



Economic Times

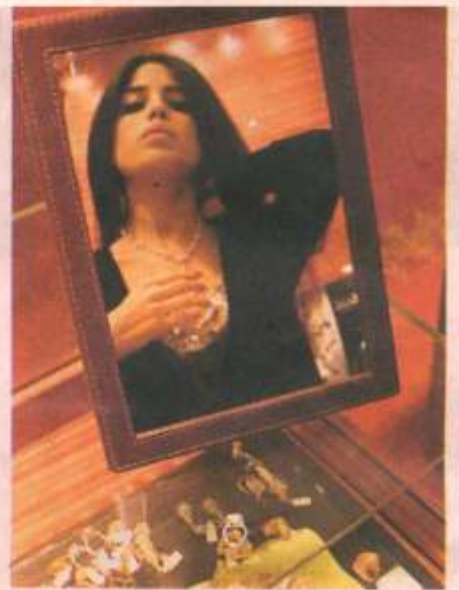
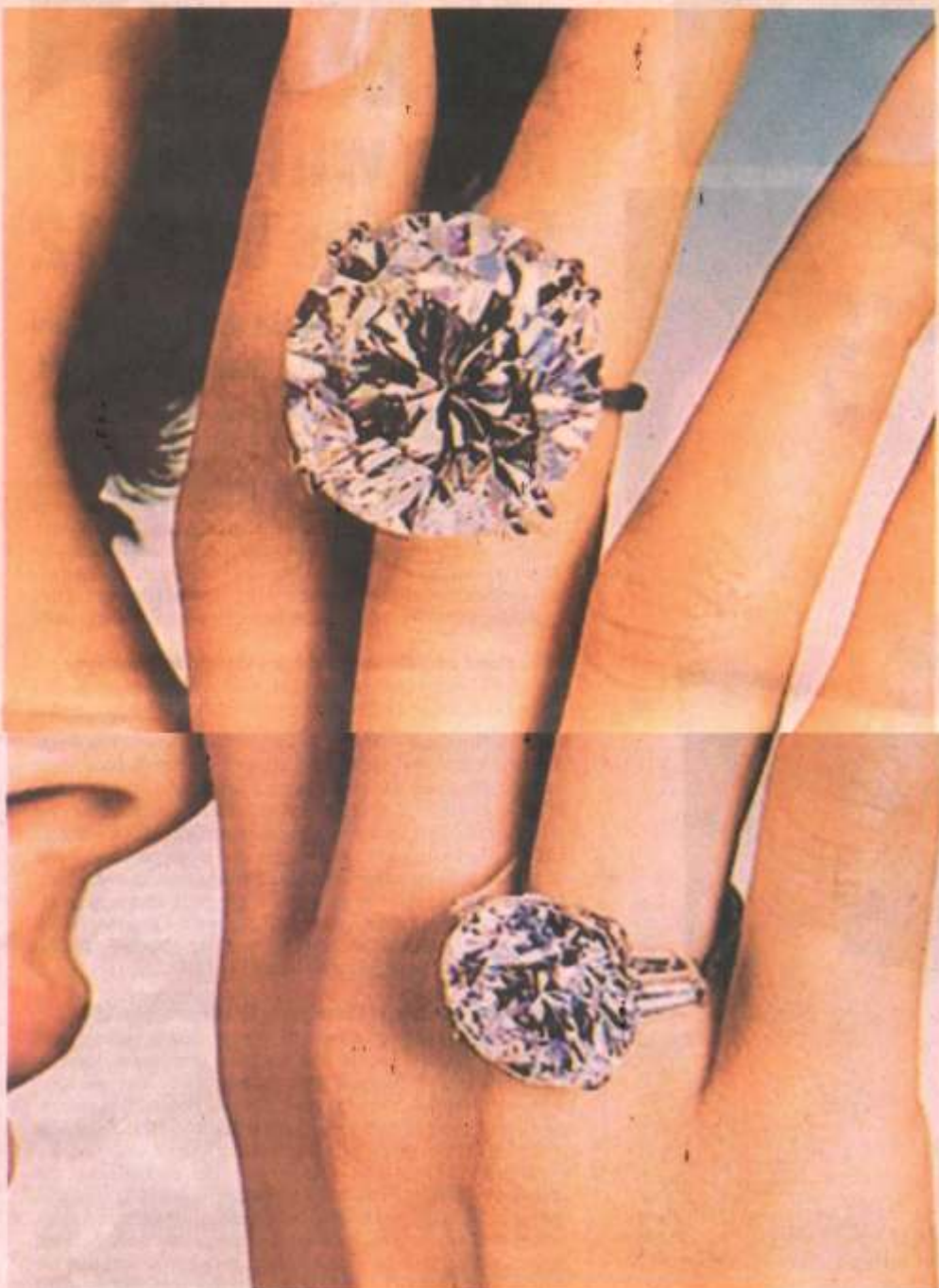
**Diamonds can add sheen
to your portfolio**

28 March 2009.

Diamonds can add sheen to your portfolio

ROCK SOLID

Aman Dhall offers a ready reckoner to those who were always tempted by diamonds but never thought of the rock as an investment prospect



DIAMONDS are forever and treasured for life. But in the investment world, diamonds have never enjoyed a crowning status. Of late, the perception about possession of this rare, precious and magical stone has undergone a big change. Indians, who so far have refused to look beyond gold, have now started to get lured by the benefits of having diamonds in their financial portfolio.

