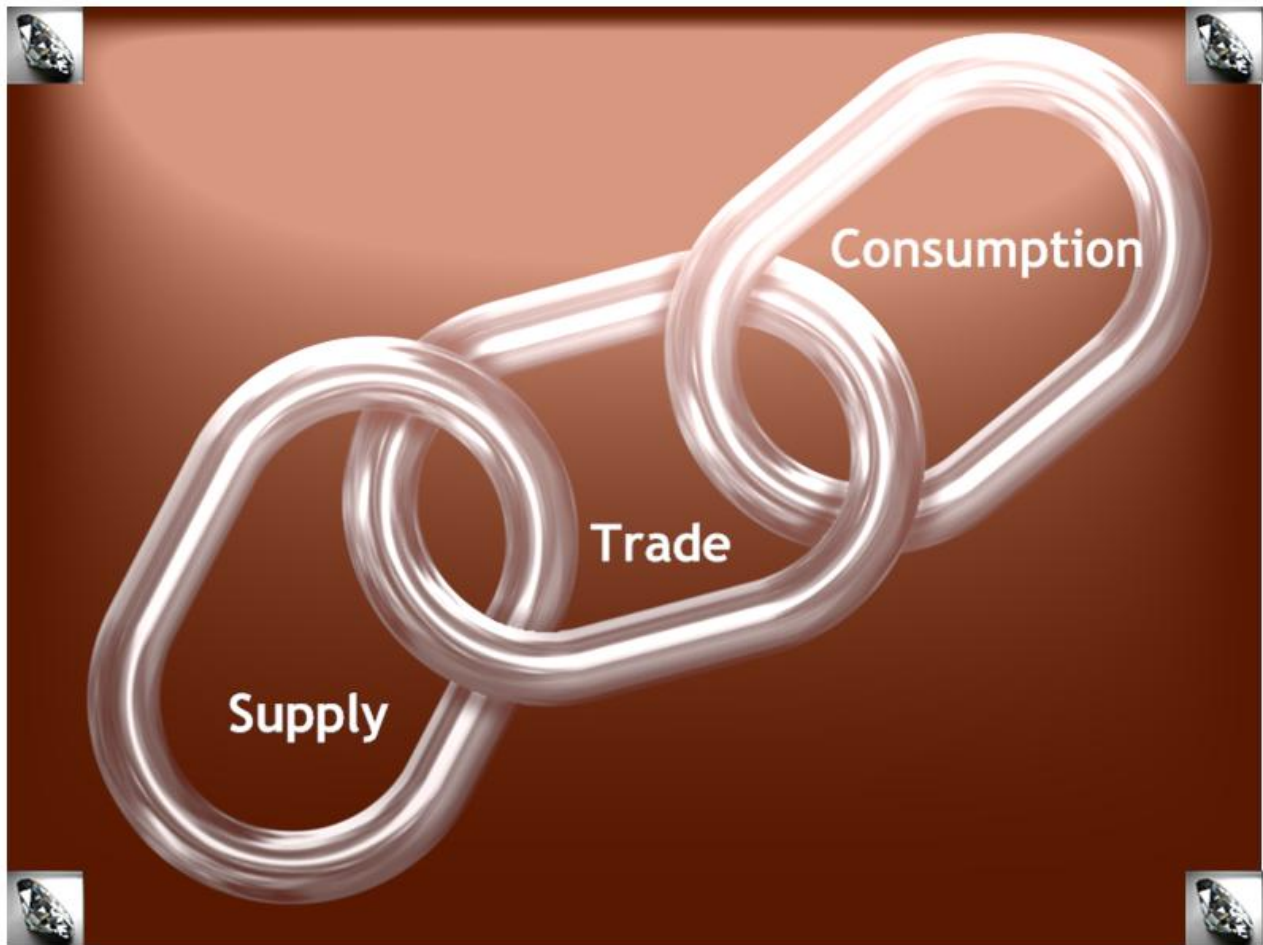


# Special: Investing in Diamonds



Adapted from *Global Diamond Business 2014 report*

Published to [www.diamondshades.com](http://www.diamondshades.com) by Equity Communications

