

GROW & PROSPER

e-Newsletter

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Adventurum Financiae Ltd.
Research Series

COLOURED DIAMONDS – NEW ASSET CLASS

USE COLOURED DIAMONDS TO MAKE A GOOD INVESTMENT – AND PROTECT YOUR PRIVACY – Part 2

Frequently Asked Questions

If you have questions about coloured diamonds, you will find the answers here. If you have a question we haven't covered, email us, and we will get back to you.

Q. If I want to buy a specific coloured diamond, can I simply call you and place an order?

A. No, unfortunately there is a significantly smaller supply of coloured diamonds available in comparison to white diamonds. Market supply makes it difficult for us to fill client orders if size and colour are specified. Some colours, such as yellow and fancy yellow, are occasionally available in small quantities, whereas pure blues and reds are next to impossible to acquire. For example, in any given year there are less than five fine natural blue diamonds available in the international market. To acquire specific pieces, often connoisseurs must wait years to complete their collection.

Q. How are coloured diamonds valued?

A. Like a Rembrandt or a Monet, some coloured diamonds (pinkish purple, purplish red) are essentially one-of-a-kind pieces and are impossible to put a market value on. We have developed price graphs based on private sales and auction results, to provide our clients with an estimate of historical and current market prices for coloured diamonds in areas that provide enough data, such as intense yellows, pinks and blues. However, a collector must recognise that very few blue and pink diamonds change hands each year. This is solely based on lack of supply, for if it was up to the buyers, the volume would increase many times over. By far the most valuable per carat, the red, green and purple colours are difficult to value because of the lack of transactions in any given year. These stones are valued on a piece-by-piece basis and often fetch the highest premiums at auction.

Q. What is the process behind a typical transaction in the coloured diamond market?

A. There are positives and negatives in dealing with each of the different sides of the market. One option of acquiring a coloured diamond is through a retail jeweller, although potential buyers are paying full retail price, and the selection is normally limited to the inventory available. Very few retailers actually specialize in coloured diamonds. If you are planning on acquiring a piece at one of the major auctions, you are required to provide information of financial suitability in order to enter into the bidding process. Payment is normally facilitated by either a cashier's cheque or a bank wire transfer. Although you may be able to bid on a number of different stones, auctions are a sellers' market, and bargains are very rarely found. Furthermore, bidders are generally obliged to provide more financial data than they would like to, and there is little discretion or confidentiality. A third method is through a small group of international specialty dealers. Although most specialty dealers only work with a select client base, they are often in possession of a selection of rare and special coloured diamonds rarely seen at the retail level and at a more reasonable price than at an auction. Specialty dealers are intimately in touch with both auctions and the retail side of the market and therefore can be a good advisor because of their market knowledge. Furthermore, the advice you will receive from a specialty dealer will be more personal and will give you a better gauge of the overall trends in the market. More importantly, specialty dealers are obliged to maintain both discretion and confidentiality for their clients.

Q. How do I liquidate my coloured diamond holdings?

A. There are a number of avenues available in the event that a collector would like to liquidate their coloured diamond position. Retail jewellers occasionally buy coloured diamonds but they have a limited budget and few specialize in this segment of the market. Retailers also have a limited clientele to market these pieces to. Auctions generally bring the highest per carat prices, although stones are often held for months before the sale takes place. In the auction market patience is essential, for positioning your coloured diamonds at the right time and in the correct geographic market can mean the difference between thousands of dollars. Specialty dealers have a reputation for selling at fair market value, and because of their diverse client base, they can usually sell on a client's behalf in a relatively short period of time. If you are looking to maximize your returns, an auction is better suited to your needs, whereas a specialty dealer has the client base and the marketing to liquidate your position in a more timely fashion.

Q. How would you recommend I handle storage for privacy and discretion?

A. Your diamond can always be safely secured in a bank deposit box. However, it is important to realize that governments have the authority to seize the items held in

safety deposit boxes. If it is essential that the stone be kept close to you, then a private, bonded and insurable deposit box would be your best option. We recommend you store your coloured diamonds in a private Swiss storage facility in the tax free-zone of Geneva. Here, safety and confidentiality are guaranteed, your gems are insured and viewing is available by appointment. There is specialized equipment available on site, such as natural lighting, micrometers, weigh scales, etc. You can also store your coloured diamonds, in a foreign bank deposit box in the Bahamas, Austria or Luxembourg. In either case, there are a number of ways to safely store your coloured diamonds and your advisor will be more than happy to explain the solution that best meets your needs.

