

INVESTORS' NEWSLETTER

Securing Wealth in Colored Diamonds



Investing in Colored Diamonds

Recent turmoil in the global financial markets has convinced masses of investors around the world to both explore and expand into alternative assets, and smart investors are no longer solely focused on ways to maximize their capital gains. They are all seeking tried-and-true strategies for preserving wealth, and a great many have chosen to invest in natural colored diamonds.

In times like these, investors would be wise to consider alternative assets that provide a reliable store of value. A meaningful capital preservation strategy is the path of the responsible investor during these chaotic times. With this in mind, there has never been a better time to consider investing in rare colored diamonds. Let's explore a few of the characteristics that make natural colored diamonds such an attractive store of value.

Diamonds have an extremely high value in contrast with their diminutive size and weight. **A two carat flawless intense fancy yellow diamond is worth approximately \$75K, and weighs less than 1/70 of an ounce.** If the need ever arose, millions of dollars

worth of diamonds could be concealed and transported on one's person. For hundreds of years, diamonds have been used as a medium to discreetly transport wealth across troubled borders. As a wise man once said, wealth knows no borders.

Natural colored diamonds also have a rock solid history of steady price appreciation, which is a very appealing characteristic for the keen investor. Over the last 5 consecutive years, each of the years auction results have set new records shattering results from the previous year.

Lastly, demand for fancy colored diamonds has skyrocketed in recent years. This is partially due to consumer awareness regarding the natural rarity of coloured diamonds, for out of 10,000 carats of diamonds mined only one carat will turn out fancy colored; with the rarest colored diamonds being red, blue, pink, orange and yellow. The reality is that supplies of colored diamonds are decreasing while demand is increasing, resulting in a great opportunity for investors as prices continue to increase.

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Diamond Education



Colored Diamonds; Profit Is Not Their Only Reward

As one of the most concentrated forms of wealth on the planet, diamonds make an excellent investment. While precious metals like platinum and gold also have intrinsic value as investments, they have become much more speculative. They are also bulkier and harder to store, requiring the serious investor to maintain a very large safe.

On the other hand, a million dollars' worth of diamonds is small enough to fit in your shirt pocket. This element of portability makes investing in diamonds completely private, as no one has to know how many diamonds you own.

The allure of diamonds, however, is not purely financial. Diamonds are associated with love and beauty. This aspect of diamond investing particularly appeals to investors in China, India and the Middle East where they refer to their diamond investments as "wearable wealth."

Colored Diamonds, Color Matters

Colored diamonds, for example, one carat and over, are considered rare and have always been sought after, largely for their exclusivity/rarity. Colored diamonds that have a unique color, such as Fancy Yellow or Pink, are even more desired and carry a high premium. **As a financial investment, colored diamonds have more than doubled since 2012.**

Currently, colored diamonds are commanding record prices at auction. At a 2014 Sotheby's auction in Geneva,

a record-breaking seven jewelry items set world-record prices. An Intense Yellow 100.09 carat diamond sold for over \$16M, which was an auction record for a yellow diamond. At this same auction, a marquise-shaped Fancy Pink diamond weighing 12.07 carats outsold its pre-auction estimate, selling for almost \$7.3M and setting a world record for price-per-carat for a Fancy Pink diamond.

Increasing Value

The value of diamonds continues to increase from year to year. One reason for this increase is inflation. It's simply easier to print more paper than to mine more diamonds.

Supply and demand also figure into the steady increase in the price of diamonds.

No new major diamond mines have been developed since the 1990s, and today there are only 20 major diamond mines in existence. The diamond supply in these mines are being depleted.

The growth of the Asian markets is also pushing the price of colored diamonds. **Asia made up 8% of the colored diamond-buying market in 2000 and 13% in 2014,** and by 2017 Asia is projected to make up 18% of the total colored diamond-buying market. In particular, India is a growing consumer of colored diamonds because of a blossoming middle class. With approximately 500 million new middle-class citizens by 2019 and with the trend in these areas shifting from gold toward colored diamonds, the potential for new colored diamond buyers is exploding.