# Contents

## Contents

<b>Trading of Investment Grade Diamonds</b>	<b>1</b>
Diamonds For Investors	1
What Makes A Diamond Rare?	2
Exhibits: Typical Examples Of Investment Grade Diamonds	5
Typical Properties Of Investment Grade Diamonds	8
Most Popular Diamonds For Investment Holdings	8
Typical Valuation Premiums For Investment Grade White Diamonds	9
Investment Funds For Diamonds	9
Annual Returns - Investment Grade Diamonds	10
The Promise Of Investment Grade Diamonds	13

## Catalog of Charts, Tables and Exhibits

<b>Trading of Investment Grade Diamonds</b>	
Diamonds for Investors	
Exhibit 1: An Exceptional 25.5ct Blue Diamond	1
What Makes A Diamond Rare?	
Table 1: Color Scale for White Diamonds	2
Table 2: 12 Basic Hues for Colored Diamonds	3
Table 3: Clarity Grading Scale	4
Table 4: Alrosa 2013 Diamond Sales by Weight Class	4
Special Exhibits: Typical Examples of Investment Grade Diamonds	
Exhibit 2: Gem Diamonds - Top 9 Diamonds Sold in 2013	5
Exhibit 3: Argyle Red Diamonds	6
Exhibit 4: D Color Flawless and D Color Internally Flawless	7
Table 5: Typical Properties of Investment Grade Diamonds	8
Table 6: Diamonds Most Commonly Traded For Investment Purposes	8
Chart 1: Different Premiums for Investment Grade White Diamonds	9
Chart 2: Value of Magnificent Diamond by Graff Diamonds 2005 versus 2012	11
Chart 3: Value of Archduke Joseph Diamond 1993 versus 2012	11

# Trading of Investment Grade Diamonds

## Diamonds for Investors

First, a definition.

Investment grade diamonds are simply **prestigious rare diamonds desired by the wealthy**. They generally rise in value over time.

### Exhibit 1:



*The Cullinan Mine in South Africa has been an impressive source of ultra rare diamonds since 1902. However, recovery of such rare diamonds has always been random and unpredictable.*

Rare diamonds are the driving force of the whole diamond industry value chain. Consumer demand for rare diamonds as a premium luxury product has remained strong for many centuries, to the continued benefit of diamonds that have more common availability.

Historically, demand for rare diamonds has relatively always been steady and sales are determined by the purchasing power of the world. Furthermore, exceptionally rare precious stones - whether diamonds or emeralds - traditionally cannot have a fixed price and each transaction becomes a matter of negotiation between buyer and seller.

# Trading of Investment Grade Diamonds...

## What makes a diamond rare?


The value of a diamond is determined by the 4 Cs - Cut, Color, Clarity, and Carat Weight. Cut is usually less significant for investment grade diamonds. A diamond can be re-polished to enhance clarity, resulting in its value immediately increasing substantially.

A measure of rareness and value:

- Color

The color of a white diamond is measured on a scale from no color at all (D) to deeply colored (Z)

Table 1:

Color Scale for White Diamonds		
Colorless	D, E, F	Rarity and Value 
Near Colorless	G, H, I, J	
Faint Color	K, L, M	
Very Light Color	N → R	
Light Color	S → Z	

Please continue reading to next page...

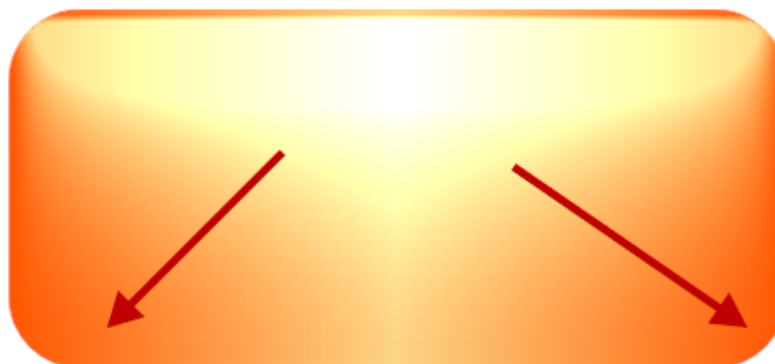
# Trading of Investment Grade Diamonds...

Beyond (Z) is the range where the diamond color is vivid and rich - these are called "fancy colors". The more intense the color, the more expensive and rare the diamond is.