Q. What are the main reasons wealthy and successful people hold coloured diamonds as a means of wealth preservation?

A. The core holdings of wealthy and successful people have always included estate jewellery, precious gemstones and important diamonds as both status symbols and as a means of maintaining wealth. Increasingly coloured diamonds are a core holding because of their rarity, mystique and inherent value created over the years. Other assets, such as stocks and bonds, are subject to the movements and fluctuations of market conditions. Real estate cannot be moved and is the first asset seized in times of turmoil. One of the main reasons for holding precious gems has been their ability to provide a safety net during times of political and economic upheaval. During WWII, countless people left Europe for America with only their jewellery holdings to help them weather the storm. When China became communist in the 1960's, hundreds of Chinese who fled the mainland in hopes of starting their lives anew were able to do so with nothing more than diamonds and jade sewed into the lining of their clothes. Finally, many families in Southeast Asia who lost enormous portions of their wealth virtually overnight escaped the economic crisis of 1997 unscathed due to their gem portfolio holdings.

Q. Where do I seek appropriate advice in order to ensure my financial privacy is maintained?

A. Your best source of advice in this area with an international firm that has the experience to meet the demands of a select client base. Auction houses are not required to give advice and retail jewellers often lack the knowledge to guide coloured diamond collectors in today's multi-faceted marketplace. For further information on acquisition, storage, insurance and anything you find pertinent to your holdings, dealing with a specialist will provide you with the necessary tools in an environment of privacy and professionalism.

Q. If I buy a coloured diamond, can I use the full value to trade up to a bigger or better stone in the future?

A. We cannot speak for other companies. We will allow trade ups unless the original stones have been chipped or otherwise harmed. You will always receive at least full value against the trade up and more if you have held the stone long enough that its price was higher.

Q. I have other tangible assets that I have accumulated over the years, including rare coins, estate jewellery, white investment diamonds, coloured gems, etc. Can I trade these at a reasonable rate for a fancy coloured diamond?

A. Again, we cannot speak for other companies. We will consider taking a portion of the purchase price in tangible assets, but each situation is evaluated on a piece by piece basis. Since our clientele base is truly international, we often can accept trade in merchandise at rates higher than would be paid for straight cash in most places. We are definitely interested in discussing partial trades using your fine coloured stone jewellery, high quality white diamonds, and rare U.S. numismatic coins.

Q. Are there enough coloured diamonds that I can simply order what I would like?

A. No, there is only a tiny number of stones available, compared to white diamonds, at any given time. Availability is how most people buy, except for collectors - who are always waiting for the availability of some specific stone to add to their collection. Some colours, such as fancy and fancy intense yellow, are usually available in small numbers to jewellery buyers and investors, but collectors sometimes wait for years to get a particular, special stone. For example, at any given time there may be zero to only 5 fine natural blue diamonds available in the world market. Many collectors and investors let their dealers know what they want so the dealer can keep an eye out for that type of stone.

Q. How do I know I am buying at a fair price?

A. For a long time, it has been difficult for consumers to ascertain fair pricing in fancy coloured diamonds. Even if they attended important New York auctions regularly for years, there were many privately sold stones whose prices would not be public information. Some coloured diamonds (for example, fancy pinkish purple and fancy purplish red) are virtually one of a kind pieces and have only one or two real market comparable sales over the years. That is why we have established Price Graphs to at least give guidelines for fair market value in diamonds that sell often enough over the years. We believe it is the most complete price information graphs for fair market value of fancy coloured diamonds available anywhere in the world. Maybe only 100 blue diamonds and 300 pink diamonds above one carat are sold each year (only

because of lack of diamonds, not interested consumers and investors). Prices for red, green and purple are definitely difficult to pinpoint because of the lack of numbers of transactions (only ten red diamonds are known to exist), but, on the other hand, if you have one, you can ask pretty much whatever you like. These stones are definitely valued on an individual basis like a painting or work of art.

