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Stores of wealth: Investors go for something more tangible

By Claire Adler

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Inflation beaters: with stock markets volatile, investors are showing interest in commodities seen as having absolute value, including collectables such as diamonds

A recent report by Barclays found that, in the current zero interest rate environment, investors are showing mounting interest in collectables.

Greg B Davies, head of behavioural finance at Barclays says: "A desire for tangibility and familiarity is encouraging investors to increase the proportion of their wealth that is given to treasure such as precious metals, jewellery, wine and coin collections. This indicates that they perceive this as a more stable source of value."

Meanwhile, with Bain & Company forecasting that demand for diamonds will outstrip supply by 2020, the market for investment diamonds is about to play an increasingly influential role in the diamond industry – even if not everyone is comfortable with the idea.

Ya'akov Almor, an industry consultant, comments: "The concept of investment diamonds is an admission that rare, high quality diamonds are a commodity.

“This counters many of the industry’s traditional marketing messages, which have centred on romance and mystery. But there’s no denying it. Investors will join the most influential players in the diamond market.”

The prospect of mines running dry, combined with robust returns on diamonds of more than one carat and mounting demand from China and India, are generating much talk about investment diamonds, which are largely viewed as the most portable form of wealth there is.

It takes 10 years and several billion dollars to turn the discovery of a kimberlite pipe into a profitable, working diamond mine and no significant discoveries have been made in more than 20 years.

Encouragement also comes in the form of repeated record-busting sales of the largest stones in auction rooms, even during times of recession.

At Sotheby’s in May, the Beau Sancy, a 34.98 carat diamond that passed through the royal families of France, England and Prussia, fetched $9.7m, almost five times its pre-sale estimate, after a frenzied battle between five bidders that lasted just eight minutes.

Christophe Spaenjers, assistant professor of finance at HEC Paris, says white diamonds sold at Sotheby’s and Christie’s beat inflation by more than 6 per cent between 1999 and 2010 – outperforming equities and bonds, but underperforming gold. However, he points out it is difficult to predict which diamonds will hold their value over time and which lose value.

“Given diamonds are a luxury, even if financial turmoil makes investors think about diamonds as an alternative asset that can have a positive affect on prices, it also makes households less wealthy – which can adversely affect diamond prices,” he says.

Jewellers, including Fabergé, Steinmetz and Nourbel & Le Cavelier are upbeat about the future of investment diamonds.

“Three years ago, I sold a three carat D flawless diamond for £125,000. Today I’d have to ask nearly double,” says Charlie Pragnell, managing director of Pragnell’s, one of England’s most distinguished jewellers.

The fact that diamonds can be worn and enjoyed might appear to be the best hedge against the risk that any investment brings. Yet some investors are now putting their money in diamonds without the benefit of direct access to the actual stones or jewellery.

Georges Karam, Nourbel & Le Cavelier co-founder, sells high-quality loose diamonds at wholesale prices to private and institutional investors round the world.

Diamond Capital Fund requires a minimum investment of $75,000 and trades one- to five-carat diamonds. In the past decade, diamonds of this weight have appreciated in value by 8.2 per cent a year, while investments in the FTSE 100 yielded an average return of 0.7 per cent.

Luxembourg-based Elite Advisers launched the Divine Jewels Fund in 2011, offering the opportunity to invest in a collection of diamonds, precious stones and antique jewellery valued at more than $14m.

Jan Maarten Asscher, scion of an illustrious European diamond dynasty and Mark Walker, an industry stalwart will soon launch a diamond asset fund, Pink Iguana, specialising in trading certificated polished diamonds of a third of a carat and above.

Meanwhile, Antwerp based diamond industry consultancy European Quality Circle will soon launch a diamond investment fund, also run by industry insiders.

Waldman Diamond Investments works with wealth management firms and brokers targeting investors interested in high-quality diamonds of a carat or more. Via its online portal, investors can resell their diamonds to others on an open marketplace without having to discount them by selling to a diamond wholesaler or jewellery retailer.

Waldman holds its investors' diamonds in high-security, segregated bank safes in Hong Kong, Israel and New York and also arranges insurance, shipping and storage. Alex Waldman, chief executive of Waldman Diamond Company, says: "Clients either take ownership of the physical stone or use the services we offer that make our investment diamonds as close as possible to other financial instruments."

André Valery Bordes, chief executive of Academy & Finance of Geneva, a wealth management conference company, thinks the diamond investment market is ready for its next step. "Investing in diamonds, each of which is different, can only be achieved successfully through companies and frameworks that specialise in this particular asset. We plan to bring major players in the diamond investment market together to present their operations to private investors, brokerage firms and bankers, so they can integrate diamonds into their clients' investment portfolios."