**Table 2:**

<b>Black (bk)</b>	
<b>Grey (gy)</b>	
<b>White (wh)</b>	
<b>Purple (pp)</b>	
<b>Pink (pk)</b>	
<b>Red (r)</b>	
<b>Orange (o)</b>	
<b>Brown (br)</b>	
<b>Yellow (y)</b>	
<b>Olive (ol)</b>	
<b>Green (g)</b>	
<b>Blue (b)</b>	

**The more intense the color hue, the rarer the diamond  
The rarer the diamond, the more valuable it is**




# Trading of Investment Grade Diamonds...

- Clarity

**Table 3:**

Clarity is a measure of the number and size of the tiny imperfections that occur in almost all diamonds. Inclusions are scratches, minerals, or other imperfections that have an impact on the diamond's clarity. Diamonds that are completely free from internal flaws are extremely rare. Flawless category (FL) diamonds have no inclusions or blemishes visible under 10x magnification.

Clarity Grading Scale											
Category	Flawless	Internally Flawless	Very Very Slightly Included		Very Slightly Included		Slightly Included		Included		
Grade	FL	IF	VVS1	VVS2	VS1	VS2	S1	S2	I1	I2	I3




Rarity and Value

- Carat

Carat is specifically a measure of a diamond's weight - 1 carat equals 0.2 grams. Generally, investment grade diamonds are usually larger than 1 carat.

**Table 4:**

Alosa 2013 Diamond Sales by Weight Class				
38 million carats sold				
Carat Size	\$/ct estimates	Volume	Revenue	Rareness and Value
>10.8	3,027	1%	12%	
1.8-10.8	858	5%	34%	
0.8-1.8	328	5%	13%	
0.3-0.8	126	15%	15%	
0.03-0.3	67	45%	24%	
Industrial	8	30%	2%	

Source: Alosa, Gazprom Bank, Equity Communications

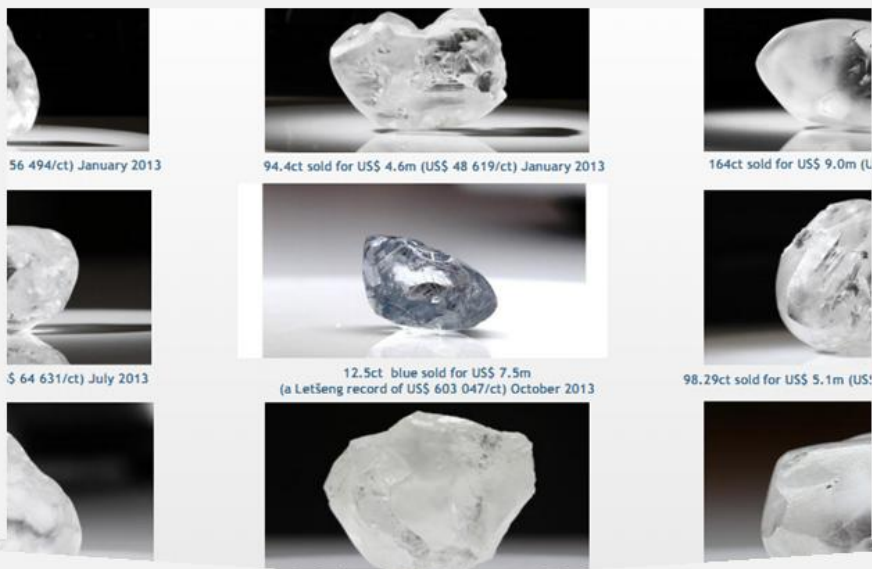
# Trading of Investment Grade Diamonds...

Exhibits: Typical examples of investment grade diamonds

Premier diamonds by Gem Diamonds...

Exhibit 2:

## Gem Diamonds - Top 9 Diamonds Sold in 2013



Combined Weight: 846.7 carats → 0.9% of Total Carats sold

Combined Value: US\$52.9 million → 26.6% of Total Sales achieved

Please continue reading to next page...

