HIGH NET WORTH INVESTORS ARE TAKING A SHINE TO DIAMONDS—AS STRAIGHT-UP INVESTMENTS, RATHER THAN COLLECTIBLES THAT HAPPEN TO HAVE VALUE.

HOW TO INVEST IN DIAMONDS

ON PAPER, THE CASE FOR INVESTING IN DIAMONDS IS COMPELLING: From 1999 to 2010, the annualized real return for white and colored diamonds was 6.4 percent and 2.9 percent, respectively, according to a study released in 2012 by finance professors Luc Renneboog at Tilburg University in the Netherlands and Christophe Spajer at HEC Paris.

Compare that to global stocks and bonds, which returned an annualized -0.1 percent and 3.3 percent, respectively, during that same period, and you can see why diamonds are catching the eye of investors. Furthermore, many expect that increasing demand for diamonds from countries like China and India—coupled with a relatively fixed supply—will drive up prices for diamonds in the future. In their 2011 analysis of the diamond industry, Bain & Company concluded “in the next decade, demand for rough diamonds is set to outpace supply under all considered scenarios, indicating a strong positive outlook for the industry.” Other pluses: Diamonds tend to have low price volatility and are easily transportable.
In practice, however, investing in diamonds isn’t easy. You can purchase stocks of diamond or mining companies or buy diamond jewelry, but stocks are tied up in the company’s performance rather than purely reflecting diamond prices.

Instead, some investors purchase loose diamonds through a wholesale distributor or at auction, or buy into a diamond fund. But these have issues too: When buying loose diamonds, you’ll find that “the pricing is opaque,” says Tom Gelb, a gemologist at Diamond Asset Advisors. There are pricing indexes like the Rapaport Diamond Report (which lists wholesale prices), but diamonds typically sell at some discount or premium below or above the list price and knowing the going-rate discounts is difficult.

Most people just aren’t going to know how to find a diamond wholesaler or be experienced enough to make an informed purchase at a diamond auction. Another option is to work with a consultant. “There’s so much nuance in this market that you need an expert: Two stones of seeming identical stats may trade for different prices,” says Martin Katz, a well known Los Angeles-based jeweler who consults with high net worth individuals. “It’s like looking at two examples of the same artist’s work from a period—even though it’s the same person, the pieces may sell for very different prices.” Locating the right firm or expert to help you invest in diamonds will take research. “Only buy from a firm that has a reputation and will stand behind the product,” says Henri Barguirjdjan, the CEO and president of Graff Diamonds.

Even if you work with an expert, it’s not easy to get diamonds at wholesale prices, says Max Kantelia, the CEO of McLaren Global Partners. There are a limited number of parties who get diamonds at these prices (think the Tiffany, Graff and Harry Winstons of the world), and they’ve had relationships with their suppliers for years. Those hoping to avoid direct exposure to these issues by going the route of the diamond fund also face challenges: There aren’t a lot of diamond fund options, and there are currently no diamond ETFs that invest solely in physical diamonds. Still, there are gains to be made if you can clear these hurdles. Here’s what you’ll want to understand before you decide to invest in diamonds.

**4 WAYS TO INVEST IN DIAMONDS**

- Diamond or mining companies’ stocks
- Diamond jewelry
- Loose diamonds through a wholesale distributor or at auction
- Diamond fund

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**INVESTMENT OPTIONS**

Most experts recommend investing in rare, very high quality diamonds. Demand for these stones is expected to grow as the ranks of the uber-wealthy in countries like China and India swell, and these diamonds’ rarity and quality allows them to blow past market expectations. Furthermore, the prices for high-quality colored diamonds and large (10 carat or more) high quality white stones have appreciated about 15 percent annually over the past five years, says Edahn Golan, editor of IDEX Online, a site that prices diamonds. (Christie’s recently sold a 50-carat D-color diamond for $8.4 million, about twice what it went for just seven years earlier.) Gelb, the gemologist, says that pink diamonds are popular right now (80 percent of them come from Argyle, an Australian mine with only 10 years of life left), but that the prices might reflect their popularity; on the other hand, champagne diamonds aren’t yet that popular with investors, but many of them are also mined from Argyle, so their rarity may push prices up. Furthermore, “you’re usually better off with a smaller stone of high quality than a larger stone of mediocre quality,” says Barguirjdjan of Graff. “It’s easier to resell high quality. Like very fine, rare paintings, only the extraordinary ones reach the very high prices.”

But that doesn’t mean you should ignore smaller stones. “To rich people, the 1 carat is unsexy,” says Martin Rapaport, the founder of the Rapaport Index—but because demand for diamonds among the middle classes in developing countries is growing rapidly, this segment offers investment opportunity too. If you want to go this route, consider a diamond fund that has exposure to these, says Golan. Singapore Diamond Exchange offers a few options containing smaller diamonds and plans are in the works for at least a couple other funds that will offer exposure to smaller stones (see Fund Newcomers on right).
COMING AND GOING
LOCATING THE 10 RICHEST DIAMOND MINES AND THE THREE LARGEST IMPORTERS

FUND NEWCOMERS

Though there aren’t many diamond funds today, there may soon be more. New York-based IndexIQ has put in an application with the Securities and Exchange Commission to launch a diamond-backed exchange-traded fund. Famed jeweler Harry Winston is collaborating with Swiss-based Diamond Asset Advisors to create an investment fund to launch early this year. And the Rapaport Group, which operates one of the world’s largest diamond pricing services, plans to launch a diamond fund this year as well.

MINIMUM INVESTMENT

Whether you’re going the route of a diamond fund or loose diamonds, you’ll need to put a significant amount of money down. Experts differ on the amount, but their estimates range from about $250,000 to $1 million, at minimum. No matter what size investment you make, “make sure that diamonds aren’t more than 1 to 2 percent of your portfolio,” recommends Eli Butnaru, the CEO of Mora Wealth Management. “Diamonds are for a well-diversified investor who wants to add something unique, something pretty uncorrelated with their other investments, but it shouldn’t be a core part of your portfolio.”

THE BOTTOM LINE

Diamonds are risky and complicated investments, often even more so than gold and silver, but when purchased wisely, can offer steady and sometimes substantial gains. Some experts have reservations: “A diamond is not an investment, it’s a keepsake,” says Vram Minassian, founder of jeweler Vram. But many others see diamonds in a more optimistic light: “There is no question about the value of diamonds,” says Golan. This is an investing area best left to those who enjoy exploring these beautiful objects and can find a consultant to help guide them.

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