by either hoarding the mined stones (as Russia did) or leaving them in the ground (like DeBeers did) to let the softening market absorb the worldwide stock.

Will supply increase? The first diamonds were found in India roughly 2,000 years ago, and that mine was exhausted nearly 300 years ago. Since then, only around 30 places have been found where diamond mining can be carried out profitably, based on current valuations. In all probability new sites will be found, but diamond mines have a lifespan of approximately 25 years. Natural coloured diamonds are anomalies that form in the same mines as the



colourless and near colourless diamonds that make up the relatively small \$10 to \$15 billion-a-year rough diamond market. Only a fraction of them will maintain any intrinsic value or investment potential. The rest are strictly for industrial use, or for fashion jewellery. In short, supply is limited; it is demand that drives value.

Q: Are some colours more valuable than others? What gives coloured diamonds their value – colour? Size? Clarity?

A: There is a presumption of a hierarchy of values of coloured diamonds. Some people suppose that if a certain colour of stone is rarest, then gems of that colour must be more valuable. But it is more complex than that. The value of a coloured diamond is not what investment analysts preach with

irrelevant graphs of past events predicting the future. The only reliable source of public information comes from auction sales, an extremely small pool of information. Valuing diamonds is like valuing art. What made a painting by Klimt worth \$135 million to Ronald Lauder? The owner wanted a price. Lauder wanted it and put his money where his mouth was. Does that make every Klimt worth \$150 million? Are Klimt's paintings now more beautiful, desirable, or valuable than Picasso's? This is how the world of ultra-valuable painting works, and also the world of coloured diamonds. It is good to have as much information as possible and to do comprehensive due diligence before buying, but a diamond's value is not based on knowledge alone; feeling and personal emotion carry the weight.

Q: When buying diamonds, should I think of them primarily as an investment, or should I buy for love – should I use my “fun money”?

A: Diamonds are for “fun money”, for joy, for love, for pleasure, for collecting, for wearing, for sharing their unique beauty. Very few people ever realise a profit from luxury investing. Most people of financial means don't buy their cars, homes, art or wine because of expectations of what it could be worth. They want to enjoy the things they have. Live with them, use them, share them. A special (to you) coloured diamond is meant to make you smile, not make you money. Twenty years of pleasure is valuable to me. People who consider their investment potential - which is a very real long-term possibility - need serious knowledge of the product, or an adviser who does.

Q: Why should I buy coloured gems over wine or art, cars, gold or silver?

A: You shouldn't buy coloured diamonds

instead of any other commodity. You should add them to your list of luxury investment classes; you should consider them as another option. They may not be fungible like stock certificates or gold in a bank vault in Switzerland, but coloured diamonds have been proven to maintain “intrinsic value”. Once you drink your delicious Bordeaux, your investment is gone. Driving a Ferrari is a tremendous rush, but seeing and holding an exquisite coloured diamond makes my heart beat faster than any car can. Beyond a guarantee of future value, one could want to own diamonds for various reasons: for their portability, for portfolio diversification, as a store of value, to preserve wealth, because of their decreasing availability, or because they are an international form of wealth.

Q: I worry about buying blood diamonds. How can I be sure that the stones I buy aren't funding conflict? How can I be sure about the source and age of stones?

A: The term “blood diamonds” is a very disturbing concept to describe diamonds that have brought misery to countless people caught in the seemingly endless wars in African countries where they are mined. To anyone with a conscience, they are an anathema, a source of disgust rather than love. Diamonds are not alone in being used to fund war, however. People rarely refer to “blood gold”, although it certainly exists, and all valuable metals and gems can be so-called “conflict minerals.” Because of the symbolism of diamonds and their potential value, they carry the burden and stigma of this human tragedy. There has been a monumental effort over the last 10 years to eradicate conflict diamonds, but there are still pockets of illegal mining and rogue countries, like Zimbabwe, that do not care about public opinion or ethical mining. As governments become more stable and

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democratic, this should become a non-issue. Bear in mind that diamonds have been mined for 2,000 years: it is impossible to know the history of these stones. All we can guarantee is that if you buy diamonds mined from today it should be possible to be sure that they were ethically mined.

Q: If I want exposure to diamonds, I could invest in diamond mining companies or jewellers. Why should I buy physical stones?

A: The point of making money on investments is to have more money to enjoy, and hopefully to create a positive legacy. The true value of ownership is the joy that our possessions give us. Humans collect many different things, because we want to surround ourselves with beauty, love and happiness, and for centuries jewellery and jewels have been among the most collected of all items, all over the world. A coloured diamond is a feast for the senses: you can feel the energy and emotions exuding from the colours, and metaphorically smell and taste the colours' flavors. There is no better investment for improving the quality of your life.



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