# Trading of Investment Grade Diamonds...

## Argyle Red Diamonds...

### Exhibit 3:







# Trading of Investment Grade Diamonds...

## D Color Flawless and D Color Internally Flawless...

### Exhibit 4:

	<p>A pear-shaped, D Color, Flawless, diamond of 101.73 carats sold for US\$26.7 million</p> <p>Less than 800 D Color, Flawless diamonds larger than 1 carat pass through the diamond pipeline per year.</p>
	<p>A cushion-shaped, D Color, Internally Flawless diamond of 76.02 carats sold for US\$21.5 million</p> <p>Less than 2,400 D Color, Internally Flawless diamonds larger than 1 carat pass through the diamond pipeline per year.</p>

# Trading of Investment Grade Diamonds...

## Typical properties of investment grade diamonds

**Table 5:**

Typical Properties of Investment Grade Diamonds	
	Qualifications
Clarity	Flawless (F), Internally Flawless (IF), Very Very Slightly Included (VVS1) - particularly if potentially upgradable
Color (White Diamonds)	D color, E color and F color also okay for larger diamonds above 5 or 6 carats
Colored Diamonds	Intense pink, Intense blue, Intense orange, Intense yellow etc
Carat Weight	Larger than 1 carat, larger weights much more valuable and preferred

Source: Equity Communications

On the whole, the global population of diamonds with the above qualifications is actually very limited and hard to access. For instance, D Color, Flawless diamonds are less than 5% of all diamonds traded for investment purposes. As such, it is common for investors to settle for poorer alternatives like D Color, VS<sub>1</sub> diamonds.

## Most popular diamonds for investment holdings

**Table 6:**

Diamonds Most Commonly Traded for Investment Purposes		
	White Diamonds	Colored Diamonds
Color	D color (40%)	Yellow (58%) Pink (20%) Blue (11%)
Clarity	VS <sub>1</sub> (38%)	VS <sub>1</sub> (43%)
Shape	Round (20%)	Round (12%)
Most Valuable	D Flawless Rounds	Blue

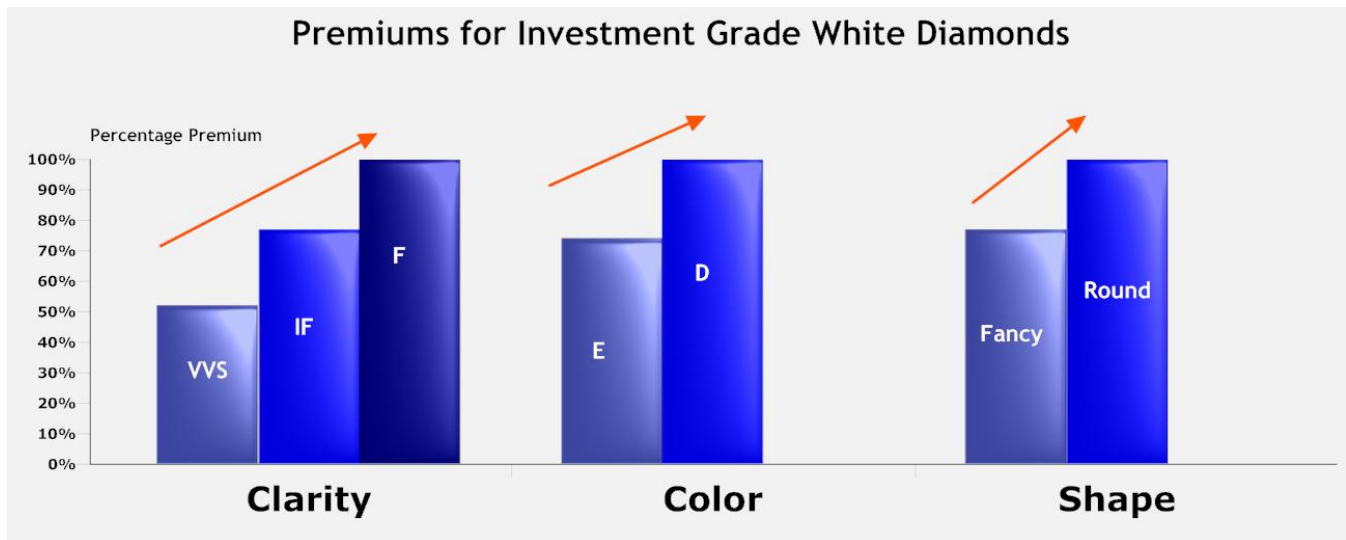
Source: Equity Communications

In general, white diamonds are preferred for investment holdings since the valuation system is comparatively more straightforward and has been well established for decades. In the case of colored diamonds, some investors just prefer yellow over pink.