Q. How are most financial transactions handled with natural fancy coloured diamonds?

A. If you are buying at an auction and intend to bid on particularly expensive stones, you will undoubtedly have to prove to the auction house that you are capable of paying for those items if you are to be a bidder. Actual payment is often by cashier's check or bank wire. The advantage of auction houses is that you can see and possibly bid on many different stones - thus increasing your education. The disadvantage is that you may have to divulge more financial information than you care to and your identity may become known by many people. You actually may get on a mailing list data base! Auctions generally represent prices that are close to retail prices for coloured diamonds so there are few "bargains". The days of bargains are long gone in the auction market, indeed, they now set the high prices for the market - also once you buy, you are stuck. Finally, you will pay a 10% buyer's fee above the price you finally bid.

Another way is by buying through a retail jeweller. In this case you probably do not have to prove your ability to pay for items under \$100,000, but you will be paying a full retail price when you choose to purchase. Again, you may be required to divulge some financial information to view more expensive stones, but you will get some special attention and perhaps add to your education if the jeweller is knowledgeable in the area. The number of stones available to you will normally (with certain exceptions) be extremely limited through a retail jeweller as not many have sources with a large inventory of stones. Only a handful of retailers actually stock the items.

Thirdly, you can buy through a specialty coloured diamond dealer. They are scattered all over the world and some will not deal directly with the public, but there are not many - because the coloured diamond supply is extremely limited! This type of vendor will give you a fair market price on the stones (because they know the values and are not dependent on somebody else to dictate a price) and you will often have as big or bigger a choice of stones than at an auction. Financial qualification is usually strict but limited to the stone's value - as most dealers work on a cash memo basis. With a cash memo, the amount of the purchase is wired a trust account and is held there until the buyer approves and accepts the stone. This acceptance can be accomplished by the buyer coming to see the stone and approving it, or by buying it on the basis of the information on the GIA grading report and having the stone shipped or sent by courier, or by having the stone shipped with a 7 day return privilege to the seller. If the stone is returned within the time allotted, and returned for acceptable reasons under the purchase guarantee, the money is refunded back to

the buyer from the account. A dealer that specializes in coloured diamonds and knows the market intimately can be a good advisor and generally, the advice you get will be more personal and authoritative than from a retail jeweller or auction house.

Q. If I should decide to sell my coloured diamond, what are my options.

A. Your options are the same as in buying. Auctions can bring very high prices and, unless the reserve for the stone is too high, it will usually sell. One disadvantage is that the stone may be held for months before the auction happens and it may take 30 days after the auction for you to receive your payment. Retail jewellers are more difficult to sell through because they usually don't specialize in coloured diamonds like auctions or specialty dealers and lack the clientele. However, if you have a good relationship with your retail jeweller and he has a wide range of possible clients, he may bring you a very good price. One advantage of using retail jewellers is that you will get your money right away - unlike an auction. Specialty dealers often sell at slightly less than full market value but have many, many international contacts and can usually sell your stone quickly. If you have held your stone for a few years, the auction outlet will probably bring you a high price within several months. The retailer could pay immediately once/if the stone is sold - it depends on his clientele. A specialty dealer

will usually get you slightly less than fair market value, but will more likely move the stone quickly and pay you quickly. It is a trade off, but you do have several options.

Q. How do I store my coloured diamond to maximize my privacy?

A. You can store the diamond, or any valuable, in a bank safety deposit box. Just remember, the federal government does have the power to shut the banking system down, nationalize the contents of all boxes, or force an inventory of those boxes in the event of a "national economic emergency" and probably even more scary things than we can list here. If you must keep the stone near you, a private, bonded and insurable deposit box is a possibility. There are innumerable ways to hide the stone on your property from a state of the art safe (TR TL 30 x 6, for example) to burying it in a PVC container in the yard, to a multitude of camouflaged containers that sit in your home.

You can wear the stone daily, and even design the ring so the stone doesn't show!

You can park the stone in a foreign bank safety deposit box such as the Bahamas, Bermuda or Switzerland. You can create a multitude of trust situations, both at home or abroad which divest your direct ownership of the stone. Suffice it to say there are innumerable options for storing the stone safely, but each person's situation is different and the storage problem can be discussed with your vendor or financial advisor.

Q. If my stone is stored overseas and I have to sell it for seed money to start all over, how do I get the money back into the U.S. without paying taxes?

