

A
Bright
Future
for
Gemstones

by Mary A. Fischer



Diamonds, rubies, sapphires, and emeralds—symbols of power and prestige coveted by countless generations—are now being touted as among the leading collectibles of the 1990s.



There is good news in the investment world, and it has to do with gemstones. Over the last five years, fine diamonds, emeralds, rubies, and sapphires have been experiencing a solid, steady increase in value. At the same time, a cadre of new admirers with a growing passion for gemstones has created a market in which supplies are limited, fueling the fires of appreciation even more.

In 1985, for example, a 1-carat fine diamond sold for roughly \$9,800. Today, that same diamond sells for \$18,000. As well-known mining analyst Peter Miller wrote in a recent Shearson Lehman report, "We are well into a rising bull market [for gemstones]."

But there's more good news. Overall, gemstones have demonstrated a stamina for continued appreciation that has proved superior to that of every other traditional investment. One-carat Thai rubies, for example, have more than doubled in price since early 1986. During this same period, the price of gold has stayed relatively flat at \$350 per ounce, even though the Japanese demand for gold has been seemingly insatiable. As a result, smart collectors are once again turning to gems as viable, alternative hard assets.

The ongoing surge in the gem market is a reflection of a shift to a more serious pursuit of collectibles in general. Savvy investors worldwide are increasingly becoming interested in fine antiques, fine paintings, and valuable gems. These same investors are standing on the sidelines in many of today's other marketplaces, taking a skeptical look at the daily roller coaster ride of the stock market and the tremendous number of failed real estate limited partnerships. For these investors, hard assets have become a viable, often safer financial alternative.

This fact is substantiated by a number of investment counselors, among them Dale Pinkert, a financial analyst who publishes *Pinkert's Perspective* and is a contributing editor to cable TV's Financial

News Network. "Investors in these days of economic uncertainty should consider having hard assets in their investment portfolios," Pinkert says. "It makes good sense to consider diamonds and other gemstones [as viable investments]."

Of course, while the main appeal of gems is their beauty and rarity, buying gems has always been and will always remain a means of preserving wealth and passing it on from generation to generation. However, for many buyers, the underlying reasons for purchasing gemstones are changing. The economic concerns of hedging inflation and preserving capital, so fashionable a decade ago, are giving way to a growing awareness of global influences on the market.

"We're dealing with a new set of motives for acquiring fine gems," says Paul Erdman, a noted financial analyst and author. "We're watching a full-fledged spending spree move from low to middle gear. Asian markets are so buoyant that they are carrying [the value of] fine gems to new heights, because demand exceeds supply." This runaway spending will propel the fine gem market for some time to come, says Erdman, and ensure a steady appreciation of value.

Much of the renewed interest in gemstones is coming from buyers in the Pacific Rim countries. While Americans may have invented conspicuous consumption, the Japanese are taking it to new levels. "The demand for diamonds among Japanese is not to be believed," says Harvey Hauer, a principal of Toronto-based Lindsay & Hauer International, one



Colored diamonds (inset, above left) and custom-made designer jewelry (above) provide unique investment opportunities.

of the world's most respected gemstone dealers. "They have a huge trade surplus that they must spend, and an insatiable need for hard assets."

In addition, the growth of manufacturing and the resulting economic strength in Taiwan and South Korea have made buyers in these countries major players in the collectibles market. "In the 1970s it was the Arabs who had all the money to spend," Hauer remembers. "Now it's the nouveau riche along the Pacific Rim who make up the new hot market."

Some history is important in understanding why gemstones are so valuable at this time. In the 1970s, sales of gems were augmented by hyperinflation. People wanted to preserve their wealth, so they bought hard assets, even though interest rates in those days were extremely high, hitting 20 percent at one time. Despite this fact, many gemstone dealers in the marketplace found it advantageous to borrow money from banks to finance their inventories. As a result, they became overly leveraged. It was a thriving market in those go-go days, but a shaky one. In 1980, before the market fell, a 1-carat diamond sold for \$64,000, an all-time high.

But sales began to fall off dramatically in the early 1980s as hoarders and speculators suddenly left the market. Dealers were forced to sell their inventories to cover their leveraging, and prices started to fall. On top of that, Russia dumped diamonds onto the marketplace to raise desperately needed cash.

The market bottomed out in 1985, and the following years saw a shakeout of all the excess. Eventually the market became more manageable and more standardized in pricing, at least on the dealer-broker level, where collectors interested in hard assets do most of their buying. "There is hardly any leveraging anymore," explains Mayer Gross, president of Lindsay & Hauer International, and a third-generation diamond cutter who is a recognized expert on fine gemstones. "It's strictly on a cash basis now."

Following the instabilities of the mid-1980s, DeBeers Consolidated Mines Ltd., a mining cartel that controls the global rough diamond market, took many positive steps to protect the diamond market. One of the steps it took was to establish a pact

with Russia in 1986 that essentially regulates the quantity of diamonds Russia can release into the market at any one time. The effectiveness of this pact was demonstrated recently, for while the Russians were actively dumping gold onto the world market, they were not able to do so with diamonds.

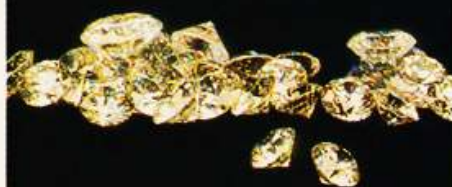
Today's gemstone industry works this way: Once DeBeers releases its rough diamonds, they are sold for cash in cut and uncut form through an international network of diamond exchanges, called bourses, located principally in New York, Bombay, Antwerp, and Tel Aviv. These exchanges act as primary distribution channels or markets for polished diamonds.