# Trading of Investment Grade Diamonds...

Typical valuation premiums for investment grade white diamonds

Chart 1:



## Investment funds for diamonds

Time and time again, many have tried to launch sustainable diamond investment vehicles and failed. Fundamentally, the problem appears to be a pervasive lack of price and transaction transparency in diamond trade. Such is the nature of diamond trade, revealing the price at which you bought a diamond is often a terrible business strategy.

Even in a scenario where supply and demand fundamentals make for a strong investment case, there is never adequate price and transaction data. Fewer visible transactions result in larger estimation errors.

Thus, double digit annual returns touted by investment fund promoters are possible precisely because of the opaque nature of diamond markets. The sober reality is that double digit annual returns in a transparent market are not sustainable. The whole thing soon collapses.

# Trading of Investment Grade Diamonds...

Having gone through a lot of diamond investment brochures in the last year, we are underwhelmed by the quality of investment advice being proffered to potential investors.

It is baffling that market participants seek to establish specialized diamond funds while at the same time neglecting to provide potential investors with specialized information on the selected category. In any case, such specialized information suitable for investment markets does not exist.

All things considered, there are just not enough investment grade diamonds available to create a fluid investment market without completely distorting the consumer picture. It has been tried before to the eventual ruin of many. Thus, we do not see anything which suggests that the results will be different this time around.

## Annual Returns - Investment Grade Diamonds

We reiterate, there are just too few visible transactions that involve investment grade diamonds. The ones we normally become aware of are those with successful outcomes and wide publicity - usually sold at auction. You should know that there are also investment grade diamonds that fail to meet the reserve price even though you hardly ever hear about it.

If you want to know whether investment grade diamonds perform better than other forms of investments like equities, there are those who say yes and then there are those who say no.

Essentially, there is not enough conclusive statistical data at the moment. Ten years from now it will likely be available. Interest in investment grade diamonds has greatly grown and broadened in the last ten years.

Please continue reading to next page...

# Trading of Investment Grade Diamonds...

Chart 2:

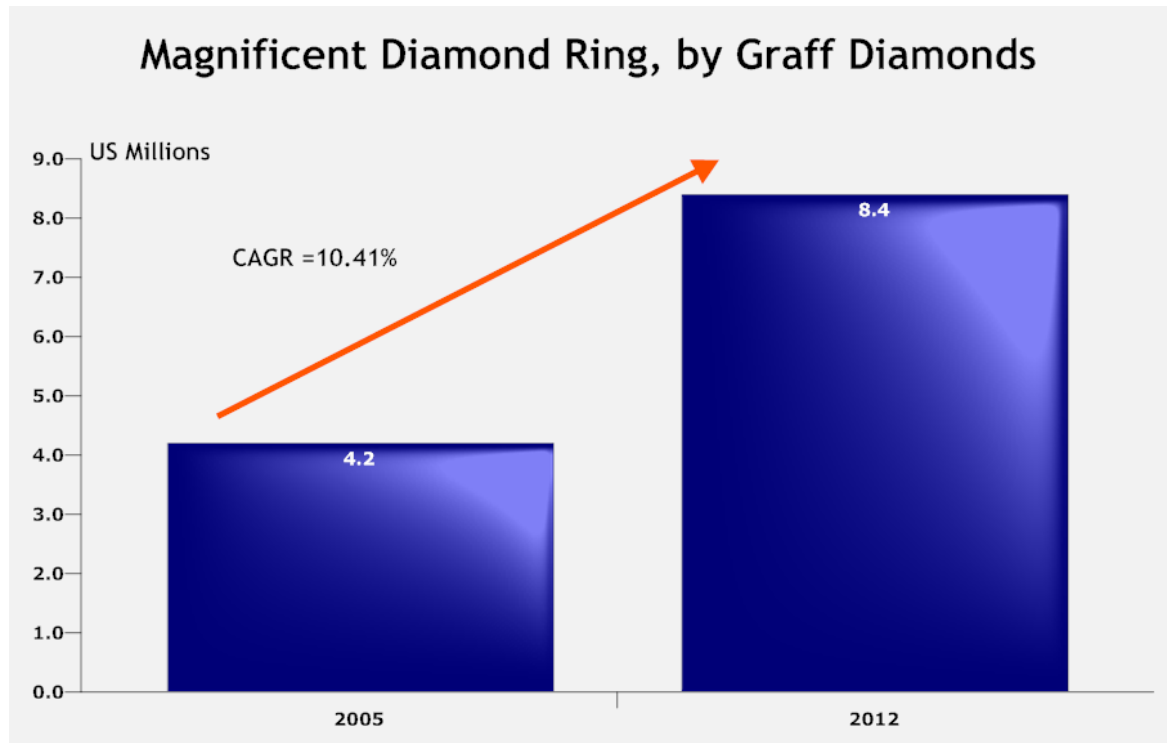
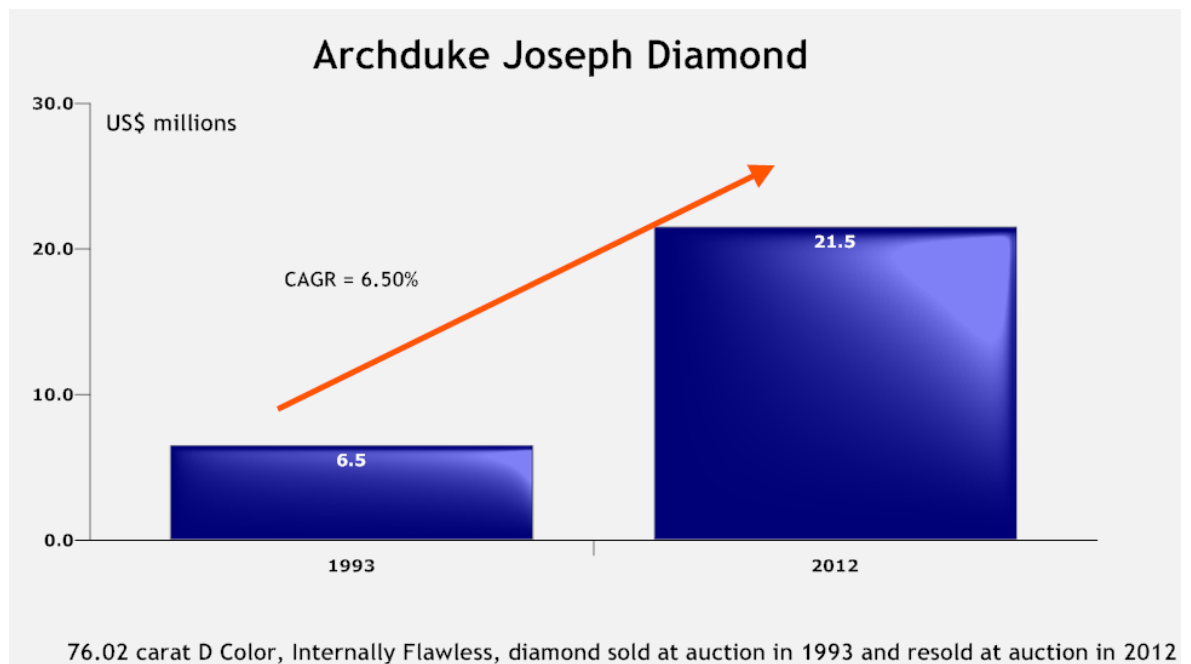


Chart 3:



# Trading of Investment Grade Diamonds...

However, it is true that investment grade diamonds tend to rise in value in the long term. Therefore, they can be bought as a store of value or as an alternative long-term investment.

Statistical data we are looking at - from the last 13 years - suggests middle to high single digit appreciation over ten to twenty years, with a year or two of double digit increases.

Finally, the worst time to sell investment grade diamonds appears to be during peak periods of turmoil in equities markets. Conversely, that is also the best time to buy investment grade diamonds.

People generally turn to alternative investments like art and diamonds after being burned in equities markets. However, that is also when valuations are likely to be at their lowest because of reduced buying power from the stock market effects.

In other words, great valuations for investment grade diamonds go hand in hand with great stock market returns.

Please continue reading to next page...

# Trading of Investment Grade Diamonds...

## The promise of investment grade diamonds

Unless you are an expert diamond trader, stay away from investing in diamonds. If you cannot stay away, then get an expert diamond trader to guide you EVERY STEP of the way. That is the only advice we are comfortable giving.

Our view is, assuming you do not possess the financial means to participate in the long-term market for ultra rare diamonds; it is generally wiser to steer clear of diamond investment markets. There are numerous variables that are out of your control, in addition to the numerous industry peculiarities you will be required to learn.