ONLY 20
MAJOR
DIAMOND
MINES IN
EXISTENCE.



Return on Investment

While the price of colored diamonds continues to rise steadily, investing in diamonds is not a get-rich-quick scheme. However, there are times when diamond prices skyrocket, such as in times of economic instability and political unrest when people want to invest and safeguard their money into something tangible. In times of adversity, colored diamonds are portable wealth that can be stashed away for a rainy day. Although the diamond market will remain rock solid through 2017, demand is expected to largely exceed supply from 2018 to 2023, supporting a long-term investment strategy in the colored diamond market.

Financial and Emotional Investment

Investing in diamonds as a form of wealth preservation and growth can diversify a portfolio, allocating a percentage of wealth outside of traditional, more volatile securities. Diamonds offer an excellent investment vehicle with the potential for an increasing and consistent return on investment, but they are more than just a commodity. **Every colored diamond is a rare and beautiful gem.** Unlike other forms of investment, diamonds can be worn and enjoyed. Furthermore, diamonds can be handed down as a family heirloom so that future generations can continue to experience their inherent beauty and value—something that, in itself makes for a worthwhile investment.

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An Expert's View of Colored Diamonds



The secret to why colored diamonds are dominating today's auctions.

Year after year since November of 2010 when a 24.78-carat pink diamond sold at a Sotheby's auction in Geneva to diamond dealer Laurence Graff for a record \$46.1 million, the highest price paid for any gem or jewel—ever, colored diamonds have continually set new records at auction.

The Graff Pink isn't the only colored diamond shattering auction house records lately. Prices have skyrocketed over the past few years. A 2.62 fancy yellow sold for \$962,500. Last October, a 75.56 carat fancy yellow sold in Geneva for \$3.6 million. And a 14.23-carat pink diamond fetched \$23.1 million at Christie's Hong Kong, the highest price ever paid for a jewel at auction in Asia.

"This isn't a once-in-a-lifetime anomaly," says Rahul Kadakia, head of Christie's New York's jewelry department.

Last year, **Christie's worldwide colored diamond sales totaled \$626.4 million**, an all-time high that led the house to declare 2014 the year of colored diamonds. "This is where the market is," Kadakia says. "It keeps progressing, and people continue to realize how rare these stones are."

Of the millions of diamonds mined each year, the gem industry estimates that one in every 10,000 carats will possess color. Only a handful of those achieve the deeper, more valuable hues described in the industry as "fancy intense" and "fancy vivid." Of those, an even smaller percentage surpass one carat, let alone five or ten.

According to Naval Bhandari of Sotheby's Diamonds, since record-keeping began in the 1970s, colored diamonds have appreciated at about 15 to 20 percent per year. **"Yellow diamonds have doubled in value every five years,"** he says. "Reds, blues and pinks have seen the greatest appreciation, having quadrupled within the last decade." He cites the growing affluence in emerging markets, like Russia, India, South America and China, as a major factor. "There's a whole new body of consumers," he says. "Asia really likes colored diamonds, and they have significantly driven up the price."

Sotheby's Asia's deputy chairman and head of jewelry, Chin Yeow Quek, sums up the buying habits of the Asian connoisseur: "If a buyer from Hong Kong has millions to spend, he'd rather buy a parcel of colored diamond than a 20-carat white diamond. You can wear it in the daytime without being conspicuous, yet it's \$8 million or \$10 million on your hand: a powerful but subtle message."