It is at this primary level of the market, comprising cutters, dealers, and brokers, that firms such as Lindsay & Hauer enter the gemstone distribution picture. In addition, knowledgeable consumers and collectors can buy at this level. In the United States, participants in the primary market are generally members of the Diamond Dealers' Club, which is part of the World Federation of Diamond Bourses, a global affiliation of exchanges bound by a code of honor unlike any other in the business world. Oral agreements, for example, are as binding as written ones, and are honored in state and federal courts.

The primary markets for rubies and sapphires, which are not as controlled as those in the diamond market, are concentrated in Thailand, where a small but powerful syndicate of Chinese dealers stockpiles stones and sells to dealers. Similarly, emeralds are available from primary markets in Bogotá, Colombia, and tsavorite and tanzanite are available from markets in Nairobi, Kenya. Firms like Lindsay & Hauer buy their gems from these principal trading centers abroad.

"By being in touch with suppliers and agents all over the world, we know what is going on in the marketplace," says Gross. "That is a key requisite for intelligent purchasing. This is a daily business for us."

Companies that buy the generally loose gems put into circulation by the cutter and dealers constitute the secondary-level market. This second group includes manufacturers, wholesalers, and retail jewelers. Price ranges at this level tend to be far broader than at the primary level because payment methods vary from cash to credit.



According to a number of industry observers and financial analysts, gemstones should be considered as long-term investments. "We tell our clients that gemstones should be purchased not as a short-term holding," says Hauer. "They are maintenance-free long-term holdings."

And as with many long-term collectibles, the key to success with gems lies in the *timing* of one's buying. The idea, of course, is to buy in the early or middle stages of a surging market. Currently, the gem market is in the early phase of what many economists see as a steady acceleration.

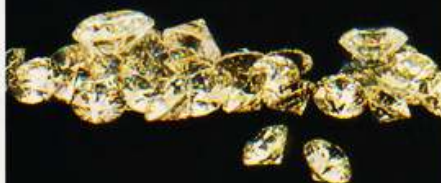
Prospective buyers should be aware of three crucial factors when purchasing gemstones. First, they should be careful to pay the correct price for the stone. Second, they should obtain a certificate of authenticity. And third, they should buy from a reputable dealer.

In determining authenticity, the Gemological Institute of America (GIA), with offices in New York City and Santa Monica, Calif., is recognized as the leading authority in rating diamonds and other gemstones for color, clarity, and cut. A GIA certificate is like a pedigree that measures and communicates the quality of gemstones; GIA standards are universally accepted by independent gemologists. A certificate should accompany each purchase.

Buyers should be aware that there are a number of specific varieties of gemstones that provide good investment opportunities. Two examples are Burmese rubies and Kashmir sapphires. "The rich are still getting richer from these unusual gemstones," says Gross. "These stones are for people looking for something unique and important, and we deal in this area."

Another family of gems that not only held its value during the gem market collapse in 1980, but has become the most sought after of precious stones, is "fancy" colored diamonds. A recent *Consumer Digest* investment index rated colored diamonds third in a list of the top 10 investments of 1989 (only rare coins and modern paintings rated higher). Over the past few years, colored diamonds have made headlines by commanding astronomical prices at major jewelry auctions. One fancy pink stone from Australia, for example, was recently sold for \$400,000, while an extremely rare red diamond sold for \$926,000 per carat.

Gemstones should be purchased not as short-term holdings, but as maintenance-free long-term holdings, says Harvey Hauer



Perhaps the most famous colored diamond is the Hope Diamond, which at 45.5 carats is the largest deep-blue diamond in existence. Purchased in 1830 by Henry Philip Hope for \$90,000, the Hope Diamond is the most famous gem in the world, and is currently on display at the Smithsonian Institution in Washington, D.C.

Colored diamonds are rarely the choice of novice buyers. Most people know little about them and are scared off by high prices. But true "fancies" can be a unique investment opportunity for affluent, discerning buyers. As Gross points out, "They'll never be a mass-market item, and that's their appeal."

Today, there is also a thriving world market in custom-made designer jewelry. Louis Tiffany introduced the idea of signed and registered one-of-a-kind jewelry in the 19th century, raising jewelry-making to a recognizable art form and paving the way for such acclaimed masters as Cartier. Many custom-made pieces have been commissioned by renowned socialites and celebrities and are often sold at auctions in Europe and America, where the trade and public are pitted against each other in bidding wars.

Aware of this trend, Lindsay & Hauer now offers its Signature Series, an exclusive series of one-of-a-kind pieces using the finest gemstones, diamonds, and colored diamonds. "We are returning to the old days when these kinds of pieces were considered an art form," points out Steve Lindsay, a principal with Lindsay & Hauer.

When it's time to sell their gemstones, many collectors return to the dealer from whom they purchased the stones years earlier. Lindsay & Hauer principals stress the importance of staying informed about the market, which is why the company sends out a quarterly newsletter to all its clients.

Throughout history, the symbolism of romance surrounding diamonds and other fine gems has been undeniable. And while gemstone experts advise collectors to buy because they love the stone, they also agree that in recent times there is another unmistakable allure—jewels have become an excellent reservoir of value.

Mary A. Fischer's articles have appeared in Life, Rolling Stone, and U.S. News and World Report.