A. You may not be able to. But remember, your purpose in buying a major coloured diamond was to give you an insurance policy against economic disaster, not to break the law. You shouldn't worry about it and be glad you had the foresight and intelligence to have bought the stone in the first place. Have the stone sold and have the money wired into the United States. If it must be declared as income, pay the taxes and go on with your life. However, I would consult with your tax attorney first to find out if there is a clean way of not paying taxes as the money repatriates to your account. We cannot advise you on this matter any further.

Q. My father always taught me that jewellery and stones were not important assets and always encouraged me to buy real estate. Is there really any precedence for people using stones as insurance policies against economic and political calamity?

A. What your father taught is true in a society that really respects property rights, has a solid and strong currency and a government that is not corrupt or spendthrift. Real estate cannot be moved and is the first thing seized under forfeiture laws, wars and revolution. If you ever live outside the United States, you will find that fine jewellery, important gemstones and diamonds have ALWAYS been one of the main ingredients in the holdings of successful people. When the Nazi's invaded Europe, countless people left with only their fine jewellery to see them through exile and hard times. Madame Rothschild took a loan out on her jewellery and lived with her children in fashionable New York until after World War II. Thousands of Chinese who fled Mao started their businesses again in Hong Kong from the diamonds and jade sewed into the linings of their coats. Every Southeast Asia family of wealth has a cache of high quality gemstones that can, at least, barter their family out of the country in an emergency. And finally, we know of at least a few high liability professionals who, through spurious and serious malpractice law suits, have lost virtually everything and rebuilt their lives by having untraceable and important coloured diamonds hidden away from prying and vicious attorneys.

Q. Are there places that I can see fancy coloured diamonds before I buy so that I can get a feel for what I am getting?

A. The Smithsonian has a tremendous collection including the famous Hope diamond. Check your local natural history or lapidary museums.

Q. If I buy a stone or stones for financial privacy, who do I turn to for advice in the future?

A. Using coloured diamonds as insurance against economic disaster and assurance of financial privacy is a specialized area. Auctions are not going to give advice. Retail jewellers may, but you are going to have to know how much experience they have in

advising in this area. Specialty dealers are your best source of information. For specific information about overseas storage and banks, insurance, trusts, etc, your specialty dealer should be able to direct you to the appropriate people who can work in an environment of confidentiality and professionalism.

Q. Why have white diamonds been such a bad investment?

A. White diamonds are not always bad investments. It depends on the timing. If you would have purchased a 1 carat GIA certified D, IF round diamond of excellent cut proportions in 1970 for around \$3,000, you could have EASILY sold it in late 1979 for a minimum of \$45,000 or more. If you would have bought in late 1979, you would have lost your shirt today. The stone's wholesale list is only at about \$16,000.00.

The problem is that DeBeers does not really control the pricing on polished diamonds. They only control or highly influence the price on rough or uncut white diamond. The market for polished diamonds is highly influenced by inflation and recession and the market is leveraged through the international banking system. Big inflations and big recessions push white diamond prices up and down accordingly just as market forces push stocks and bond prices up and down. Generally, the only difference between white diamonds and stocks is that stock prices react quickly because of the huge fungibility of the market. White diamonds, while relatively liquid, do not have near the liquidity of the stock market and prices move slower because of that. Coloured gems react differently than diamonds because it is an international cash market and fine stones are the last to be dumped in a bad market. Because of these factors, prices generally move even slower than diamonds. The bottom line is that all tangibles and paper investments move up and down because of various economic forces. For reasons outlined in the main body of the web site, fancy coloured diamonds have shown fundamental immunity to those kinds of fluctuations in value. Because of that they are the premiere, private, stable store of wealth.

Q. Can I wear coloured diamonds in jewellery?

A. Of course. They are breath-taking and beautiful. There is no reason why one shouldn't wear them if that is desired. In reality, they are safer to wear than white diamonds because most people do not understand their value. We once had a client who had worn a 36 carat fancy yellow diamond since 1963. She wore it every day and everywhere. She was never attacked, robbed or mugged. She always laughed that had she worn a 3 carat white diamond that was worth \$30,000, she probably WOULD have been mugged. Nobody knew that her particular ring's fair market value was \$625,000.00!

Jimmy Metahysa

Investment Research Consultant and Strategist