It wasn't so long ago that consumers considered colored diamonds to be less than desirable. "People would push these stones away," says James de Givenchy, the designer for Taffin and Sotheby's Diamonds. "White was all they looked for." Nicolas Luchsinger, vice president of sales at Van Cleef & Arpels, recalls a story from his years as a specialist at Christie's: A Midwestern client brought in what he thought was a peridot ring from his mother's estate. None of his siblings thought much of the semiprecious stone when dividing her collection. "Christie's said, 'Sir, what you have here is a green diamond.' And we went on to sell it for a record price," says Luchsinger. (That Belle Epoque ring, featuring a 1.73-carat stone, sold for \$886,000 at Christie's New York in 2000.)

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Experts say a watershed moment in the public's awareness of colored diamonds occurred in 1987, when a .95-carat red diamond fetched \$880,000 at Christie's New York, making headlines around the world. Reportedly purchased for \$13,500 in 1956 by Montana gem collector Warren Hancock, the Hancock Red set a new record of nearly \$1 million per carat, a benchmark that held until 2007. (Rumor has it the diamond landed in the collection of the sultan of Brunei, who still wears it as a ring.)

With the increased visibility of colored diamonds comes a whole new vocabulary. In the '40s and '50s, the Gemological Institute of America developed the universal grading system known as the 4Cs, examining carat, color, clarity and cut to evaluate white diamonds. When shopping for colored diamonds, however, the 4Cs become more complex.

In 1995, the GIA expanded its system to measure hue, tone, saturation and distribution of color in colored diamonds. "Hue" describes, well, the color and can include a modifier such as purplish-pink. "Tone" refers to the stone's lightness or darkness, and "saturation" implies strength or purity of color. "Typically I advise for one straight color, but, for example, an orangey-yellow tone and saturation can make a yellow diamond even more vibrant," says Bhandari. The scale begins with "faint" and moves up to "light," "fancy light," "fancy," "fancy intense" and "fancy vivid," the last two the most valuable. (While fancy colored diamonds do occur naturally, there is also a sizable market for treated and synthetic stones that mimic them—especially in pink, yellow and green diamonds of late. Fortunately, labs can easily identify most treatments and almost all synthetic manufacturers mark their stones for full disclosure.)

So exactly how and why do some diamonds come out looking like a ruby or a sapphire? Colored diamonds

result when natural radiation or trace elements such as nitrogen interact with carbon atoms during formation, yielding literally every color of the rainbow. Hues like grey and brown are more abundant. Purple, pink, green, red and yellow are the rarest. "Many jewelers will never see a red diamond in their career," says Bhandari. John King, GIA Laboratory's chief quality officer, agrees: "To say a red diamond is one in a million is certainly no stretch." In fact, the largest natural fancy red diamond known to exist is a relatively diminutive 5.11 carats and is owned by Moussaieff Jewelers in London. It is not for sale.

Jewelers have had their eyes on the stones for years, waiting for the market to catch up. In 1948, Harry Winston sold its Windsor Yellow earrings, a pair of pear-shaped yellow diamonds, to the duchess of Windsor. Harry Winston also owned the Eugenie Blue, a heart-shaped, 30.82-carat blue diamond now in the Smithsonian's collection, and even the Graff Pink, which was originally sold to a private collector 63 years ago. There is currently an 8.8-carat fancy intense pink diamond on display in the New York store.

In June, De Beers will introduce Swan Lake, a high jewelry collection featuring pink, yellow, orange and gray diamonds. "We believe it is the right collection to debut now due to the strong interest and demand in colored diamonds," says CEO François Delage.

Shades of Brilliance

Colored diamonds are prized for their rarity, their mysterious hues and their continued and consistent record-breaking numbers at auction. The market for loose stones is clearly thriving and now jewelers have also begun to work colored diamonds into their designs.

COLORED DIAMONDS ARE PRIZED FOR THEIR RARITY, [...]



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Colored Diamond Values Soaring



Like an escalator that only knows how to go up, the market for colored diamonds has been rising rapidly. But instead of a smooth, steady ascent, colored diamonds have leapt upward in huge increments. Prices per carat have doubled, even during the gloomiest worldwide economic conditions. Someone, it seems, always has the money and the desire to buy these compelling gemstones.