You should also know that transaction costs for investing in diamonds are high because of the need to involve experts every time. No two diamonds are alike so appraisal and certification are always required before each trade.

Nevertheless, for expert diamond traders, exploitable market anomalies and inefficiencies in the diamond industry may lead to much higher realized returns.

That being said, investment grade diamonds are generally good for long-term investment - at least a minimum of five years.

As a rule, most investment grade diamonds disappear from the market for many years and are usually passed on from one generation to the next. The typical holder of investment grade diamonds has wealth that lasts a lifetime. In general, people with wealth that typically lasts a lifetime hold on to investments of passion - diamonds, art, wine - for a long time.

In other words, the market for investment grade diamonds is illiquid - particularly for the larger size investment grade diamonds. These diamonds are really for ultra wealthy individuals with wealth that typically lasts a life time.

# Trading of Investment Grade Diamonds...

The liquidity risk is that you do not want to be forced to sell in a down market. Down markets for investment grade diamonds typical last a short time - 6 months to a year - but the price swing can be substantial before quickly returning to the long-term trend.

The best investment grade diamonds usually cost at least US\$500,000 and above. Furthermore, investment grade diamonds with top-notch properties tend to appreciate faster and are also easier to liquidate if need be.

As you know, nowadays a lot more people in the world have money. Therefore, when demand for investment grade diamonds is particularly hot, like in the period late 2009 to late 2011, average transaction values can double or even triple in a short period of time.

Furthermore, you might want to know that the Asia market generally achieves higher prices for investment grade diamonds. This can be attributed to the new money that has sprouted in the region in the last ten years.

In the final analysis, popularity of investment grade diamonds will likely grow in the coming years. Growth will be driven by the emergence of new and very wealthy collectors and growing demand from investment funds.

Please continue reading to next page...



# About Diamond Shades and Equity Communications

## Diamonds Shades

Diamond Shades is the online vault or research center for research by the Diamond Industry Research Team at Equity Communications.

Diamond Shades provides research material, analysis and commentary on the diamond industry value chain, global precious jewelry markets and the general luxury economy.

Diamond Shades  
605/2 New Quay Promenade  
Docklands  
Vic 3008  
Australia

E-mail: [international@diamondshades.com](mailto:international@diamondshades.com)

## Equity Communications

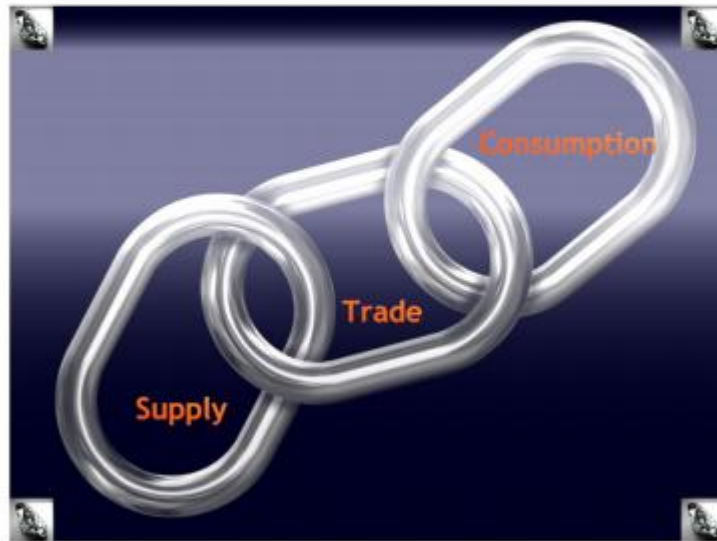
Established in 2004, Equity Communications is an investor communications company and premium business information provider traditionally specializing on Southern Africa industries that have global significance such as tobacco, platinum and diamonds. For queries about Equity Communications, its products and services please do not hesitate to contact us: [info@equityzw.com](mailto:info@equityzw.com)

For more information, please visit <http://www.diamondshades.com/>

© Copyright 2014, Equity Communications Private Limited, ALL RIGHTS RESERVED.

# The Global Diamond Business 2014

(For Analysts and Diamond Traders)



**Equity Communications**  
2014 Edition



<http://www.diamondshades.com/diamondreport/get-your-copy/>