Nostradamus and Diamonds

What Are The Investments of The Future

Everybody wants to know the secrets of tomorrow. The great prognosticators and soothsayers of financial institutions pump out projections based on past performance, hypothetical beliefs and total fairy tales. Even now there is information about the next financial shock wave that will manifest soon that no one wants to talk about in the commercial real estate insolvencies when these loans come due, in order not to create a further state of panic among worldwide investors right now. We need to sift through the eloquence of these convincing storytellers with due diligence and our own intuition. Though there may be indications for the insightful, no one really can predict the future; there is no sure thing for investors. It is human nature to be hopeful but we cannot be blinded by false prophecies of endless wealth creation.

One of the greatest storytellers of history, the futurist Nostradamus, had quite a following in his day, and still 500 years later, some intelligent people believe in his concepts as if he were a harbinger of events. Yet by his own admission in the year of his death in 1566, he wrote " I do but make bold to predict (not that I guarantee the slightest thing of all), not that I am foolish enough to pretend to be a prophet."
His metaphors are interpreted to fit the motivations of those who wish to exploit others through fear or naivety.

It is not surprising that investor confidence has been shattered over the last 10 years as the leading strategists led us like sheep to slaughter through the high tech bubble of 2000, the real estate meltdown that began in 2007 that continues today, the ensuing banking crisis and stock market collapse of 2007, and the outright fraud of some of the most powerful people we trusted for advice and protection, like Madoff. At the height of our unsustainable growth driven by over-consumption, free credit, over-exuberance and blatant corruption, on October 7, 2007 the Dow peaked at 14,165 points; oil reached $150 a barrel and gold traded at $800 per ounce. At the bottom of our latest stock market crash on March 9, 2009, the Dow had fallen to 6550, oil was trading at $40 barrel and gold became a haven at $940 per ounce. It was widely assumed till this time there was a correlation between oil and gold prices. As the price of oil became unaffordable and thus unusable (most Americans could not afford to drive at that price), the world looked for other places for commodity investment and gold has become the safe haven for tangible assets rising in 3 years from $800 to $1400 per ounce. It looks like a safe bet and yet it is frowned upon by the most successful investor of all time, Warren Buffet.

It's hard to keep up with all the advice.

Since these events, governments of the industrial world have had no choice but to print trillions of paper dollars to provide a safety net against this deflationary spiral which has been a bailout to purge of some of the make-believe assets in the world. This has temporarily eased the pain for some while creating new potential for financial distress ramping up, by trying to keep a balance between the dangers of inflation and deflation. As the largest debtor in the world, the United States and its citizens cannot expect the rest of the world to always accept our devaluing paper as compensation or fair trade for other goods and services. The Euro is in the same situation of trying to maintain currency value while injecting trillions of cash into their unsustainable market approach. As we speak, Brazil a growing economic force, is threatening a trade war because it believes that the US and China are manipulating the currency market and their resources are going down in value as exports are paid in US dollars. The rise of the stock market to its present value has been supported by the present influx of newly minted money. Our nation collectively is $14 trillion in debt. How can this be sustainable? It's not, but of course, America will not disappear. As a society we may not maintain the same standard of living for the middle class and below. And wealthy individuals should be looking at diversifying portfolios that protect wealth as much as grow wealth. Changes in economies, international politics, cost of labor, third world and emerging markets taking greater control of natural resources and commodities has caused a seismic shift in the future of wealth distribution and formation. Poorer countries will grow richer and rich countries will slow down from the rate of growth they have known for decades. We cannot expect China and Russia and South America to continue to horde our currency so we can sustain our standard of living as a society. We must think more on an international scale as to what has value to others. What can we offer in trade that is desirable to foreign nationals if it were necessary? Beyond the labyrinth of analytical statistics, we must consider how we approach the short term and long term of wealth creation and wealth protection. And if we need to monetize some kind of asset for instant liquidity worldwide, what will be the options for the future. How much gold or dollars can you carry in your suitcase? There is a very strong case for natural diamonds to be just one tiny part of this equation. It has been developing for the last 30 years with most diamonds characterized as commodities through grading nomenclature and price matrixes that have taken root during this period of market evolution. Relative to wealth both domestically and internationally, potential investment diamonds are a small and niche market accounting for about $15-$25 billion a year at current consumer value. This number breaks down substantially when niche areas within the diamond sector are focused on. That means there are specific areas in diamonds that have more potential for investment growth and others that could be a store of value long-term.

What is the future of this form of wealth?

Next: The Logical and The Illogical Reasons For Owning Diamonds.