

The new gold

Marilyn was right: Diamonds are a girl's best friend

Deirdre Kelly

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The parade of diamond hunters marching through jeweller Myles Mindham's Toronto shop over the last few weeks would suggest a thawing of recessionary restraint, but that wouldn't be entirely accurate. According to the veteran retailer, many of his moneyed regulars aren't buying the stones to set into rings or hang from chains, but to serve as hedges against financial instability.

Are diamonds the new gold when it comes to safe investments? Diamond analysts, precious-metal experts and industry observers such as Mindham say yes.

"When times are tough, hard assets like diamonds are in greater demand because they will hold their value when inflation hits – and it will hit," says the jeweller. "My clients have told me so. They are plugged into the international markets. They feel it coming. They are buying up diamonds now to shore up for the future."

His theory is supported by the fact that many of his customers are stocking up on high-quality loose stones as opposed to diamond jewellery. While soaring gold prices continue to make headlines, the cost of rough or uncut diamonds have quietly risen more than 40 per cent since February, Nasdaq.com reports. By comparison, retail sales of polished stones have fallen from \$74-million (U.S.) in 2008 to \$65-million this year, a result of stalled consumer spending.

According to Edward Sterck, a diamond analyst with BMO Capital Markets, this new appetite for loose diamonds stems from a realization among informed investors that the already rare commodities are about to become even rarer.

"The long-term projection is that there aren't enough diamonds to satisfy demand," Sterck says from his office in London. "As a consequence, rough diamond prices are expected to go up in the near future."

The reason for the shortage, says Margot Naudie, a precious-metals expert with TD Asset Management, is – what else? – the financial crisis, which has forced mines worldwide to both slash production and cut back on mineral exploration spending needed to ensure future yields.

Such has been the case in the Canadian north, where, says Naudie, diamond-producing mines haven't experienced many new discoveries of late because of investment money drying up.

"We see the market remaining undersupplied over the next several years," Naudie adds. "The corollary of an undersupplied market is always higher prices."

In fact, they're already climbing, as witnessed this week when Christie's Hong Kong obtained a world-record per-carat price for a pink diamond at auction. Dubbed the Vivid Pink, the 5-carat cushion-cut stone sold for \$10.78-million (U.S.).

The Hong Kong sale followed on the heels of last month's record price for a single stone at auction. That diamond was a 35.56-carat fancy deep grayish-blue stone, which garnered \$24.3-million (U.S.). The pre-sale estimate had been around \$13.4-million.

Kim Helman, president of Rare and Precious Gems, a diamond brokerage in Vancouver, believes that the diamonds sold as well as they did because they are coloured, making them much more rare and coveted than colourless diamonds. Like gold, colourless diamonds can fluctuate in price and even depreciate in value, especially when the market is flooded with them. Although a glut doesn't appear to be on the horizon, a sure way of hedging the hedge is to buy coloured diamonds, some say.

"If you want to focus on the investment side, natural fancy coloured diamonds are the only way to go," Helman says. "They always appreciate in value. In the 40 years since the industry started tracking them, they have never gone down in price. They're a sure thing."

Not to mention a bona fide style statement. According to Helman, the hot new diamond colour right now is brown or what the industry calls champagne. "It's really in," she says. "We're seeing it in pins, earrings, bracelets and barrettes. It's the new It stone." At this week's Victoria's Secret show in New York, the lingerie company's \$3-million (U.S.) Fantasy Bra featured a 16-carat champagne diamond pendant at the décolletage.

Coloured diamonds are so on trend that even Tiffany & Co., the legendary retailer known for its colourless stones, is looking to launch a new line of coloured diamonds starting early in the new year in Asia and next fall in Canada, executive vice-president Jon King says.

Tiffany's coloured diamonds come from the Allendale mine in Australia, a relatively recent acquisition for the company. It made the investment based on rising consumer demand for coloured diamonds and the desire to be part of a growing market.

"Women who already own a colourless stone now want to distinguish themselves from everyone else by going with colour," King says. "Tiffany's has always been an expert in diamonds, but the Allendale mine has made access to fancy coloured stones that much easier for us than before. We look forward to bringing them to our customers."

Back in Mindham's Toronto shop, coloured stones feature prominently in some of his newest designs, which include a pair of earrings sporting champagne diamonds adorned with South Sea pearls.

Loose diamonds may be the hot commodity among investors right now, says Mindham, but diamond jewellery, as Marilyn Monroe sang, will never lose its appeal.

"Trust me," he says, pointing to a yellow-diamond ring with a six-figure price tag. "It won't be here in January."