More than just the feel of luxury, passion and love in their portfolio, diamonds are now coming of age as a subtle measure of gauging social and financial status. Even as gold prices during last ten years have been volatile and fluctuating, diamond prices have gone up at a slow yet steady pace, increasing by 5 to 10% every year. In India, where nine out of ten diamonds globally are manufactured, the increase in consumption has added more glitter to this asset.

Here's a ready reckoner on diamonds for those who have been tempted by the beautiful rock but never thought of it as an investment prospect.

Know your stone

Classified as an alternate asset class, diamond is an investment meant for people with high knowledge of the trade. Those who are not au fait with this precious stone are susceptible to frauds and deceit. For starters, diamonds like any other precious metal can play the role of a portfolio insurer in times of extreme crisis. "Diamonds are, however, less efficient than gold due to low liquidity and lack of transparent pricing mechanism and standardisation," says Devendra Nevgi, principal partner of Delta Global Partners, a Mumbai-based investment advisory firm. Investment in diamonds could be either in many small sized diamonds or in a very few large sized diamonds, ranging between 1 carat and 5 carat. In India, wealthy individuals usually invest in diamonds as against institutions or funds. Historically, investments in diamond have always been in the physical form. However, in the last decade or so, in many developed economies, there has been introduction of various funds that either put money directly in diamonds or invest in di-

amond mining companies. The minimum threshold to invest in these funds is usually very high. As an investment vehicle, diamonds now rank low on people's priority list. But this could change in the coming years when standardised contracts – of smaller denominations – start trading on non over-the-counter (OTC) exchanges with physical delivery option or cash settled futures. "Gold trading changed after the advent of the first exchange traded fund in USA," says Nevgi.

ALL THAT GLITTERS...

- DOs**
 - Buy from a reliable source or a reputed company
 - Ensure proper certification, such as IGI Certification
 - Check market regularly to determine the exact time of entry and exit
- DONTS**
 - Treat it as mainstream asset class
 - Invest in small-size diamonds



Rare scores

It's recommended that exposure to diamonds should be a part of overall weight of precious metals in your portfolio. And generally this should not be more than 5%. To get better returns on your investments, best possible large size diamonds should be purchased. The 4Cs – cut, colour, carat and clarity – determines the exact value of a diamond. Rarity too influences the diamond's price. D is the best and rarely available colour. Since the different combinations of the 4Cs decide the value of a diamond, wherever possible, professional help should be sought. Quality certification from diamond grading laboratories such as Gemological Institute of Amer-

ica (GIA) will be helpful, though it carries a risk of over-grading. Liquidity is another aspect. The stone cannot be sold as easily as they can be bought. So, if you are a significant risk bearing investor, it's better not to take exposure in diamonds, as it would be a dead investment.

Exponential curve

There's no natural shortage of this commodity. And risk to its pricing comes from synthetic replacements with abundant supplies. Historically, the value has not dropped significantly but has not speedily appreciated either. "One gets a dual benefit of flaunting social and financial status as well as liquidating with little loss or little appreciation in times of need," says Khushroo B Panthaky, partner – assurance at Walker Chandok & Co. Ratings agency. Crisil expects the prices of cut and polished diamonds to stabilise in the short-term – over six-month period – and the rise to be limited to 1-5% only. Over a three-year period, however, it sees prices increasing to the tune of 8-10% per annum. "The current structure of the mining and marketing of diamonds means the prices are only going to move in one direction, that is, upwards," says Shailesh Haribhakti, chairman of BDO India, a financial consultancy firm.

One of the interesting aspects of the diamond prices is that they don't go up in a linear fashion but move in exponential manner. For instance, while a 1-carat diamond will cost Rs 1 lakh, a 5-carat costs Rs 20 lakh. "Chances of one enjoying better returns are far more in the size of 1 carat and above," says Nitin Goenka, managing director of Goenka Diamonds & Jewels.

During the recent past diamond slowly started resembling gold as an investment avenue. Sudip Bandyopadhyay, president – financial services at Spice group still feels a better way to invest is in diamond mining companies of good repute rather than buying diamonds. "The stocks of these companies closely track the ups and downs of the diamond prices. Then why buy them physically," he says.

And it's not just women who love diamonds – investors too have started adding a touch of class to their portfolio with the rocks.

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