Whether the acquisitions are through wholesale investment dealers, at private showings or auctions, **one reason for the escalating prices is that supply can't match the demand** — particularly at the very highest end of the market, where intensity of color is prized. With more people becoming aware of the beauty and rarity of fine fancy colored diamonds, it's not surprising that prices are increasing faster than any miner can find a new source and sink a shaft.

Limited Supply, Great Demand

In a market where pricing is a closely held secret, tied to the absolute uniqueness of most colored diamonds, the auction market provides a stunningly open price venue. Presale estimates signal the auction experts' expectations, which are based on past sales, rarity and general economic conditions. When these estimates are exceeded — wildly — they make headlines and bring out buyers and sellers, both groups eager to take part in the next sale.

Potential buyers form an ever-growing market that seems to have no limit. Even among those in the trade, the scarcity of intense or vivid colored diamonds creates a buying frenzy. There is an ever-growing number of sharks in this particular ocean, each one is determined to win the prize. When Laurence Graff paid \$24.3

million for the Wittelsbach Diamond on December 10, 2008, he not only bought a piece of history, he outbid Aleks Paul of Essex Global Trading to do so. On November 16, 2010, Graff found himself competing against three other bidders when he bought a 24.78-carat fancy intense pink diamond for \$46.16 million at Sotheby's, setting a new world auction record for a diamond and any jewel.

MARKET FOR COLORED DIAMONDS HAS BEEN RISING RAPIDLY

Graff is likely not in a hurry to sell the recut stone now known as the Wittelsbach-Graff. Once a unique colored stone is sold, no matter how high the price, it's gone. According to Henri Barguirdjian, president and chief executive officer (CEO) of Graff USA, **"Fine colored diamonds are beyond scarce. To get your hands on a fine pink, blue, green or yellow is a big deal these days. The price is higher than previous transactions. In hindsight, yesterday's buy is a bargain."** The escalation of prices is evident in a singular fine pink sold by Christie's on December 1, 2009, in Hong Kong, for \$10,776,660, more than \$2 million a carat. Barguirdjian recalls selling that same stone four and a half years earlier in New York for \$3 million.

Barguirdjian sees the supply and pricing of colored stones as a double dilemma. No matter how profitable the selling price, each sale depletes the available supply. "We have sold stones privately at Graff this year. We thought we had good prices. Then Mr. Graff said, 'Now that you have sold them, what are you going to do to replace them?'"

There is no limit on price; people understand about rarity. This is happening in all areas of art, including jewelry."



Rahul Kadakia, head of jewelry at Christie's Americas, says, "Over the past ten years, the shortage has become deeper and deeper if you want a colored diamond of any size and high intensity. In 2000, there was more supply and not everybody fully understood how rare the stones were. China was not buying in that area, the Russians were not in. The Middle East was buying yellow and white. Now, every part of the market is looking for a 1 carat and above intense and vivid blue, pink and yellow. Today, you have China, India, Russia and The Middle East buying a lot of colored diamonds and a constant demand from the United States and Europe. Prices are going through the roof."

Orange Appeal



This past June, Christie's New York sold a fancy intense orangy-pink diamond of 10.19 carats for \$2,322,500, or \$228,000 per carat. The stone was sold to William Goldberg Company. Goldberg made headlines in 1997 by cutting a rare piece of orange rough that became known as the Pumpkin diamond.

That 5.54-carat stone was purchased by Harry Winston Company at auction in 1997 for \$1.3 million. Then, it was considered an expensive novelty. Today, it would be considered a bargain.

According to a market expert, "In my opinion, a pure intense orange is the rarest. Even a purplish red is not as rare, although it commands the highest price per carat. **Overnight, I can have a dozen purplish red stones from 20 points to 1 carat at \$400,000 to \$500,000 a carat, but not orange.** I have sold two orange stones. I have one in stock and I don't know of any other. I think there are only ten in the whole world. When you see a pure orange next to yellow-orange, you understand why it is so beautiful." And, of course, it's also so rare. A pure orange, with no modifying colors such as brown or yellow, is much more difficult to find. Take, for example, the 7.67-carat, cut-cornered, rectangular fancy intense pinkish orange diamond set in a ring that was sold in April 2010 at Sotheby's New York for \$3.11 million.

Yellow's Shine



One of the reasons for the scarcity of certain colored diamonds is the peculiar nature of color in diamonds.

An astonishing five-stone Diamond Collection on exhibit at the American Museum of Natural History in New York City was the culmination of 40 years of collecting yellow diamonds from 1 carat up to 5 carats.

"You don't cut a yellow like you would cut a blue or green. You must treat the different colors differently," a museum curator explained. "The cushion or rectangular cut was designed to create more color — the most color you can obtain. It was designed to create the best sparkle and scintillation. If you take the same diamond and cut it to a square brilliant, the color would disappear." This accounts for the absolute scarcity of intense and vivid cushion and rectangular yellow diamonds. They can only be cut from a rough that is intensely saturated with color. "There is great demand particularly in Europe, Asia, India and the Middle East for intense and vivid yellow diamonds. That is also a function of the lack of supply as there are fewer yellows to offer each year."

In The Pink



The most reliable supply of pink diamonds continues to come from Rio Tinto's Argyle mine in Australia and they are offered at a yearly tender. Jean-Marc Lieberherr, the company's general manager, explains, "Rio Tinto's Argyle diamond mine is the world's only consistent producer of rare pink diamonds but even then, less than one-tenth of 1 percent of the Argyle production is pink diamonds."

The mine has been producing pink diamonds for over 30 years, with only 40 to 60 stones offered per year. The number of stones varies, depending on production, Lieberherr says. "In most cases, these stones are above .20 carat in size and of exceptional hue and intensity."



Lieberherr adds, “Since the first Argyle Pink Diamonds Tender in 1985, pink diamond prices have increased exponentially. This price growth is a reflection of the fundamental economics of pink diamonds – increasing demand for a truly scarce product. **Never before, and never since, has there been a diamond mine that consistently produced rare pink diamonds like the Argyle diamond mine.**”

On the supply side, Lieberherr says, “the chances of any future mine discovery replicating the unique properties of the Argyle mine is extremely low. Even if another deposit of pink diamond-bearing ore is discovered, it takes on average ten years for a mine to proceed from discovery to production. On the demand side, we are continuing to see strong growth in demand for Argyle pink diamonds from both the mature and emerging markets. Last year, we took the tender to Mumbai for the first time...this year, the tender had its inaugural showcasing in Mainland China.”

The Asian market for colored diamonds is growing at a rapid pace. Everything that is shown in Mainland China is transacted in Hong Kong.” But he sees other parts of Asia as rising markets.

“In the Philippines, Laos, Vietnam, Brunei, there is incredible wealth. Singapore is now going head-to-head with Hong Kong. The Chinese don’t ever rest. Their work ethic is tremendous.”

Champagne Dreams



While most of the attention goes to the blockbuster stones that fetch millions, there is a substantial and consistent market for diamonds whose body color was once considered a hindrance to their sale. When the Argyle mine started marketing its pale yellow to deep brown diamonds under the romantic name “Champagne Diamonds,” these stones became fashionable – and salable. Argyle, now owned by Rio Tinto, says \$5 billion of jewelry set with champagne diamonds is sold annually around the world. The lightest shades, once known in the trade as Cape diamonds, now carry fanciful color descriptions such as “light straw.”

Demand for colored diamonds will only increase in the coming years. While interest and an appetite for colored diamonds will increase, the supply will not keep pace. One doesn’t need a crystal ball to predict increasingly higher prices for these rare treasures of the earth.

